

Second annual review of Specific Direction 12

Stakeholder submissions to call for views

July 2024

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

Age UK

About this consultation

The Payment Systems Regulator (PSR) is conducting a review of their Specific Direction 12 (SD12).¹ This Direction is designed to ensure LINK, the UK's cash machine (ATM) network, maintains a broad geographical spread of the UK's free-to-use (FTU) cash machine network and meets service-user needs. The PSR want views on four areas focused on the operation of SD12.

Key points and recommendations

- Cash and local banking services are crucial community access points for many older people, ensuring they can conduct their day-to-day transactions.
- For many older people, being cut off from cash is tantamount to being excluded from society, so maintaining free-to-use ATM access is imperative.
- Although there will be legislation through the Financial Services and Markets Bill (FSMB) to protect access to cash, it is essential for the PSR to continue to protect older consumers' access to Free-to-Use ATMs until there is further clarity from the Treasury SD12 remains the best way of achieving this.
- We would like to see a broader strategic and coordinated approach towards public awareness of access to cash in the UK, including the ongoing innovation in free access to cash from sources that are not ATMs, such as cashback without purchase.

About Age UK

Age UK is a national charity that works with a network of partners, including Age Scotland, Age Cymru, Age NI and local Age UKs across England, to help everyone make the most of later life, whatever their circumstances. In the UK, the Charity helps more than seven million older people each year by providing advice and support. It also researches and campaigns on the issues that matter most to older people. Its work focuses on ensuring that older people: have enough money; enjoy life and feel well; receive high-quality health and care; are comfortable, safe, and secure at home; and feel valued and able to participate.

Introduction

The UK's financial landscape has undergone significant changes in recent years, with the rise of digital banking and a decline in physical bank branches and ATMs. In 2021, UK Finance suggested that cash made up just 15% of payments and forecasted it to be 6% of transactions by 2031.² While this shift has brought convenience and efficiency to many, it has also had unintended consequences for specific segments of the population, particularly older people.

The Access to Cash Review, of which Age UK was a member, found that while income was the biggest driver of cash reliance, many older people are dependent on cash to ensure they are able to engage fully in society.³ The PSR's own research also showed that 53% of those aged 75+ say cash is their preferred 'way of spending money or making payments for the majority' of their payment needs.⁴ So, we welcomed the Government's decision to legislate to protect access to cash through the Financial Services and Markets Bill (FSMB).

The PSR's SD12 is designed to support LINK in ensuring it meets its commitment to maintaining a broad geographical spread of FTU ATMs to meet the needs of the public. LINK's Protected ATM Policy⁵ operates by paying a premium on top of the normal cash withdrawal interchange rate to ATM Operators. Where LINK is notified by an ATM Operator that a Protected ATM is intended for closure or being converted to pay-to-use due to low transaction volumes challenging its economic viability, unless there is another source of cash access available or no consumer impact from closure, LINK aims to prevent this from happening. SD12 is therefore a powerful tool to LINK's work in preventing gaps in service provision and protecting those who are dependent on cash – which we know is particularly important for those older people facing barriers to banking online.

Pending the implementation of enhanced protections via the FSMB, SD12 is an essential stop gap in protecting a broad geographical spread of FTU cash points. Age UK therefore strongly supports the continuation of SD12.

Consultation questions

- 1. How effective has SD12 been in ensuring appropriate policies and measures are in place to support the maintenance of a broad geographic spread of the FTU ATM LINK network in the UK and meet service-user needs?**

Age UK believes that SD12 has helped maintain access to cash by ensuring a coherent set of policies and measures are in place to support LINK's commitment to maintaining a broad geographical spread of FTU ATMs. It has also enhanced transparency enabling the regulator to monitor whether LINK is meeting its commitments.

The latest research from the Financial Conduct Authority (FCA) suggests that five million consumers rely on cash to make most of their purchases.⁶ One in seven (around 750,000 people) reported that they struggled to cope, or did not cope at all, with the temporary closures of cash access points and branches during the pandemic. We know that cash dependence is highest among older people. For example, 42% of those aged 85+ rely on cash to a greater or very great extent.⁷

LINK's research also indicated that almost half of the population (48%) say a cashless society would be problematic. It also estimated that groups relying on cash are often digitally excluded (46%) and those in poor health (26%)⁸ — factors which are more common amongst the older population.

Cash dependency is invariably linked to digital exclusion, with older people disproportionately left behind as banking and payment services have moved online. Those unfamiliar with digital banking will naturally be hesitant about breaking the habits of a lifetime and using a new system to make important financial decisions. SD12 remains a key component of protecting cash access in the meantime for those facing barriers to getting online.

2. How well the requirements under SD12 have worked in practice in relation to maintaining and replacing protected ATMs.

The requirements have generally worked thus far, as Link's most recent ATM Footprint Report shows the 'Total Protected ATMs' to be 3,340 (a net change of +5 from the previous report).⁹ However, with the continuing adoption of new payment methods reducing the demand for cash and ATM withdrawals, the ATM deployment market response has been to reduce the number of ATMs. This has happened independently of the interchange reduction – the reduction LINK imposed in the fee card issuers pay to ATM Operators. For example, between December 2021 and December 2022, the number of ATMs decreased from 52,547 to 51,523.¹⁰ However, this was driven primarily by a fall in the number of charging ATMs, whereas the number of free machines slightly increased. The overall decline in ATMs may have caused difficulty for older people in vulnerable circumstances to undertake necessary tasks such as grocery shopping or paying for essential services. This shows the importance of these measures to help maintain FTU

cash points to facilitate involvement in everyday life for older people who may face barriers.

3. Has the monitoring required under Section 8 of SD12 led to sufficient transparency, is any of it superfluous, or are any further aspects required for monitoring?

Section 8 of SD12¹¹ requires that LINK monitor and report to the PSR monthly on changes to the Protected and Lost ATMs. Although LINK has previously said that the monitoring requirements of SD12 place a significant administrative burden on them, we support the PSR's requirements for LINK to continue to be transparent.

While LINK's approach to determining where protected ATMs are not replaced is set out clearly in the 'LINK Policy on Protected ATMs', we note that the publicly published data¹² merely lists the number in each category with partial statements rather than providing a full detailed explanation required to determine the decision made. However, we understand that in each case, a site visit is conducted following an investigation of the local factors. We recommend the reports of each site visit should be published in greater detail to help further improve transparency and provide greater confidence in the process followed.

4. Should SD12 remain in place, given some of the broader initiatives introduced? Including, among others, the [Financial Services and Markets Bill](#)

The Government's proposed introduction of legislation to help protect free access to cash is very welcome. Over 5 million people still rely on cash and face-to-face banking services to meet their needs. Online banking may be accessible for the majority, but many older people continue to face far too many barriers to digital access. This is one of the key reasons why the FSMB's remit of safeguarding reasonable access to cash is so important.

The Policy Statement to be published by HM Treasury will be crucial for setting out the requirements on cash access. However, until the statement is published it is not possible to conclude that SD12 should be scrapped, as doing so could significantly weaken the protections for Protected ATMs. It may be that SD12 is replicated through the Policy Statement so in future may become superfluous, but at present there is no case for abolishing it.

Maintaining it will ensure that as many cash-reliant older people as possible can get reliable access to cash when they need it. Alongside LINK's continued commitment, a broader strategic and coordinated public information campaign on cash access is required.

This will help raise awareness of the existing options, including the ongoing innovation in free access to cash from sources that are not ATMs (e.g. cashback without purchase).

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- ¹ [Call for views: First review of Specific Direction 12 \(LINK\) | Payment Systems Regulator \(psr.org.uk\)](#)
 - ² [UKF Payment Markets Summary 2022.pdf \(ukfinance.org.uk\)](#)
 - ³ [final-report-final-web.pdf \(accesstocash.org.uk\)](#)
 - ⁴ [Britain Thinks Access to cash full report July 2019 \(psr.org.uk\)](#)
 - ⁵ [protected-atm-policy-v50.pdf \(link.co.uk\)](#)
 - ⁶ [One more step... \(fca.org.uk\)](#)
 - ⁷ [Financial Lives 2020 survey: the impact of coronavirus \(fca.org.uk\)](#)
 - ⁸ [the-cash-census-report.pdf \(link.co.uk\)](#)
 - ⁹ [january-footprint-report-submitted-to-the-psr-28th-february-2023.pdf \(link.co.uk\)](#)
 - ¹⁰ [LINK / Consumers withdraw £83bn from ATMs in 2022](#)
 - ¹¹ [PSR Specific Direction 12 on LINK](#)
 - ¹² [january-footprint-report-submitted-to-the-psr-28th-february-2023.pdf \(link.co.uk\)](#)

Association of Convenience Stores

Call for views: Second annual review of Specific Direction 12 (LINK)
Submission from the Association of Convenience Stores

Overview

ACS (the Association of Convenience Stores) welcomes the opportunity to respond to the PSR's latest call for views on Specific Direction 12. ACS represents 49,388 local shops and petrol forecourt sites including Co-op, BP, Rontec and thousands of independent retailers, many of which trade under brands such as Spar, Budgens and Nisa. These retailers operate in all locations, such as neighbourhoods, villages, on petrol forecourts and in city centres, but our primary trading location is in secondary shopping areas close to where people live and work.

Convenience stores offer a range of services that facilitate cash access, thereby playing a vital role in communities, especially in the absence of traditional banking facilities. These services include cashback options, available in 70% of stores; free-to-use (FTU) ATMs (40% of stores), Post Office services (23%); and pay-to-use (PTU) ATMs (12%)¹. Due to the closure of banks and building societies, 60% of shoppers rely on the free-to-use ATMs at their local convenience store².

ACS has always been supportive of the Specific Directions issued to LINK to ensure a broad geographic spread of the UK's FTU ATMs are maintained. This is not only because many convenience stores have ATMs, but also because cash is still the go-to method for roughly half of the transactions made in these stores³.

Despite efforts to maintain a robust ATM network, the Footprint Reports released by LINK indicate that the number of FTU ATMs are continuing to fall. This decrease is understandable due to the decrease in demand for cash with more people using online services to manage their money or digital payment methods.

However, there is a critical issue that demands immediate attention: interchange fees. The 26.5p fee, paid by a customer's bank for withdrawing cash from an ATM located in a non-bank branch (such as a convenience store), has remained unchanged since August 2022. Since 2018 (28.3), it has experienced a nominal decrease of 6%⁴. More significantly, when accounting for inflation, this reduction translates to a substantial 28% decrease in real terms⁵. These fees are insufficient to cover the costs of maintaining these ATMs as free-to-use, especially in the face of rising interest rates, and the increasing costs of labour and distribution.

As a result of these insufficient funds, a growing number of ATM operators are informing retailers that the ATM in their store is no longer viable as a free-to-use service, and will need to be converted to a pay-to-use model. We are therefore advocating for a review of interchange fees to ensure they are adjusted to a level that adequately covers the cost of providing and managing the UK's free-to-use ATM network.

¹ ACS Local Shop Report 2023

² ACS Community Barometer 2023

³ Retail Data Partnership, Evolution of Payments in the UK's Independent Convenience Stores, Jan 2024

⁴ LINK, ATM Interchange Report 2023

⁵ The 28% real-term reduction in interchange fees from 2018 to 2024 is calculated by first adjusting the 2018 fee for cumulative inflation to find its 2024 equivalent, then comparing this adjusted value to the actual 2024 fee, and finally determining the percentage decrease between these two values.

How effective SD12 has been in delivering its purpose – i.e. requiring LINK to maintain a broad geographic spread of FTU ATMs and meet service-user needs.

(Please see above)

How well the requirements under SD12 have worked in practice in relation to maintaining and replacing protected ATMs, as defined in paragraph 3.7 of SD12.

Of the 3,482 [protected ATMs detailed in the January 2024 footprint report](#), a significant 86.5% are operated by non-banks, i.e., ATM operators that do not issue cards themselves. Many of these machines are strategically located in convenience stores, serving as vital access points for cash withdrawals in local communities. However, these protected ATMs need to be properly funded to be maintained as free-to-use, which requires adequate interchange fees. Should these fees not align with the actual costs of maintaining ATMs in vulnerable locations, these crucial ATMs face a risk of either closing or switching to a pay-to-use model.

This potential closure or switch has significant implications not just for consumers reliant on these ATMs for cash access but also for retailers who may face a potential reduction in footfall. The importance of retailers hosting protected ATMs in areas where banking services are limited or non-existent cannot be overstated. These ATMs serve as a financial lifeline, ensuring continued access to cash for everyday transactions and financial management. Therefore, it is essential to regularly review and adjust the interchange fees to ensure they cover the actual costs of maintaining these ATMs, thereby supporting their continued operation as free-to-use services in these critical areas.

The role of SD12 in the regulatory landscape introduced by FSMA 2023.

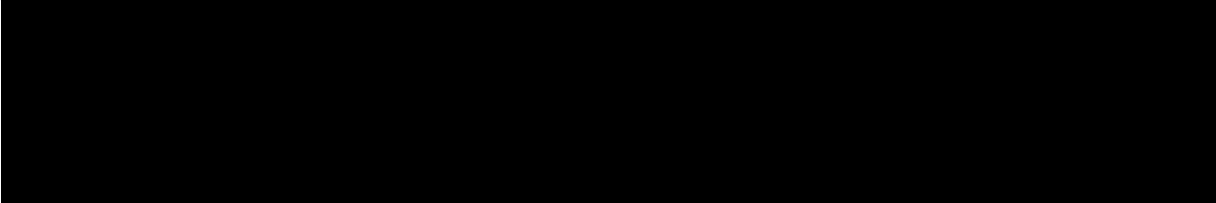
ACS [welcomes](#) the extension of the FCA's powers to ensure banks address gaps in access to cash provision. These powers can both complement and strengthen the PSR's Specific Directions to LINK. In our [submission](#) to the FCA, we welcomed the obligation of banks to conduct cash access assessments following any decline in cash access provisions in a certain area, as well as the requirement for banks to respond to cash access requests from members of the public.

ACS recommends that during these cash access assessments, retailers who offer cash access services, including post offices and ATMs, are properly consulted. This consultation is crucial to ensure that retailers can meet the demand, assessing aspects such as accessibility, operating hours, and the overall suitability of these services to meet local needs before determining their adequacy for the area. ACS has also emphasised that cashback without purchase should not be considered a comprehensive solution to cash access deficiencies. This service, while beneficial, is offered at the discretion of retailers who may not have the capacity to fulfil all customer demands.

If you have any questions about this submission, please contact

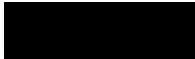
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Forum of Private Business, Forum of British Pubs and the Micro Business Alliance



I am responding on behalf of the Forum of Private Business, Forum of British Pubs and the Micro business Alliance.

Our members all report the loss of many ATM's in their area, so they may still have an ATM close to their business but there are a lot less of them so where there were perhaps 6 local banks all with ATM's they now have one ATM attached to a local convenience store or garage, this limits choice, but does have an impact if the remaining ATM runs out of cash or is broken for any length of time. So the main concern for members is not only ensuring that there is an ATM close to them and their business but that it also works and is available when they need it so if not the case already there is a need to ensure the machines are in working order and that the provider has good maintenance practices in place so that any down time is kept to a minimum and if not already in place then there should be terms and conditions set in place to give good service level agreements to ensure my members are not left with unusable ATM's for an unacceptable length of time.



LINK

Second Annual Review of Specific Direction 12: Call for Views

LINK's response to the Payment Systems Regulator's call for views on the Second Review of Specific Direction 12 in April 2024

8th April 2024



Classification: Public

Executive Summary

1. Throughout the period that Specific Direction 8 (SD8) and Specific Direction 12 (SD12) have been in force, LINK's commitments have worked well for consumers and have protected free access to cash including throughout the coronavirus crisis. The PSR's general support and engagement over the period has been helpful in achieving this.
2. While SD12 does not directly affect LINK's commitments, it does provide a focus for the PSR's engagement with LINK. It also provides some clarity for LINK's membership on the PSR's priorities. For example, LINK's membership can find it easier to meet funding calls if they are aligned to a regulatory requirement contained in a Specific Direction.
3. The Financial Services and Markets Act 2023 has confirmed that the FCA will play the lead role in access to cash regulation. LINK understands that the FCA will shortly set out its approach to ensuring reasonable provision of cash deposit and withdrawal services for personal and business current accounts across the UK. As this overlaps with the PSR's SD12, LINK believes that now is an appropriate point to retire the Specific Direction.

About LINK

4. LINK Scheme Holdings Ltd (LINK) manages the UK's main cash dispenser (ATM) network and is a central part of the UK's cash infrastructure.
5. LINK's network connects the vast majority of ATMs (both free and charging) in the country, and allows customers of banks and building societies (card issuers) who are LINK Members to make cash withdrawals and balance enquiries with their payment card at almost every ATM. All major card issuers and ATM operators currently choose to become Members of LINK. This helps ensure that consumers in the UK have the choice of accessing cash should they wish to.
6. Cash continues to be in long-term decline in the UK and LINK ATM transactions are falling by about 8% per year. LINK is managing the network through this decline and remains committed to protecting free access to cash for as long as it is needed.
7. The LINK network is based on a highly resilient real-time high-volume infrastructure, currently supplied by Vocalink. LINK is the network operator, and the systemic risk manager.

8. LINK is regulated by the PSR and the Bank of England and values a collaborative and strategic relationship with both. LINK is also expecting to be regulated by the FCA later in 2024.

LINK's General Feedback to the PSR on Specific Direction 12

9. Since the introduction of SD8 (then followed by SD12), LINK has reported to the PSR formally on a monthly basis on the various requirements.
10. At each review of SD8 and SD12, the PSR has concluded that LINK's delivery of its commitments to preserve access to cash are effective.
11. While LINK has set its own commitments including those relating to reporting on a voluntary basis, the PSR's general support and engagement over the period has been helpful in achieving this.
12. SD12 also provides some clarity for LINK's membership on the PSR's priorities. For example, LINK's membership can find it easier to meet funding calls if they are aligned to a regulatory requirement contained in a Specific Direction.

Question 1: How effective SD12 has been in delivering its purpose – i.e. requiring LINK to maintain a broad geographic spread of FTU ATMs and meet service-user needs.

13. LINK's commitments have worked effectively for consumers by maintaining the broad geographic spread of the free-to-use cash access network and LINK has met all the requirements contained within SD12. However, given that LINK sets its commitments itself on a voluntary basis and without direction from the PSR, SD12 has itself had no direct impact on LINK's commitments or on protecting the broad geographic spread of free-to-use ATMs.
14. LINK publishes a monthly "Footprint Report" that tracks the Protected ATM network and, at the time of writing, there are 19 locations where LINK is actively seeking a replacement for a closed Protected ATM, out of a network of 3,482 Protected locations. Some 124 closed Protected ATM locations have been resolved, either through the free market or through LINK action (either Direct Commissioning or the offer of Premiums). It is reasonable to assume that many of those communities where LINK's activity has secured a replacement ATM would not have free cash access today were it not for LINK's work.
15. LINK remains committed to the geographic spread of the free access to cash network and will continue to implement Policies to protect it for as long as it is needed.

Question 2: How well the requirements under SD12 have worked in practice in relation to maintaining and replacing protected ATMs, as defined in paragraph 3.7 of SD12.

16. The most important consideration is that, over the period that SD8 and SD12 have been in force, LINK's commitments have worked well for consumers and have protected free access to cash, including throughout the coronavirus crisis. The PSR's general support and engagement has been helpful in achieving this. In 2018, when SD8 was

introduced, 89.5% of people lived within 1km of free cash access. Today, although cash usage and the UK's cash infrastructure has changed significantly, 89.6% of people live within 1km of free cash access.

17. However, as noted above, given that LINK sets its commitments on a voluntary basis and without regulatory direction, the requirements under SD12 have no direct impact on LINK's work to maintain and replace Protected ATMs.

Question 3: How successful LINK has been in addressing the areas for improvement identified in the first annual review of SD12.

18. LINK considers transparency to be important and publishes a "Footprint Report" every month that meets the requirements of SD12. However, LINK publishes this material on a voluntary basis and would do so regardless of whether SD12 existed or not.
19. LINK considers it important that consumers and stakeholders can locate and access this information easily and, to this end, has begun a project to redesign and improve the LINK website. This new website will be live over the Summer of 2024.
20. Given there are very limited requests for further information, LINK concludes that sufficient transparency is being provided. LINK also notes that, due to the competitive nature of Direct Commissioning, there is some data such as that relating to bids that is commercially sensitive and cannot be made public.
21. LINK has continued to take a balanced approach to assessing the economic activity within the "defined radius". This includes decisions taken to not replace lost Protected ATMs where there is no detriment to the local community, and the approach taken to ensure that geographical barriers such as rivers, railways and main roads are taken into account when assessing cash access.
22. LINK continues to keep its processes under frequent review to ensure that the geographic spread of free cash access is being maintained where it is needed.

Question 4: The role of SD12 in the regulatory landscape introduced by FSMA 2023.

23. LINK's voluntary commitments have ensured continued satisfactory free access to cash. LINK will continue to deliver on the commitments it makes for as long as consumers need them.
24. The Financial Services and Markets Act 2023 has confirmed that the FCA will play the lead role in access to cash regulation. LINK understands that the FCA will shortly set out its approach to ensuring reasonable provision of cash deposit and withdrawal services for personal and business current accounts across the UK. LINK's view is that the different requirements of the FCA and PSR and the different units of measurement in use (miles by the FCA and kilometres by the PSR) could cause confusion among stakeholders and consumers. Furthermore, the complexity and regulatory burden that results from separate regulators working in the same area is not sensible. It is therefore LINK's view that SD12 can now be retired.

-ENDS-

Lloyds Banking Group



LLOYDS BANKING GROUP PLC
SECOND REVIEW OF SPECIFIC DIRECTION 12 (LINK)

Submission Date: 02 May 2024

[REDACTED]

PART 1: EXECUTIVE SUMMARY

Lloyds Banking Group ("LBG") is pleased to respond to the Second Review of Specific Direction 12 (LINK). While the use of cash is in decline as consumers shift to digital payment methods, we recognise it remains important and we support work across Government, regulators and industry to ensure cash access is there for those who need it.

We are committed to providing access to cash for customers and are working together with the industry to find new ways to ensure people can continue to access their cash. We welcome this opportunity to respond given recent legislation on cash access services.

We believe LINK's policies have been helpful in ensuring the broad geographic spread of ATMs, which has helped ensure cash provision in the UK remains strong. However, the landscape continues to evolve, particularly now the Financial Conduct Authority's (FCA) new access to cash powers are due to come into effect this year.

Specific Direction 12 should be allowed to elapse with the good outcomes safely transitioned into the FCA's rulebook.

Following the introduction of Financial Services & Market Act 2023, primary responsibility for access to cash regulation will be with the Financial Conduct Authority (FCA). Consideration needs to be given therefore to the extent to which there is duplication and cross-over between Specific Direction 12 and the FCA's incoming requirements on access to cash. We believe that with new handbook requirements and mechanism being implemented by industry, the Specific Direction will no longer be necessary and would present unnecessary cost to LINK (and the system) should it continue in parallel.

PART 2: RESPONSE TO CONSULTATION QUESTIONS

Question 1: How effective SD12 has been in delivering its purpose – i.e. requiring LINK to maintain a broad geographic spread of FTU ATMs and meet service-user needs.

LINK's policies have been helpful in ensuring the broad geographic spread of ATMs, which has helped ensure cash provision in the UK remains strong. However, as the geographic and demographic landscape continues to evolve, we believe the dynamic approach proposed by the FCA for its handbook distinguishing between urban and rural areas reflects more accurately differing cash needs based on economic activity and population size. Below we set out recommendations as to how to further improve on the outcomes achieved by SD12 and how these could be built upon by the FCA to more effectively support cash provision.

The definition of Defined Radius is still based on a universal 1km and does not reflect the reasonable amount of travel required to access free cash in rural areas, nor that customers commonly access cash where they shop, work, and live. The FCA has set out in its recent consultation its intention that firms will be given flexibility under the FCA's proposed rules to develop their own methodology to define a "local area". As such we believe this more dynamic approach proposed by the FCA allows different approaches for rural and urban areas (with a different radius for each) and reflects differing cash needs based on economic activity and population size.

First, to support LINK's replacement procedure, it may be more useful to mitigate the closure/conversion of independent ATMs, e.g. through **provision of mandatory notice periods before closure or conversion**. We acknowledge that the operator of LINK must complete the overall ATM Replacement Procedure process, including any mitigation activities, within six months of any Protected ATM being identified as a Lost ATM. This helps to ensure prompt action to replace cash provision. However, we believe there needs to be mechanisms in place to prevent there being a lag in deployment when an ATM deployer announces a closure or conversion.

We would advocate proactive interventions, such as a mandatory notice period being required ahead of closure or conversion, or for incumbent deployers to be prevented/prohibited from ceasing trading until a replacement deployer can be secured and an ATM installed. These Interventions would be useful to help mitigate potential customer detriment by giving regular users of a given ATM the opportunity to plan how to access cash in future once notice is given.

Second, we believe consideration of cash needs, including the need to replace a Lost ATM in a Protected Area, should be based on a **principle of proportionality supported by cost benefit analysis**. For example, introducing a minimum size of population in the area concerned, in order to justify provision of an access source. This would guard against bringing unnecessary cost of infrastructure, supporting an efficient market.

There should also be a local assessment of actual supply and demand through **cost benefit analysis** before any decision is made to provide a new access source. For example, if a shop which provides cashback or hosts an ATM reduces opening hours because of a lack of local demand (even if there is a

minimum population), there would be little value in installing other costly infrastructure – such as new external ATMs. The same would apply if a bank branch or a Post Office decided to reduce its opening hours because of declining demand. However, this would of course need to be assessed at a local level. There is precedent in existing SD12 requirements (section 5.1) to make a local assessment, where LINK must set out the criteria the operator of LINK intends to use to determine the circumstances in which alternative cash access, including but not limited to the Post Office, will be considered as an adequate substitute for a Lost ATM. We believe that it would improve the effectiveness of SD12 to include an assessment of population, demand and supply therefore true cash requirements, supported by cost benefit analysis.

Finally, if SD12 remains in place, we would recommend that there should be a **regular review of the status of any Protected areas to confirm if new free access has been created**. For instance, protected status should be revoked if another ATM/cash access source is installed near to a Protected ATM. This review should take place at a reasonable frequency (e.g. annually) which strikes the right balance between cost effectiveness of unnecessary retention of Protected status and the resource required to conduct the review. This review should also consider alternative provision in the area, not just ATMs.

Question 2: How well the requirements under SD12 have worked in practice in relation to maintaining and replacing protected ATMs, as defined in paragraph 3.7 of SD12.

The requirements under SD12, in particular, para 3.7, have worked well in practice in terms of maintaining and replacing protected ATMs where they are needed.

Protected ATM premiums should be focussed on areas of greatest consumer and business need and not on high volume ATMs which do not require the premium to incentivise access to be maintained, e.g. out of town supermarket sites. Given the breadth of our customer base, we have been able to examine the levels of activity at Protected ATMs and observe that the majority of Protected ATMs have the highest level of activity in the network, indicating they do not always need supplemental financial support; for example, often Protected Premiums go to the busiest (and therefore most economically viable) Protected ATMs.

This uneven distribution could indicate that some of these protected ATMs may not need the additional economic Incentive given their rate of use. We value the support provided by 'Low Volume Premiums' but given the activity levels, it suggests the Protected ATM Premium is not always required and not fulfilling its original purpose.

Question 3: How successful LINK has been in addressing the areas for improvement identified in the first annual review of SD12.

LINK publishes the ATM Footprint Report on a monthly basis. It would benefit from including data such as location of ATMs. Without this data, firms cannot interpret where or why ATMs are being protected, closed, or targeted for replacement. We believe that in the interest of transparency, to understand customer behaviour and to improve effectiveness, LINK should include this geographical and contextual data to help firms understand how customers are using the infrastructure. In order to better serve communities and customers we would also find it particularly helpful to see the following data included in a monthly report:

- A list of all areas at risk/under consideration and their current status in real time, rather than retrospectively.
- A breakdown of costs between Direct Commissioned ATMs and those installed as a result of a community request.
- Evidence of effectiveness of new ATMs e.g., how much they are being used by consumers.

This would be consistent with the goals of the existing SD12, Section 5.1.3 which requires that the operator of LINK must have in place effective policies and measures which “set out what the Filters are and how the operator of LINK will apply its Filters” and Section 5.1.4 “set out the criteria the operator of LINK intends to use to determine the circumstances in which alternative cash access, including but not limited to the Post Office, will be considered as an adequate substitute for a Lost ATM”. Understanding local demand, more viable alternative solutions and potentially the reasons behind a closure would help to determine whether like for like ATM replacement and direct commissioning is appropriate. For example, if an ATM has been closed due to lack of demand, it would not be efficient to install a replacement ATM.

Question 4: The role of SD12 in the regulatory landscape introduced by FSMA 2023.

FSMA 2023 confirmed the FCA’s lead role in access to cash regulation and we recognise the PSR’s ongoing role to help ensure the system remains robust, resilient, and cost-effective.

We appreciate the continued engagement from LINK and the good outcomes delivered as a result of SD12 which we recommend should be allowed to safely transition into a single source of regulation. We believe LINK’s policies have been helpful in ensuring the broad geographic spread of ATMs, which has helped ensure cash provision in the UK remains strong. We suggest that SD12 can safely elapse now Financial Services and Markets Act provides legislative requirements to protect access to cash in addition to the various mechanisms the industry has agreed to put in place to meet these. This would avoid multiple over-lapping areas of regulation and ensure consistency and clarity for the industry and consumers.

LINK’s have also confirmed they believe the complexity and regulatory burden that results from separate regulators working in the same area is not sensible.

As a result, the Specific Direction 12 will no longer be necessary, and continuation may bring unnecessary cost to LINK. Since the last consultation on SD12, there is now a Coordinating Body that evaluates potential cold spots and potential viable solutions to address gaps (with a strong focus on multiple existing and future innovations which can be deployed). Given these developments and the various mechanisms the industry has agreed to put in place to meet consumer cash needs, we would recommend SD12 is allowed to elapse and that the good outcomes are safely transitioned into the FCA’s rulebook.

NatWest Group

ATM Network Regulation and Digital Payments
Payment Systems Regulator
12 Endeavour Square
London
E20 1JN



Via email to psrsd12responses@psr.org.uk

30 April 2024

NatWest Group response to the PSR Call for views: Second annual review of Specific Direction 12 (LINK)

NatWest Group (NWG) welcomes the PSR's Call for Views on Specific Direction 12 (SD12). The direction has been successful in helping to maintain broad geographic access to free-to-use (FTU) ATMs. It has also helped ensure a clear focus from industry on protecting access to cash. However, as new FCA rules on access to cash are expected to be confirmed later this year, it would not be appropriate for the requirements on LINK to be extended or replaced beyond 2 January 2025.

- **How effective SD12 has been in delivering its purpose – i.e. requiring LINK to maintain a broad geographic spread of FTU ATMs and meet service-user needs.**

Supported by SD12, LINK have established an effective process for protecting a geographic spread of FTU ATMs and for working with industry to protect ATMs where they are needed. To that extent, SD12 has been effective in delivering its purpose in a way that meets cash users' needs. NWG are of the view that, while it has been effective, SD12 and the requirements placed on LINK should be superseded by incoming FCA rules.

- **How well the requirements under SD12 have worked in practice in relation to maintaining and replacing protected ATMs, as defined in paragraph 3.7 of SD12.**

LINK's work to maintain and replace protected ATMs is broadly effective. NatWest have installed two ATMs directly commissioned by LINK and currently operate one installed by Tesco.

We are aware that challenges continue to exist around identifying practical locations to deploy ATMs. There can be issues, for example, finding sites that meet requirements around security, have suitable access, or where it is possible to agree necessary planning consents.

NatWest faced several practical challenges in deploying an ATM in [REDACTED], including issues with planning and delays caused by severe weather. In addition, the ATM installed in [REDACTED] had to be removed due a business closure. These challenges mean that, even where delivery is a priority, it is not always possible for firms to deliver solutions for physical cash infrastructure within the timelines that NWG, the regulator, or customer might want.

In the case of SD12, it is not always possible to replace an ATM within 6 months. It is important that regulators, when setting rules or developing guidance, recognise the commercial and practical challenges and make it clear that, while firms should take reasonable steps to meet such timelines, they are not always achievable.

- **The role of SD12 in the regulatory landscape introduced by FSMA 2023.**

NWG are of the view that SD12 and the requirements placed on LINK should be superseded by incoming FCA rules and should not be extended or replicated beyond 2 January 2025. This approach would be aligned with the recommendations in the Future of Payments Review to reduce and better align regulation and regulatory priorities for payments in the UK.

The relevant legislative requirements introduced in the FSMA 2023, and the approach set out in the recent FCA consultation on Access to Cash, places obligations on designated firms to retain reasonable access to cash services across the UK. Given the wider focus of the FCA rules to include other cash withdrawal and cash deposit services, in addition to FTU ATMs, there will be sufficient protections in place for cash users without the PSR continuing to use its powers of direction for LINK.

As such, there will be very limited value to the PSR seeking to replicate or extend the requirements placed on LINK through SD12. This will especially be the case if, as expected, LINK continues to play a role as a coordination body for the assessing cash access needs and making recommendations on shared industry cash access solutions.

If you have any questions in relation to this response or would like to discuss it further, please do get in touch.

Scottish Grocers Federation

Payments Systems Regulator – Consultation

E-mail: psrsd12responses@psr.org.uk

Consultation website: https://www.psr.org.uk/publications/consultations/call-for-views-second-annual-review-of-specific-direction-12-link/?utm_medium=email&utm_name=&utm_source=govdelivery

19th April 2023

To whom it may concern,

PSR – Call for views: Second annual review of Specific Direction 12 (LINK)

The Scottish Grocers' Federation (SGF) is a trade association for the Scottish Convenience store sector. There are 5,171 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 addition, Convenience stores are known to be economic multipliers and an important source of local employment, providing over 49,000 jobs in Scotland (Scottish Local Shop Report 2023 (SLSR 23)).

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. According to our Scottish Local Shop Report 2023, the valued services provided by local shops include **free-to-use cash machines (47%)** (down 2% on 2022), **cashback (70%)**, **charged cash machines (19%)** (down 4% on 2022), post office (27%), and Bill Payment services (76%).

It is also the case that 100% of stores offer cash as a payment method, confirming that cash is still an essential aspect of trade for the convenience sector. While other methods of payment include Debit Card (99%), Credit Card (98%), Contactless and Mobile payment (95%) and Card not Present transactions (46%) (SLSR 23).

1

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With the UK convenience sector expected to grow to £50.9bn by 2026, 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. Over the last year, the UK convenience sector contributed over £10.6bn in GVA and over £9.1bn in taxes (SLSR 23).

SGF welcomes the work carried out by LINK, as part of their responsibilities and requirements as set out under SD12, and partnering ATM providers to maintain, protect and expand the free-to-use network in the UK and Scotland.

SGF understands that the number of free-to-use ATMs has dropped from an approximate peak of 55,000 in 2018 to under 37,000 in 2024. SGF also notes that the percentage of convenience stores providing free-to-use cash machines in Scotland declined from 55% in 2020 to 47% in 2023 (Local Shop Reports 2020 and 2023), with the overall percentage providing charged cash machines seeing a similar decline of 9% over the same period.

A recent survey of SGF members shows that there is a significant majority of convenience retailers (70.8%) believe that the number of FTU cash machines in their area has reduced over the past five years. Likewise, 23% of respondents have told SGF that there is currently not an FTU ATM within walking distance of their store.

Free and reliable access to cash is still essential for many communities and the businesses that operate within them. Convenience stores across Scotland provide an essential local service for their communities. In many cases, free access to cash encourages footfall and is an important part of the offer available for customers. As well as encouraging people to shop locally, with a knock-on benefit for other local businesses and high street shopping centres. This is particularly true for many rural, remote, elderly and deprived communities. Including many vulnerable individuals and households.

Our survey also shows that for 41.7% of convenience stores in Scotland, at least half of all in-store purchases are made using cash. Similarly, for stores that currently offer FTU cash machines, 86.5% believe this service is either 'very' or 'extremely' valuable to their customers.

Any policy which would result in a further reduction in the number of free-to-use ATMs across convenience stores in Scotland, however, would raise serious concerns for

convenience retail, SGF members and for many businesses in Scotland. In addition, this would result in many convenience stores being left at a competitive disadvantage to their larger counterparts and superstores. Adding to the extremely challenging trading environment being experienced by many convenience retailers. Including issues such as the cost-of-living crisis, higher than usual energy prices, increased inflation & interest rates and an additional burden from recent government regulation.

In addition, the situation in Scotland may differ somewhat from other parts of the UK. Specifically, the spread of rural and highly remote communities. Convenience stores are incredibly important service hubs for many of those communities and therefore it is essential that customers can continue to have access to cash in order to be able to access those services. Our Scottish Local Shop Report shows that our customers believe that their local shop is among the most important services available in their area, with only Post Offices and Pharmacies rated and having a greater positive impact on the local area.

The average customer visits their local store 2.7 times per week (SLSR 23), 82% live within 1 mile of their local store (51% within 0.25 of a mile) and 57% travel to their local store on foot. Likewise, 100% of respondents to our recent survey agree that free access to cash remains either 'very' or 'extremely' important to the communities they serve.

Hence, we strongly believe that work by the LINK, PSR and the UK Government should continue to secure the FTU ATM network for the long-term future, and therefore support the work being carried out as part of SD12. Equally, SGF would encourage further action from PSR and the UK Government to protect free access to cash in convenience stores, which are widely recognised as local economic multipliers and beneficial for their communities.

SGF welcomes the opportunity to respond to the second review of Specific Direction 12 (LINK).

PRS Consultation: four areas, focused on the operation of SD12

- 1) How effective SD12 has been in delivering its purpose – i.e. requiring LINK to maintain a broad geographic spread of FTU ATMs and meet service-user needs.

- 2) How well the requirements under SD12 have worked in practice in relation to maintaining and replacing protected ATMs, as defined in paragraph 3.7 of SD12.
- 3) How successful LINK has been in addressing the areas for improvement identified in the first annual review of SD12.
- 4) The role of SD12 in the regulatory landscape introduced by FSMA 2023.

Areas 1&2.

SGF supports the work carried out by LINK as part of their responsibilities and requirements as set out under SD12 to maintain and protect the free-to-use ATM network in the UK and Scotland.

Nevertheless, SGF notes that the number of free-to-use machines in Scotland continues to decline, from 3,750 in 2023 to 3,677 in 2024 (to date – February). A further drop from 4,048 in 2021. With a similar decline seen across the UK. Meanwhile, cash withdrawal volume and value appears to have remained consistent across a number of years, with a slight year on year increase in value since 2021.

SGF also acknowledges the work being carried out by LINK towards ensuring that communities can still access cash for free, for example, through the Financial Inclusion Programme and Retail Centre Policy. While closely monitoring the ongoing situation through the Access to Cash Review and Access to Cash in Rural Communities report.

Likewise, we support the efforts of LINK to map the overall percentage of people who live within 1km of free cash access. In Scotland, in 2018, 88% of people lived within 1km of free cash access. Our understanding is that, today, 88% of people still live within 1km of free cash access, as a result of the work LINK has done. Hence, even if the number of FTU ATMs has decreased, their geographic spread across Scotland has remained similar

Even so, as stated above, SGF is concerned that the percentage of convenience stores providing free to use cash machines in Scotland declined from 55% in 2020 to 47% in

2023 (Local Shop Reports 2020 and 2023), with the overall percentage providing cash machines saw a similar decline of 9% over the same period.

Area 3.

SGF is satisfied with much of the progress that has been made to improve transparency of information, which is provided by LINK, understand the FTU network and protect ATM sites that may be under threat of closure or need to be replaced.

However, we note that interchange fees continue to be an area of disagreement for the FTU network. Across regulators, operators, and retail. Due to the decline in the interchange fee, there is pressure on retailers to accept pay to use ATM's, to remove them entirely, or absorb the fee themselves, in order to maintain their ATM at no direct cost to the customer. In SGF's view, there has been a decline in cash being dispensed from ATMs, since the Covid19 pandemic, and an increase in the share of ATMs charging to dispense cash. As stated above, any policy resulting in a reduction in the number of free-to-use ATMs across convenience stores in Scotland, raises serious concerns for convenience retail, SGF members and for many businesses in Scotland.

Particularly if FTU ATMs are removed due to being unviable or retailers are forced to move to pay to use service. Adding to the extremely challenging trading environment being experienced by many convenience retailers.

Area 4.

SGF continues to welcome the role of SD12 in regard to promoting and protecting the free-to-use ATM network.

Indeed, as outline above, we strongly believe that work by the LINK, PSR and the UK Government should continue to secure the FTU ATM network for the long-term future. Equally, SGF would encourage further action from PSR, LINK and the UK Government to protect free access to cash in convenience stores, which are widely recognised as local economic multipliers and beneficial for their communities.

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

Yours sincerely,

[Redacted signature block]

- SGF gives permission to PSR to publish its consultation response in full (name and organisation included) and to share this response internally as required.
- SGF is also content to be contacted again in the future, in relation to this consultation exercise.

Tesco Bank

Tesco Bank view on PSR Specific Direction 12 – Second Review

With Access to cash front of mind, our constant focus is on serving consumers. Since the previous review, our estate's market share has grown as has our market share of transactions, demonstrating the ongoing importance of supermarket ATMs to the delivery of free access to cash. Over the same period, the cost to run the ATM estate has increased by 37% largely due to base rate increases and inflation creating significant pressure on our ability to maintain access to cash through ATMs. As a consequence, and even in an environment where we have increasing market share including greater numbers of premium and protected ATMs, we are still having to consider the closure of ATMs due to the unprofitability of the market and stagnation of interchange.

Many of the comments below are taken from our initial response to SD12, however they remain our concern:

- The effectiveness of SD12 to date in delivering against its purpose – i.e. requiring LINK to maintain a broad geographic spread of FTU ATMs and meet service-user needs.
 - Performance measures aligned to the 5 commitments of Access to Cash would provide a clear data led view on the performance of the policy, LINK and ATM Operators.
 - Tesco Bank is concerned that the existing policy currently has a narrow view of the requirements in relation to where an ATM should be located, focusing on a geographical proximity measure. We would recommend that the policy should instead focus on where the cash customers are located and consider where they live and shop and in turn determine if there are sufficient ATMs services to meet their needs.
 - We also encourage the policy to not just reference 'cold spots' but to also consider consumers who may be vulnerable and who are dependent on cash access in all environments. These considerations may also include alignment to essential shopping needs and general movements.
 - We recommend that additional classification of protected access may be required for essential retail environments where a Defined Radius alternative may not be fit for purpose in terms of ensuring accessibility.
 - Further clarification of all specifications for 'Defined Radius' is also requested.
- 2 Additional points to consider:
 - Having an ATM in a geographical area is important, however the availability of an ATM when the customer needs it remains critical. Access should mean "all day access" but the current focus remains on a binary decision (it has an ATM or does not) rather than the actual access requirements of an area. LINK often calls out the Post Office specifically as a cash access provider, and whilst they play an important role in the delivery of access to cash and banking services more broadly, they operate reduced hours during the week and more so on a Saturdays and Sundays often closing at 1pm, even though Saturday remains one of the busiest ATM operating days.
 - Where ATMs fail, there is no backup plan for areas with few ATMs and consumers (in particular Vulnerable customers) do not want to travel further (within 1 km) in

order to access cash. We strongly suggest certain areas should have multiple ATMs classed as remote in order to create resilience in the market. As a retailer, we often receive negative feedback where an ATM has run out of cash or has a hardware fault which means access to cash is no longer possible (due to the absence of any competitor ATMs in the area) until resolution of the fault, which can be hours or even days.

- How well the requirements under SD12 have worked in practice in relation to maintaining and replacing protected ATMs, as defined in paragraph 3.7 of SD12.
 - It is observed that the Direct Commissioning process is active, but further reporting information is required to measure the effectiveness of this process and its long term cost sustainability. It is a general observation that the volume of Direct Commissioning requests is increasing however the reasons are not understood (is this increased proactivity or an acceleration of 'cold spots'?). It is also recommended that an economic measure is applied to LINK regarding the economic performance of Direct Commissioning to ensure it is sustainable in the long term, and preferable to alternative options.
 - Existing regulations do not fully consider the customer's needs. Several existing multi-sites (where a site has more than 1 ATM) provided by a single operator at the same location require protected status, however as there is more than 1 ATM on site they do not currently qualify. The reason for multisite ATMs is due to high customer demand and they also provide redundancy should the companion ATM be unavailable. That multi-site ATMs do not qualify, disadvantages ATM deployers who are committing to prioritizing consumer need and service over a reduction in ATMs to qualify for a stronger Interchange classification.
- How successful LINK has been in addressing the areas for improvement identified in the first annual review of SD12.
 - 8.1 monitoring must capture and report on the reasons why ATMs are being removed. Reasons may include closure due to inflationary cost increases which are not appropriately supported by ATM Interchange rates; too few transactions; and withdrawal of Landlord consent. Reasons should be collated and publicly reported to ensure complete transparency which can then be used to inform policy decisions.
- The role of SD12 in the regulatory landscape introduced by FSMA 2023.
 - Tesco Bank considers that SD12 must remain in place. However, we strongly encourage the PSR and supporting regulators (FCA and Bank of England) to provide greater oversight of LINK in order to ensure both Issuer and Acquirer strategies are clearly aligned to the needs of consumers, ensuring Access to Cash objectives are met. These considerations apply not only to ATM network management but also to the delivery of essential innovation, such as the development and scale of deposits through intelligent devices.
 - The application of the policy must also consider expansion to ensure the broader protection of cash services is maintained through device delivered deposits and that appropriate commercial propositions are in place to support the industry to provide

services to cash customers. This approach will provide appropriate consumer choice and operator competition based on demand.

- In order to protect access to cash commitments 5.1.1 in SD12, and policies and measures to review interchange for protected sites, must be applied to the wider ATM LINK network and not just protected sites thereby ensuring clear transparency of the ongoing strategy, and targets for the Interchange model.

Which?

2 May 2024

Consultation response

Which? response to Payment Systems Regulator's (PSR) Call for views: Second annual review of Specific Direction 12 (LINK)

We welcome the opportunity to respond to the PSR's call for views on its second annual review of Specific Direction 12.

In our [response to the PSR's first review of Specific Direction 12](#) we argued that the PSR's Specific Direction continues to serve an important purpose in maintaining free access to cash for consumers. We also noted that it also provides helpful transparency of the steps that LINK has taken to protect consumers' access to FTU ATMs in specific locations which enables the PSR and external stakeholders to monitor LINK's actions, and help to identify gaps or delays in maintaining provision of free access to cash services. **We continue to consider that Specific Direction 12 has an important role to play in protecting free access to cash, and providing clear and easily accessible information about the steps taken by LINK to ensure this is maintained.**

We recognise that significant changes to the protection of access to cash are due to be implemented in the coming months. In particular, the Financial Services and Markets Act has tasked the Financial Conduct Authority (FCA) with the task of protecting free access to cash withdrawals and deposits for consumers. The FCA has recently consulted on how it proposes to carry out its new responsibilities. In its consultation, the FCA suggested that it expects to finalise its rules in relation to cash in Q3 2024.

While there will be some overlap between the new protections bestowed by legislation and the PSR's Specific Direction 12, there remains uncertainty over when the new protections will come into effect, precisely what form they will take, and how they will work in practice. In this context, it would be premature and ill-advised for the PSR to remove Specific Direction 12 - rather, it should pursue a safety-first approach. **The Specific Direction should remain in place until the FCA's regulatory framework governing wider access to cash issues has been introduced, and sufficient time has elapsed to allow a thorough assessment to be made of its impact and effectiveness.** This assessment should include consideration of any gaps or overlaps between the new legislative framework and the Specific Direction, and determine whether there remains a need for the new Specific Direction to continue. Waiting until the new regulatory rules have come into force will enable the PSR, in conjunction with the FCA, to undertake a proper informed assessment of whether there is a need for complementary rules, or whether unnecessary duplication should be removed.

Which?

About Which?

Which? is the UK's consumer champion, here to make life simpler, fairer and safer for everyone. Our research gets to the heart of consumer issues, our advice is impartial, and our rigorous product tests lead to expert recommendations. We're the independent consumer voice that works with politicians and lawmakers, investigates, holds businesses to account and makes change happen. As an organisation we're not for profit and all for making consumers more powerful.

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London E20 1JN
Telephone: 0300 456 3677
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