

# Specific Direction 12: Summary cost benefit analysis

March 2022

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# 1 Introduction

- 1.1** We issued Specific Direction 8 (SD8) in October 2018. It was designed to support and underpin a commitment that the operator of LINK made in February 2018, to protect the geographic scope of its free-to-use (FTU) ATMs as it reduced its scheme interchange fees ('the commitment'). SD8 was due to expire in January 2022. In December 2021, we extended it to the end of March 2022.
- 1.2** One requirement of SD8 was for us to review it after 12 and 24 months, to determine whether there was a need to keep the Direction in place until it expired. Both times we concluded that SD8 should remain in place, as it had ensured that LINK had a coherent and transparent set of policies and practices to support its commitment.
- 1.3** Following our second annual review, we asked for views on whether we should issue a new Direction once SD8 expired; many of the reasons for issuing SD8, or a similar Direction, remain relevant both now and in the near future. This impact assessment explains the key factors we considered in deciding whether to issue a Direction.
- 1.4** In this assessment we set out:
- a. the objective we want to achieve by issuing a new Direction
  - b. our costs and benefits analysis
  - c. an equality impact assessment

## 2 The objective of a new Direction

**2.1** The aim of the new Direction ('the objective') is to continue to support the operator of LINK in meeting its commitment to:

- maintain a broad geographic spread of FTU ATMs in the UK, and
- meet service-user<sup>1</sup> needs

**2.2** This aligns with our Strategic Priority to ensure people can use the payment services they rely on. Specifically, this continues to protect access to cash for those that rely on it as explained below.

**2.3** LINK already has initiatives in place to help maintain the geographic spread of FTU ATMs. These include:

- **A retail centre policy:** LINK will guarantee free access to cash in all retail centres of five or more shops
- **A community request-an-ATM scheme:** Members of the public can ask LINK to install an ATM near to them if there is a need for access to cash

**2.4** The Direction will complement the way these achieve the objective and, importantly, provide an effective enforcement tool that allows us to act quickly and directly if LINK decides to implement a change that we reasonably consider is likely to go against the objective.

**2.5** There are also industry initiatives underway. These include an independent body that retail banks and building societies will create to assess local communities' needs and direct cash solutions, which the Cash Action Group (CAG) announced on 15 December. And the government has legislated to enable cashback without purchase, and consulted on legislation to guarantee access to cash.

**2.6** Reflecting this, and to recognise LINK's good work and progress to date, we have made the new Direction more flexible and less prescriptive than SD8.

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<sup>1</sup> Service users are those who use, or are likely to use, services provided by payment systems, including payment service providers (PSPs) and customers of direct and indirect participants of payment systems. This can include people who use cash for transactions and businesses that accept it.

## 3 Costs and benefits

- 3.1** We have considered the costs and benefits of the new Direction to ensure that any new Direction is the most suitable measure for achieving the objective. The approach we took in relation to costs and benefits was to consider what additional costs and benefits arose compared to possible outcomes were we not to issue a Direction. Under this counterfactual situation (of no Direction), we considered two specific scenarios of approaches LINK could take. We determined the Direction was the most proportionate measure to meet the objective. We set out these counterfactuals and our assessment in paragraphs 3.13 to 3.17.
- 3.2** The costs which are incurred under the new Direction are monitoring costs, mainly in the form of monthly reporting and meetings. These costs will predominantly fall on LINK, but also on the PSR. LINK indicates that it spends £150,000 a year monitoring SD8.
- 3.3** We estimate that the monitoring costs incurred by LINK and the PSR under the new Direction will be about the same or lower than SD8, as we have removed some monthly reporting requirements and only require an additional annual resilience report.
- 3.4** The benefits associated with the Direction follow from having in place an effective and enforceable mechanism to make LINK accountable and hold it to its commitment. The Direction and the transparency required under it promote public confidence in the maintenance of free cash access.
- 3.5** Greater confidence in the overall system will help maintain cash usage and support the option of using cash for those who rely on it in general or in specific circumstances. This will have a large positive benefit, as it has been estimated that there are five million cash-dependent service users. This group includes people from lower socio-economic backgrounds and those with limited mobility for reasons such as disability and age. Cash-dependent service users are more likely to be vulnerable or possess a protected characteristic. This further increases the wider social benefits of providing protection.
- 3.6** The approach we took considered the additional costs and benefits of the new Direction compared to two possible alternative scenarios. The additional benefits of the Direction are likely to outweigh the additional costs under either potential scenario, and on balance across these scenarios. We have concluded that the new Direction will have net benefits.
- 3.7** These two scenarios were:
- a. We do not issue a new Direction, but rely on LINK maintaining its policies to protect the geographic spread of FTU ATMs in a similar way to the potential requirements in a Direction – and LINK broadly does so.
  - b. We do not issue a new Direction and LINK acts in a way that goes against the objective and reduces the geographic spread of FTU ATMs and/or does not meet service users' needs.

- 3.8** Under the first scenario, most of the costs incurred are the same as with the Direction (the costs of maintaining the relevant policies and reporting). There will be a relatively small saving in terms of the PSR's costs of monitoring compliance with the Direction. However, in this situation there will also be a reduction in confidence benefits as the PSR will lack an effective enforcement tool if LINK were to act in a way that adversely impacts on the objective.
- 3.9** There is also a possibility that, without the Direction, LINK maintains its commitment and the geographic spread of FTU ATMs, but does not maintain the same level of transparency and reporting. In this variation, LINK would save money by no longer bearing the monitoring costs, but the public confidence would be lower as there would be less clarity about which policies LINK will use to stick to its commitment, and less transparency about LINK's progress against its commitment. Given these different effects, we conclude that the net benefit of the Direction is larger than the net benefits under this alternative scenario (a), albeit by a relatively smaller amount compared with scenario (b).
- 3.10** Turning to the second scenario (b), where LINK deviates from its commitment, the costs of maintaining the commitment and associated transparency would presumably be saved. Set against this, however, would be the likely considerable costs arising from the negative impact on service users. We consider that any such impact is likely to be immediate and widespread, and likely to disproportionately affect those vulnerable users who are more reliant on cash.
- 3.11** Furthermore, in this alternative scenario where LINK implemented a change that went against our objective, we would not have a legally enforceable tool to deal with it. If we wanted to take action, we would have to issue a Direction at that point and then enforce it. This retroactive approach would result in a significant delay, during which we would not be able to act. Service users would be harmed during this period, and there would also likely be ongoing impacts from the resulting reduction in confidence in cash. In summary, compared to this scenario we consider that the Direction provides significant benefits both in terms of ensuring that the objective is met and our ability to act promptly if there is a risk this does not occur. While we currently assess this risk to be low, the negative impact on service users would likely be very significant.
- 3.12** The net benefits of having the Direction in place are therefore expected to be positive under either potential counterfactual scenario. When compared with scenario (b), the net benefits of the Direction are likely to be very significant. For these reasons, we consider that the benefits of the Direction being in place outweigh the relatively minor costs which are imposed over and above those incurred without the Direction.
- 3.13** We have also considered different options for the wording of the Direction. New industry and government initiatives should now play a part in ensuring people have free access to cash in the future. While the arrangement under SD8 is still workable, we recognise that LINK may need to adjust its policies and measures to adapt to any industry or legislative initiatives.

- 3.14** We recognise LINK's work and progress to date, and have reflected this by removing the detail of the minimum requirements in SD8 to give LINK greater flexibility. But a non-objection clause is necessary to mitigate any risk in this approach. The non-objection clause provides LINK with flexibility and ensures it maintains ownership and accountability for its policies, while still maintaining service-user confidence and allowing us to intervene where appropriate.
- 3.15** The chosen wording of the 'non-objection clause' introduces three restrictions on the circumstances in which an objection can be raised. This means that the clause can be invoked only where the PSR has a 'reasonable belief' (restriction 1) that the proposed changes 'are likely to' (restriction 2) have an 'adverse impact' (restriction 3) on the objective. We consider this to be proportionate because it provides appropriate limits on the scope of the clause so as to give LINK flexibility over its policies whilst still allowing PSR to act where appropriate.
- 3.16** Having considered the response from stakeholders, we reduced the notice period for LINK to tell us about any variation to its policies from four weeks to two weeks. This strikes the right balance of providing the PSR with a reasonable length of time to consider any proposal(s) without causing undue delay to LINK and allowing it to act quickly if required. It is consistent with the notice period required for any changes to policies in SD8.
- 3.17** Overall, the changes to the non-objection clause strike the right balance between allowing us to intervene where proposed changes threaten LINK's ability to meet the objective and ensuring that LINK maintains accountability and responsiveness to market changes.
- 3.18** In summary, the benefits of the Direction being in place outweigh the relatively minor costs which are imposed over and above those incurred without the Direction. It provides an effective, legally enforceable tool to hold LINK to account. It enables a proactive approach and allows us to intervene quickly and directly if LINK wants to make a change that appears to go against its commitment. A 'non-objection clause' with a two-week notice allows the PSR to give proper consideration to the proposal whilst allowing LINK to move at pace to implement policy changes. In light of the above benefits and costs, we also consider that the direction is proportionate.

## 4 Equality impact assessment

- 4.1** In line with our public sector equality duty under the Equality Act 2010, we assessed the likely equality impacts of the new Direction. We considered Section 149 of the Equality Act 2010 (the public sector equality duty), particularly the impact of our proposed direction on people with protected characteristics.
- 4.2** The new Direction meets the needs for people with protected characteristics, in particular those with limited mobility for reasons such as disability and age.
- 4.3** In our analysis, we considered the findings that cash remains the second most frequently used payment method in the UK, and that people need suitable cash withdrawal facilities within a reasonable distance.
- 4.4** We also noted the evidence that people with protected characteristics, including age and disability, make more intensive use of cash; it is an important budgeting tool, and helps people be socially independent.<sup>2</sup>
- 4.5** In considering whether to issue a new Direction, our CBA found that the benefits would apply to the estimated five million people that prefer to use cash. This includes vulnerable service users from lower socio-economic backgrounds, and people with limited mobility for reasons such as age and disability.
- 4.6** Our consultation on the new Direction found that there was strong support for ensuring the broad geographic spread of free access to cash. Several stakeholders asked us to keep a Direction in place until, at a minimum, the proposed government legislation on free access to cash comes into place.
- 4.7** Finally, we took into consideration data indicating a decline in the number of facilities for accessing cash, such as ATMs and bank branches.<sup>3</sup> We noted that a suggested reason for this is that people are making greater use of digital and online services and payments.<sup>4</sup> However, accessing these services presents some challenges for people in rural regions, people from lower socio-economic backgrounds, and those with limited digital capability.

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2 HM Treasury, *Access to Cash: Call for Evidence* (October 2020)  
[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/926666/Call\\_for\\_Evidence\\_-\\_Access\\_to\\_Cash\\_15.10.2020.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/926666/Call_for_Evidence_-_Access_to_Cash_15.10.2020.pdf)

3 UK Finance: UK Cash & Cash Machines 2021

4 HM Treasury, *Cash and digital payments in the new economy*.  
<https://www.gov.uk/government/consultations/cash-and-digital-payments-in-the-new-economy>



- 4.8** Overall, we see a positive equality impact for a new Direction designed to maintain free access to cash within a broad geographic spread for people that need it. It ensures that there are measures in place to maintain such service, and replace them when they close. This will protect a facility that many people use and rely on, including those less able to use digital services, people from lower socio-economic backgrounds, and people with limited mobility due to protected characteristics such as disability and age.

## 5 Concluding remarks

- 5.1** The new Direction has overall benefits and is in the interests of users. It allows us to ensure that LINK adheres to its commitment. This will give stakeholders confidence that there will be a broad geographic spread of free access to cash, bringing benefits to cash-dependent service users.
  
- 5.2** The flexibility of the Direction ensures minimum or no additional costs to LINK, and gives LINK the flexibility to adjust its policies when access to cash legislation or industry initiatives come into place.

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