

# Second annual review of Specific Direction 8

Response to call for views

July 2021

# Contents

1	Summary	3
2	Key facts on SD8 and access to cash	7
3	LINK's commitment	11
4	LINK's policies for maintaining Protected ATMs	16
5	LINK's policies for replacing Protected ATMs	22
6	Recommendations and next steps	28
<b>Annex 1</b>	Respondents' other views	30

# 1 Summary

- 1.1** The Payment Systems Regulator (PSR) is the economic regulator of the UK's main payment systems. This includes LINK – the UK's largest ATM network – which enables cardholders to withdraw cash at any ATM connected to its network.
- 1.2** ATMs are still the main way that most people access their cash. The PSR remains committed to ensuring that cash, and the infrastructure that supports it, remains available for people and businesses that need it.
- 1.3** This is our second annual review of how well LINK is meeting the requirements of our Specific Direction 8 (SD8) and whether SD8 should continue, taking into account recent developments regarding access to cash. We issued SD8 to LINK in October 2018. It requires LINK to develop and adopt appropriate, effective and well-defined policies and measures to maintain the broad geographic spread of free-to-use (FTU) ATMs in the UK.
- 1.4** Based on the evidence we have collected and the analysis of stakeholder responses, we conclude that SD8 should remain in place. We have also identified three areas for further action by LINK:
- A review of its financial incentives for maintaining and replacing Protected ATMs
  - Publishing further details on the efficiency and transparency of direct commissioning
  - Improving resilience to support continued access to cash in the future

## Summary of our conclusions

### LINK's commitment and SD8

- 1.5** We conclude that SD8 should remain in place until it expires in January 2022. SD8 has been successful in maintaining access to cash, by ensuring that LINK has a coherent set of policies and practices in place to support its commitment to maintain a broad geographic spread of FTU ATMs. It has also enhanced the transparency of the measures that LINK has implemented, enabling us to monitor whether LINK is meeting its commitment.

## LINK's policies and processes for maintaining and replacing Protected ATMs

- 1.6** Although LINK has made some changes since our first review, our evidence and analysis suggest a need for LINK to review how well its financial incentives for maintaining and replacing Protected ATMs are working.
- 1.7** While LINK has increased the amount of information that it publishes about direct commissioning, we think more can be done for greater transparency. We therefore recommend that LINK publish further details concerning the efficiency and transparency of the direct commissioning process, subject to commercial confidentiality issues.

## Resilience

- 1.8** There are some risks to LINK's continued ability to replace and maintain a broad geographic spread of FTU ATMs. We therefore see scope for improving the resilience of LINK's processes, in order to ensure free access to cash in the future.

## Future of SD8

- 1.9** SD8 is due to expire in January 2022. We received diverse views from stakeholders in relation to issuing a future Specific Direction to LINK, including the potential interactions with future legislation on access to cash.
- 1.10** We want to protect access to cash through maintaining a broad geographic scope of FTU ATMs. SD8 has been successful in ensuring that LINK has a coherent set of policies in place to achieve this outcome.
- 1.11** Many of the reasons that support keeping SD8 in place until January 2022 are likely to apply beyond January 2022 also. We are therefore currently minded to issue a new Direction to replace SD8 when it expires. Following the publication of this review, we will assess the evidence in detail over the summer.
- 1.12** Should we decide that a new Specific Direction is required, we will consult on a new draft Direction later this year, including how it may interact with future access to cash legislation and industry developments.

## Our first review

- 1.13** SD8 contained a commitment for us to review it 12 months after issuing it (i.e. after October 2019). We published this review in March 2020.<sup>1</sup>
- 1.14** We recommended that LINK:
- Keep under review both the Low-Volume Premium (LVP), used for supporting ATMs with a low number of withdrawals, and their policy of targeting all Protected ATMs for replacement, including those where closure would cause no harm
  - Undertake a review of the robustness of the Protected ATM premium
  - Publish high-level information on the outcomes of the direct commissioning process
- 1.15** Following our review, LINK has made changes to how it applies the Protected ATM premium, how it calculates the eligibility of ATMs for the Low-Volume Premium, introduced a category of 'no community detriment' when considering the replacement of Protected ATMs, and published more information on direct commissioning outcomes in its monthly Footprint Report. These changes are covered in further detail later in this report.

## Key information for our second review

- 1.16** SD8 requires us to review it a second time 24 months after issuing it, if it is still in place.
- 1.17** We published a call for views in January 2021, asking for feedback on a range of topics, including how well LINK was fulfilling its overall commitment.<sup>2</sup> By the closing date of 25 February 2021, we received 17 oral and written responses.
- 1.18** We have followed a similar format to our first review, forming conclusions on whether SD8 should remain in place, taking into account why SD8 was introduced, the stakeholder responses to our call for views and how it is working in practice.

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1 <https://www.psr.org.uk/publications/policy-statements/annual-review-of-specific-direction-8/>

2 <https://www.psr.org.uk/publications/consultations/call-for-views-second-review-of-specific-direction-8-link/>

**1.19** Our analysis draws on information gained from:

- Our first review of SD8
- LINK's Monthly ATM Footprint Reports<sup>3</sup> to January 2021
- The 17 oral and written responses to our call for views<sup>4</sup>
- Other official statements and reports from relevant public and regulatory authorities, including members of the Joint Authorities Cash Strategy Group (JACS)

## The structure of this document

**1.20** The rest of this document is structured as follows:

- **Chapter 2** sets out key facts on SD8 and access to cash, including our role, the importance of cash, and wider developments in accessing cash.
- **Chapter 3** outlines LINK's original commitment and the future of SD8, taking into consideration the feedback provided by respondents to our call for views.
- **Chapter 4** considers the effectiveness of LINK's policies for keeping Protected ATMs in operation, including financial incentives for operators.
- **Chapter 5** considers the effectiveness of LINK's policies and processes for replacing Protected ATMs that have closed, including direct commissioning.
- **Chapter 6** is a summary of our key conclusions, recommendations and proposed next steps.

## How we have dealt with respondents' feedback

**1.21** In Chapters 3, 4 and 5, we summarise respondents' views and set out our responses. Respondents have raised points on other issues, which we include and respond to in the annex. We have published non-confidential responses on our website.

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3 <https://www.link.co.uk/initiatives/financial-inclusion-monthly-report/>

4 Of the 17 responses received, 5 were from banks; 3 from Independent ATM Operators; 1 from a consumer group; 2 from individuals; 2 from Retail Associations; 1 from an industry body; and 1 each from a Fintech solution, LINK and the Post Office.

## 2 Key facts on SD8 and access to cash

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This chapter sets out the respective roles of ourselves and LINK in supporting access to cash and how SD8 helps us achieve our objectives.

This chapter also outlines the importance of cash and wider initiatives that have taken place since our last review of SD8 (in March 2020) to support access to cash.

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### LINK's role

- 2.1** LINK does not own or operate ATMs but sets the rules for ATM providers and card issuers who use the LINK network to process transactions. ATM operators receive revenue through 'interchange fees', which card-issuing banks pay for each transaction. The interchange fees are set by the independent LINK Board.
- 2.2** The LINK ATM system is operated by LINK Scheme Limited (LINK) and connects UK card-issuing banks and ATM providers, to enable card holders to withdraw cash at ATMs. If a card holder makes a transaction (for example, a cash withdrawal or balance enquiry) at a UK ATM that does not belong to their issuing bank, that transaction takes place through LINK.

### Why we issued Specific Direction 8

- 2.3** On 31 January 2018, LINK announced a 20% reduction in interchange fees. This was part of a series of measures designed to maintain and rebalance the UK's ATM network, shifting incentives from deploying ATMs in city centres to rural and less affluent communities.<sup>5</sup>
- 2.4** The reduction was to be introduced in stages, through four cuts of 5% each (LINK has subsequently cancelled the third cut and postponed the fourth). LINK's analysis indicated that these interchange cuts would not significantly impact on the number of FTU ATMs that existed in the UK at the time.<sup>6</sup>

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5 <https://www.link.co.uk/about/news/news-archive/link-moves-to-secure-future-of-free-atms/>

6 <https://www.link.co.uk/media/1351/h-documents-uploads-link-interchange-decision-31-january-2018.pdf>

- 2.5** In light of this anticipated reduction, LINK made a public commitment to maintain an extensive footprint of ATMs with the same geographic coverage as in January 2018. In effect, this meant keeping existing FTU ATMs that did not have another FTU ATM within a 1km range.<sup>7</sup> These are known as Protected ATMs<sup>8</sup> and were not subject to the interchange fee cuts above. LINK also committed to offer an enhanced subsidy wherever needed, to ensure Protected ATMs remained open.
- 2.6** Maintaining access to cash is a key priority for us, working alongside other authorities as part of the Joint Authorities Cash Strategy group, as well as working with industry on sustainable long-term solutions. While this work continues, we considered LINK's actions to be a sensible short-term measure for preserving the geographic spread of access to cash via ATMs.
- 2.7** However, we felt that greater clarity was required from LINK on:
- the commitment and LINK's underpinning policies and processes
  - the resources LINK would secure to fulfil the commitment
  - how LINK would comply with certain minimum requirements
- 2.8** We therefore issued SD8 to LINK in October 2018, using our powers under Section 54 of the Financial Services (Banking Reform) Act 2013 (FSBRA).
- 2.9** SD8 requires LINK to provide clarity on the commitment and to develop appropriate and effective policies fulfilling certain minimum requirements. LINK must report to us on its progress in implementing these measures and on their impact.
- 2.10** After we issued SD8, LINK developed and published the Protected ATM Policy.<sup>9</sup> This covers the commitment and defines incentives and approach for maintaining and replacing a Lost Protected ATM.<sup>10</sup> LINK can consider alternative or contingency measures to protect access to cash.
- 2.11** In April 2019, LINK also introduced the Low-Volume Premium (LVP), which provides additional funding, in the form of a higher interchange fee that issuers pay, to help prevent Protected ATMs with low usage from closing.

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7 LINK acknowledges that in some circumstances the 1km boundary may not reflect local circumstances, such as a natural barrier, in which case it applies the 1km boundary flexibly.

8 Defined as: any FTU ATM existing on 1 February 2018, that did not have another FTU ATM within a 1km range 'as the crow flies', and any other FTU ATM, that existed on that date, which subsequently achieved a protected status because of the closure of another FTU ATM within 1km.

9 [https://www.link.co.uk/media/1437/v-ops-management-method4-method4-change-2019-l083\\_19-protectedatm-policy-effective-17th-july-2019.pdf](https://www.link.co.uk/media/1437/v-ops-management-method4-method4-change-2019-l083_19-protectedatm-policy-effective-17th-july-2019.pdf)

10 In this document, 'closures' and 'closed Protected ATMs' have the same meaning as the 'Lost ATM' definition – 3.4(1) and 3.4(2).

**2.12** We engage regularly with LINK, which continues to provide us with updates on the application of their Protected ATM Policy. LINK also continues to publish both the Monthly ATM Footprint Report and ATM Financial Inclusion Dashboard on its website.<sup>11</sup>

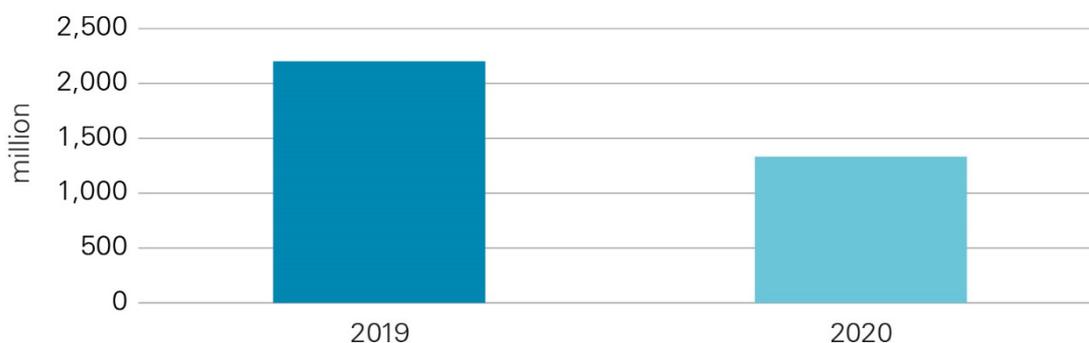
**2.13** LINK also has a long-standing Financial Inclusion Programme, which has been in place since 2006. This seeks to maintain the coverage of FTU ATMs in the most remote and rural locations, as well as improving free access in the most deprived areas of the UK.<sup>12</sup>

## Wider developments in access to cash

**2.14** LINK’s commitment and SD8 cover one aspect of access to cash. There have been a number of significant developments since our last review of SD8, which provide important context for our review:

- Covid-19 had a significant negative impact on how people used and accessed cash, and affected businesses’ decisions on whether to accept cash as a payment method. The pandemic also accelerated the decline of cash use, some ATMs stopped operating due to a reduction of use and access, either temporarily or permanently. ATM withdrawals fell 40% in 2020 compared to 2019, although more recent data show increases in withdrawals as restrictions have eased.

**Figure 1: Comparison of volume of LINK ATM withdrawals, 2019 and 2020**



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

<sup>11</sup> <https://www.link.co.uk/initiatives/financial-inclusion-monthly-report/>

<sup>12</sup> <https://www.link.co.uk/initiatives/financial-inclusion/>

- Latest FCA research suggests that around five million consumers rely on cash to make most of their purchases.<sup>13</sup> One in seven of them (around 750,000 people), self-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. Some banks introduced services to help meet the cash needs of vulnerable customers (e.g. direct cash delivery).
- We worked with the FCA, the University of Bristol and industry on a report mapping access to cash across the UK.<sup>14</sup> This analysis found that, as of March 2020, access to cash was generally good, with 90% of neighbourhoods within 1km of a free source of cash, though some variation across different areas and types of communities (e.g. urban and rural areas).
- In March 2020, the Government announced plans for legislation to protect access to cash for those who need it.<sup>15</sup> On 1 July, HM Treasury published a consultation on legislative proposals for access to cash.<sup>16</sup>
- In April 2021, the Community Access to Cash Pilots were launched in eight communities across the UK. These pilots aim to trial and test solutions which, if successful, could be scaled up to a national level to help ensure continued access to cash.<sup>17</sup> Ideas include shared 'BankHubs' providing basic banking services in Post Office branches, cashback without purchase from local shops (including a service involving LINK and PayPoint<sup>18</sup>), and enhanced ATMs and digital services.
- In April 2021, the Financial Services Act 2021 made changes to the treatment of cashback without purchase under the Payment Services Regulation 2017.<sup>19</sup> This aligns the regulatory treatment of cashback, both with and without purchase.

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13 <https://www.fca.org.uk/publications/research/financial-lives-2020-survey-impact-coronavirus>

14 <http://www.bristol.ac.uk/media-library/sites/geography/pfrc/Where-to-withdraw-mapping-access-to-cash-across-the-UK.pdf>

15 <https://www.gov.uk/government/publications/budget-2020-documents/budget-2020>

16 <https://www.gov.uk/government/consultations/access-to-cash-consultation>

17 <https://communityaccesstocashpilots.org/>

18 <https://www.link.co.uk/about/news/paypoint-pilot-live/>

19 <https://www.legislation.gov.uk/ukpga/2021/22/contents/enacted>

## 3 LINK's commitment

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This chapter sets out the policies and processes that LINK has put in place to fulfil its commitment and meet the requirements of SD8.

We review the evidence on its commitment to date and take into account responses to our call for views on LINK's commitment and SD8. We then set out our response and position on LINK's commitment and SD8.

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### LINK's fulfilment of its commitment

#### Protected ATM policy

- 3.1** As set out earlier, LINK responded to SD8's requirement for clarity on its commitment and associated policies and processes by publishing its Policy on Protected ATMs (hereafter referred to as the 'Policy'). LINK updated its Policy in June 2020, addressing some of the concerns and recommendations we highlighted in our first review of SD8.<sup>20</sup>
- 3.2** The original list of Protected ATMs was based on FTU ATMs meeting the definition above, on 1 February 2018. The list is regularly updated to reflect changed circumstances, such as a permanent closure or a new addition.
- 3.3** LINK's Policy refers to the 'dynamic protection of ATMs', which happens when new additions are placed on the Protected ATM List. An ATM achieves protected status as a result of a nearby FTU ATM closing or converting to pay-to-use, PTU. LINK notifies the operator of the ATM's changed status, which then qualifies for the higher protected rate of interchange fees and other potential incentives.
- 3.4** LINK's ATM Footprint Report for January 2021 gives a total of 3,122 Protected ATMs.<sup>21</sup> This represents a net increase of 748 Protected ATMs since reporting on the Policy began in September 2018. In part, this is driven by the more general reduction in FTU ATMs over the past two years, which have fallen by around 20% between 2018 and 2020. This could mean that more of the remaining FTU ATMs have become the only ATM available within 1km, leading to their change in status to Protected ATMs.
- 3.5** LINK's policy approach has also helped keep 58 machines that were meant for closure in operation. However, for various reasons (further explored in Chapter 4), 332 Protected ATMs (11% of all Protected ATMs) are now closed, with 34 of these having switched to become a PTU ATM.

<sup>20</sup> <https://www.link.co.uk/media/1437/link-policy-on-protected-atms-v40-final-effective-22-june-2020.pdf>

<sup>21</sup> <https://www.link.co.uk/media/1723/atm-footprint-report-january-2021.pdf>

## Other LINK initiatives

**3.6** In addition to the measures outlined above, LINK has also developed additional policies to support a broad geographic spread of free-to-use ATMs:

- **Retail Centre ATM Policy:** Retail centres with five or more shops are eligible for the installation of an FTU ATM, if the area does not qualify for either a Protected or Financial Inclusion ATM and there is no FTU ATM or Post Office within 1km of the retail centre mid-point.<sup>22</sup>
- **Community Request initiative:** Members of the public, MPs and councils can request an FTU ATM and LINK will fund the placement. Since its introduction, LINK has received over 3,800 applications and installed 50 ATMs, with up to 100 more planned for installation.
- **Time-limited guarantee on ATM replacement:** In April 2020, LINK secured a one-year commitment from four LINK members to act as a backup for the replacement of any ATMs covered by LINK's policies which closed due to the impact of coronavirus.<sup>23</sup> LINK did not need to draw on this guarantee, which has now ended and is not being renewed.

## Respondents' views on LINK's commitment and SD8

### LINK's compliance

**3.7** Respondents to our call for views were generally positive about LINK's compliance with SD8 and its commitment through its Protected ATM Policy. They believe that SD8 helps LINK to be more transparent and to act in the interest of customers. There were some requests for enhanced transparency on the application of these policies, such as how many bidders there were in an individual case, the reason for closure and the impact of the ATM on a site-by-site level, though these may be commercially sensitive.

**3.8** There was also a broad consensus that LINK performs its monitoring and reporting requirements well. Respondents found that reports are generally clear, are published on time, and help to enhance the transparency of LINK's approach to maintaining their network of Protected ATMs. One bank noted LINK's promptness in providing notifications on the change of status of an ATM to Protected, helping to ensure that these machines remain open.

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22 <https://www.link.co.uk/media/1522/retail-centre-atm-policy-document.pdf>

23 <https://www.link.co.uk/about/news/maintaining-the-uks-free-link-atm-network/>

## Impact of wider initiatives

- 3.9** Respondents raised the impact of wider initiatives on access to cash on the value in continuing SD8. They agreed that these newer initiatives, such as cashback without purchase, are helpful additions to supporting cash access. However, they viewed these as complementary to SD8 rather than a substitute and reaffirmed the need for SD8 to remain in place.
- 3.10** Specifically, respondents felt that we should not place a heavy reliance on cashback without purchase, as there is no guarantee of widespread acceptance by both customers (in using it) and retailers (in providing it). Constraints identified include advertising costs, cash management issues for retailers (who also face higher security risks), potential frustrations for retailers with distractions from core business and the low level of payments currently offered to retailers for providing this service.

## Future of SD8

- 3.11** Of the 17 responses to our call for views, 14 wanted SD8 to remain in place, although there were opposing thoughts on when a Specific Direction on LINK (SD8 or a new Direction, following the expiry of SD8) should end.
- 3.12** Seven respondents saw the continuation of SD8 as a short-term measure which should expire as planned in January 2022, when appropriate legislation on access to cash has been passed, or when the recommendations of the industry Working Group process have been implemented. One respondent believed that we would send the wrong message on maintaining access to cash if we terminated SD8 before it expires in January 2022.
- 3.13** Three respondents, including LINK, favoured ending SD8 immediately. They reasoned that SD8 has already met its stated objectives, is too costly to maintain, or is unnecessary given that LINK now has measures in place for continued support of the Policy.
- 3.14** One respondent suggested that there is a need for an independent body to monitor and maintain access to cash.

## Our response and position on SD8 and LINK's commitment

### LINK's compliance

- 3.15** Since SD8 was introduced, the total number of Protected ATMs has increased as a result of closure or conversion of other FTU ATMs. LINK's financial incentives and interventions have kept 58 Protected ATMs in operation that would otherwise have been closed by the operator.
- 3.16** Reflecting on LINK's work to develop policies to fulfil its public commitment, and our own regular engagement with LINK, we would agree with the majority view of stakeholders that LINK has made good progress (specific policies are discussed in Chapters 4 and 5, including a recommendation on enhanced transparency). Nevertheless, SD8 and its reporting requirements provides us with assurance on LINK's progress, which we still need going forward.
- 3.17** Having considered all stakeholder views, we have concluded that LINK has fully complied with its obligations under SD8 to ensure that it does all it can to deliver on its commitment and to publish the information which we require it to do so. SD8 has also continued to serve as a mechanism for the PSR to input into LINK policies. We think that there is value in SD8 remaining in place until it expires in January 2022, to ensure that this compliance and transparency continues.
- 3.18** Keeping SD8 means that LINK will continue to publish the monthly ATM Footprint Report on its website for public transparency and provide us with detailed data on Protected ATMs, subject to periodic reviews. This will allow us to monitor LINK's ongoing delivery against our SD8 and the commitment.

### Impact of wider initiatives

- 3.19** The continued decline in access and use of cash deepened during the nationwide lockdowns in response to Covid-19, making it difficult for some consumers to pay for essential goods. We note the emergence of initiatives to address this challenge (such as direct cash delivery), in addition to wider industry-led initiatives on access to cash (such as the Community Access to Cash Pilots) and legislative change to facilitate cashback without purchase.
- 3.20** While these wider initiatives are welcome, we would agree with stakeholders who identified that many of these developments are either at a very early stage of development or may only be applicable in a very narrow set of circumstances. Our assessment is that these measures are unlikely to offer a sufficient substitute for SD8, if SD8 was revoked. Therefore, we are of the view that SD8 should not be withdrawn now, on the basis of these initiatives.

## Future of SD8

- 3.21** As outlined above, SD8 is due to expire in January 2022. We received diverse views from stakeholders in relation to issuing a future Specific Direction to LINK, including the potential interactions with future legislation on access to cash.
- 3.22** As outlined above, there are wider developments in access to cash that may impact on decisions around a future Specific Direction – for example, recent changes to legislation around cashback without purchase and the work of the Community Access to Cash Pilots scheme and Access to Cash Action Group. Collectively, these could have a significant impact on the availability of cash through non-ATM channels and affect the potential future role of LINK.
- 3.23** We want to protect access to cash through maintaining a broad geographic spread of FTU ATMs. SD8 has been successful in ensuring that LINK has a coherent set of policies in place to achieve this outcome.
- 3.24** Many of the reasons that support keeping SD8 in place until January 2022 are likely to apply beyond January 2022 also. We are therefore currently minded to issue a new Direction to replace SD8 when it expires. We will assess the evidence in detail over the summer.
- 3.25** Should we decide that a new Specific Direction is required, we will consult on a new draft Direction later this year, including how it may interact with future access to cash legislation and industry developments.

## 4 LINK's policies for maintaining Protected ATMs

In this chapter, we review LINK's policies for keeping a Protected ATM in operation, including financial incentives such as the Low-Volume Premium and Protected ATM premium.

As in the previous chapter, we review the data on progress to date and take into account responses to our call for views. We then state our position on the role of LINK's policies in upholding its commitment.

- 4.1** LINK has several incentives in place to maintain Protected ATMs, including interchange fee payments. At a minimum, all Protected ATMs receive higher interchange rates (the 'protected rate of interchange'); this rate was not affected by LINK's interchange fee reductions in July 2018 and January 2019.
- 4.2** Protected ATMs may be entitled to two other payments – the Low Volume Premium (LVP) and the Protected ATM premium – both of which are paid by the card issuer and calculated on a per-withdrawal basis. These are paid on top of the protected rate of interchange, depending on whether the operator qualifies for either or both payments.
- 4.3** These two premiums helped LINK resolve (i.e. keep open) 19 out of 58 Protected ATMs that were due for closure, which represents 6% of all closed Protected ATMs.<sup>24</sup>

### The Low-Volume Premium (LVP)

- 4.4** The LVP is a monthly payment which is automatically given to operators of Protected ATMs with an average number of cash withdrawals below 4,500 per month. The average numbers of withdrawals are divided into six bands, each of which equate to different levels of payment. The calculation was originally based on the average volume of cash withdrawals over the previous 12 months. In March 2020, following the initial impact of COVID-19 on cash usage, LINK changed the average withdrawal calculation from a 12-month period to a 3-month period.

<sup>24</sup> 24 out of the 58 were resolved by the free market without the need for LINK to intervene. 15 out of the 58 were resolved through LINK's Direct Commissioning process and 2 out of the 58 were resolved through LINK's Community Request Scheme. (source: <https://www.link.co.uk/media/1723/atm-footprint-report-january-2021.pdf#page=3>)

**4.5** In our first review of SD8, we commented on the positive impact the LVP had on keeping Protected ATMs open and considered it a suitable short-term measure for avoiding such closures. However, we are concerned that the complexity and unpredictability of the premium could have an impact on the suitability of the policy over the longer term.

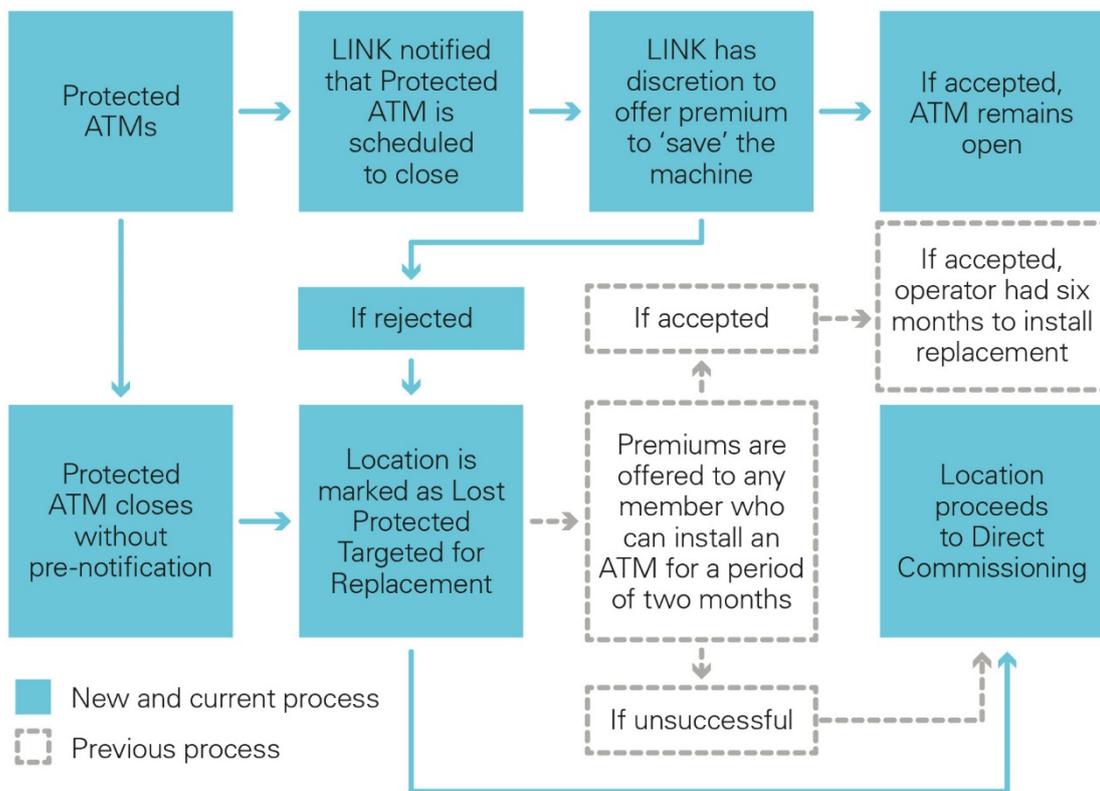
### The Protected ATM premium

**4.6** The Protected ATM premium is a further cash incentive paid to ATM operators to maintain an existing Protected ATM which is at risk of closure. It is applied in addition to the protected rate of interchange all Protected ATMs receive, and the LVP if it applies.

**4.7** In our first review, we found that the Protected ATM premium was not robust enough to incentivise keeping ATMs open, as it was accepted by operators (and hence avoided ATM closures) in less than 10% of the cases in which it was offered.

**4.8** Since our first review, LINK has made amendments to the application of the Protected ATM premium. Previously, if the premium was rejected by the operator of a Protected ATM and the ATM was then closed, the Protected ATM premium was offered to any LINK member who could install an ATM. LINK changed this process to remove the stage where it was offered to any member who could install an ATM, if the initial offer had been rejected by the original ATM operator. The ATM now goes straight to direct commissioning if the offer is rejected, as outlined in Figure 2 below.

**Figure 2: Changes in process for offering Protected ATM Premium**



## Respondents' views on LINK's policies for maintaining Protected ATMs

### LINK interchange fee

- 4.9** Operators were generally critical of LINK's reduction of the interchange fee and had strong opinions about the need to revisit this issue. Some saw the reduction as a driving force in the reduction of cash use and a key contributor to the challenges that the UK faces in maintaining free access to cash.
- 4.10** While some operators saw benefits in both the LVP and Protected ATM premiums, they believe that LINK would achieve better results maintaining Protected ATMs if the interchange fee, at a minimum, returned to former levels (i.e. before the 5% cuts of July 2018 and January 2019).
- 4.11** Some operators were also critical of how the interchange fee is calculated and recommended that LINK considers a multi-variable calculation, with remote areas attracting a higher payment. They believe that such an amendment will reduce the over-concentration of ATMs in urban centres and shift FTU ATMs to remote or deprived areas.

### The Low-Volume Premium (LVP)

- 4.12** Operators were satisfied with the newer calculation of the LVP (using a 3-month average) which they attribute to keeping Protected ATMs open during COVID-19. They would like to see this measure remain in place permanently.
- 4.13** There were some concerns about whether the LVP supports the long-term viability of an ATM, due to the fixed costs of operations and significant declines in cash withdrawals at some ATMs. Some operators see the premium as more beneficial when an ATM is making marginal rather than heavy losses.
- 4.14** One suggestion for enhancing the relevance of the LVP was for LINK to analyse future cash transaction volumes and ATM usage. Operators believed that LINK should discuss such reports with stakeholders and assess the sustainability of its policies to maintain Protected ATMs.
- 4.15** As in our first review of SD8, operators were critical of how the LVP is calculated. Some concerns related to the flat rate applied to all transactions within each band and the sharp fall in payment at the higher bands (for example, from £2.75 per transaction for less than 200 transactions per month, compared to £0.75 for 200 to 399 transactions per month). Operators queried whether LINK's approach was sufficiently robust.

**4.16** Some operators were also concerned about the difficulty that the LVP creates in forecasting ATM income. They believed that such uncertainty explained why a PTU ATM is sometimes viewed as a more commercially attractive proposal, and why operators face difficulties negotiating with convenience stores for the placement of an ATM. Although commissions paid to store owners may vary by the number of transactions (so that the volume risk is shared with the ATM operator), shopkeepers may prefer a more stable income and avoid such arrangements.

### The Protected ATM premium

**4.17** Most respondents supported using the Protected ATM premium as an incentive to operators to prevent an ATM closing. However, respondents found that, like the LVP, the Protected ATM premium is likely to be more useful where the ATM is operating at marginal losses, due to the small size of the payment. They therefore saw the incentive as ineffectual.

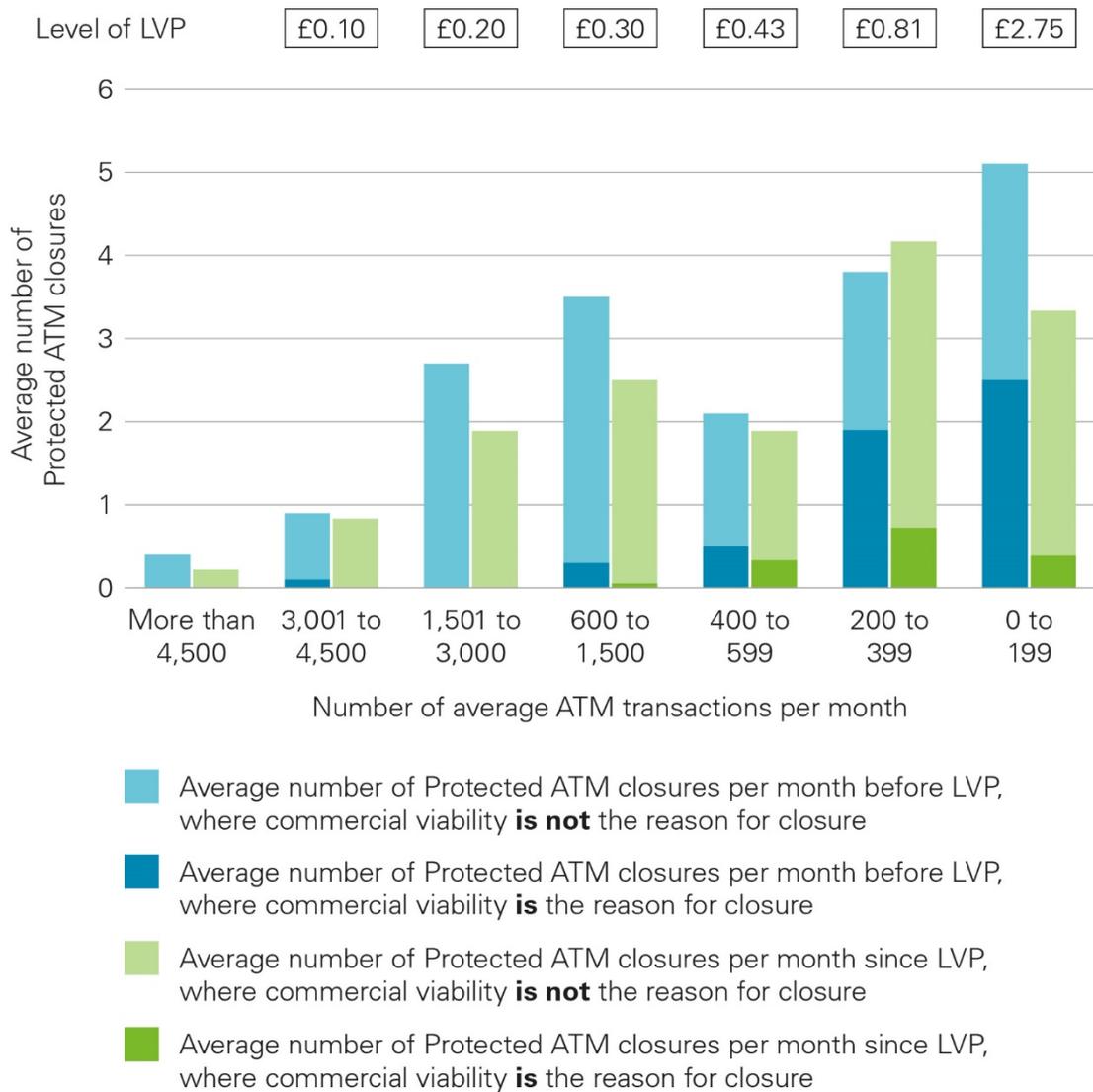
## Our response and position on LINK's policies for maintaining Protected ATMs

**4.18** Figure 3 below shows the average closures of Protected ATMs in periods before and after the LVP was introduced.<sup>25</sup> Comparing the average monthly closures of Protected ATMs in both periods:

- Across every band there are fewer closures in the period when the LVP is applied.
- The sharpest decline in closures occurs in the band with fewest withdrawals (up to 199 per month, on average), attracting the highest LVP of an additional £2.75 per cash withdrawal.
- Fewer ATMs close during the period of the LVP application because they are not commercially viable.
- There is less of an impact on closures in the two highest bands where the LVP payment falls sharply (to 20p and then 10p).

<sup>25</sup> Period 1 spans July 2018 to March 2019 (first reduction of the interchange fee to the month prior to the introduction of the LVP); period 2 spans April 2019 to December 2020 (the introduction of the LVP to recent data).

**Figure 3: Level of LVP and comparison of ATM closures per month, before and after its introduction**



**4.19** The difference in time periods for the comparison (10 months before the LVP and 18 months following its introduction) make it difficult to draw conclusions from this analysis. There may also be factors affecting the ATM closures which are unrelated to the LVP, such as retailers deciding not to renew their contracts for ATMs located inside their shops.

**4.20** However, data from LINK indicate that only 5.8% of Protected ATMs in receipt of the LVP have closed since its introduction in April 2019, compared with other FTU ATMs, which fell by 16.2% over the review period.<sup>26</sup>

<sup>26</sup> PSR analysis, based on data provided by LINK.

## Our position

- 4.21** The analysis above indicates that these measures have been successful at preventing closures, reducing the possible consumer detriment resulting from an ATM closing and reopening. Nevertheless, Protected ATMs have continued to close – by January 2021, 332 were confirmed closed (9% of all Protected ATMs), compared to 222 (8%) a year earlier.<sup>27</sup> It is difficult to know whether this increase would have been higher without LINK's intervention.
- 4.22** Overall, 6% of closed Protected ATMs have been kept open by LINK's premiums (LVP and Protected ATM premium). This is slightly lower than the proportion of closed Protected ATMs that have been kept open as a result of free market activity (7% of all closed Protected ATMs) and a higher proportion still (8% of all closed Protected ATMs) remain unresolved.
- 4.23** In addition, stakeholders have reiterated their concerns about the complexity and unpredictability of the LVP and its suitability as a measure for maintaining Protected ATMs over the longer term. Stakeholders also highlighted the limitations of the Protected ATM premium in preventing closures of Protected ATMs.
- 4.24** In our previous review of SD8, we asked LINK to review the Protected ATM premium, and keep the LVP under review. We note that LINK have made changes – for the Protected ATM premium, to the process for how it is applied; for the LVP, to the calculation period for qualifying volumes (from 12 months to 3 months).
- 4.25** Nevertheless, given the impact of these measures on maintaining Protected ATMs compared to permanent closures, and/or free market solutions, we see a need for LINK to review how well its financial incentives for maintaining Protected ATMs are working.
- 4.26** Given the support from stakeholders, and the benefits of a shorter qualifying period, in adapting to changes in volumes (ensuring that payments are aligned to current volumes), LINK's review of its financial incentives for maintaining and replacing Protected ATMs should include considering whether to make a three-month calculation period to determine the level of payments under the Low-Volume Premium permanent.

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<sup>27</sup> <https://www.link.co.uk/media/1723/atm-footprint-report-january-2021.pdf#page=2>

# 5 LINK's policies for replacing Protected ATMs

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In this chapter, we review LINK's policies for replacing a closed Protected ATM, including its direct commissioning process.

As in the previous chapter, we review the data on progress to date and take into account responses to our call for views. We then state our position on the role of LINK's policies in upholding its commitment.

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## Decision on replacement of closed Protected ATMs

**5.1** Once a Protected ATM closes, LINK first assesses whether there is a need for a replacement based on its Protected ATM Policy. In line with its commitment, LINK will always seek to replace a Protected ATM, except:

- where there is a Post Office that can act as a substitute (provided that it is open for at least five days a week)<sup>28</sup>
- where there are security concerns
- where the machine is not accessible to the public
- where the closure causes no harm to the community (lack of community detriment)

### Changes since our last review

**5.2** This last category was introduced following recommendations in our first review of SD8. It recognises that some Protected ATMs may be situated in remote locations where there is no local community, while others may be near a convenient ATM that is just over 1km away. LINK will not replace such machines if they believe no harm would come to customers from the Protected ATM remaining closed.

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<sup>28</sup> In some circumstances, a Post Office may not be a suitable substitute for an ATM – for example, if it has limited opening times.

## Progress to date

- 5.3** Figure 4 shows the number of cases where LINK has not replaced closed Protected ATMs and the reasons why, as at January 2021. The presence of a suitable Post Office within 1km is the most prominent reason for LINK not replacing a Protected ATM, accounting for 58% of the 274 Protected ATMs. 25 Lost ATMs (8% of all Protected ATM closures) fall within the newest category of 'lack of community detriment'.<sup>29</sup>

**Figure 4: Reasons that Protected ATMs have not been replaced, as at January 2021**

<b>Closed Protected ATMs targeted for replacement</b>	<b>58</b>
<b>Closed Protected ATMs not targeted for replacement</b>	<b>274</b>
Post Office within 1km	159
Site was not accessible to general public	72
Security Issue at site	18
No community detriment	25

## Direct commissioning

- 5.4** Part 8 in SD8 required LINK to develop a mitigation plan as an alternative to offering interchange premiums. LINK developed direct commissioning as its mitigation plan: in cases where the Protected ATM premium fails to secure replacement, LINK seeks to directly commission a replacement ATM from a LINK member.
- 5.5** Members are invited to bid for contracts to install and operate an ATM. Following LINK's acceptance of a bid, the relevant ATM operator is expected to install a replacement ATM as soon as practically possible, recognising that relevant permissions and security assessments must be obtained.

## Changes since our last review

- 5.6** In our first review of SD8, we noted that LINK sought to enhance the efficiency of the direct commissioning process by identifying a new site for the replacement and cutting the bidding process from four weeks to two. However, we concluded that the process lacked transparency and efficiency, due to a lack of available host sites.
- 5.7** We also recommended that LINK publish high-level information on the outcomes of the direct commissioning process. LINK responded to the recommendations we made by amending the monthly ATM Footprint report to include information on:

- the number of cases that were not resolved

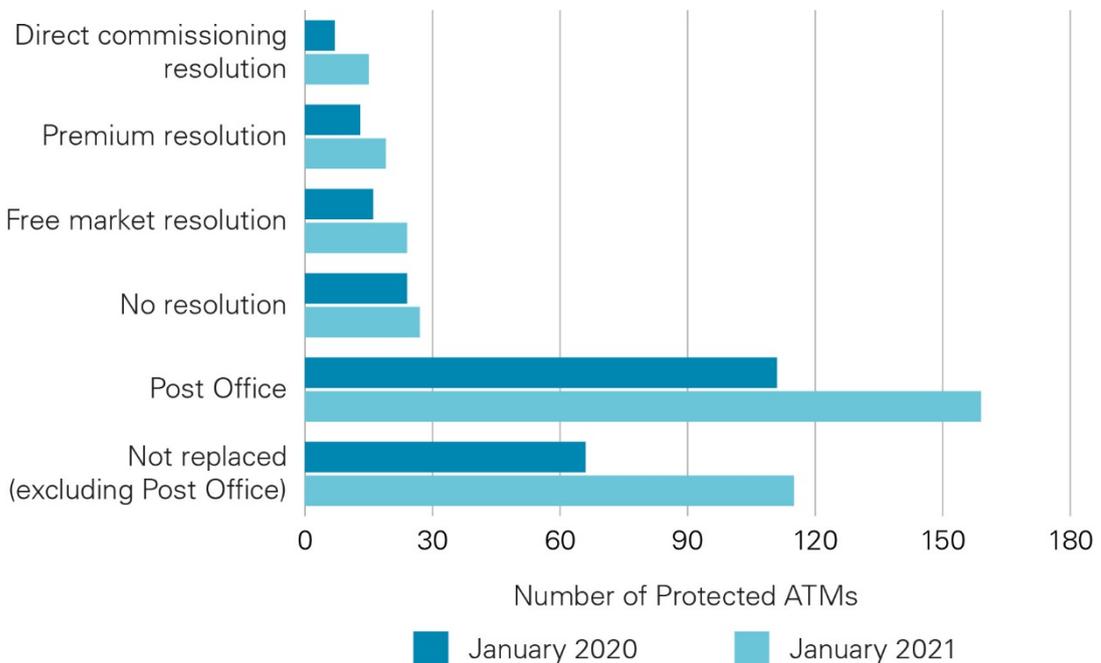
<sup>29</sup> <https://www.link.co.uk/media/1723/atm-footprint-report-january-2021.pdf#page=2>

- a breakdown of reasons why they could not be resolved
- a breakdown of how ATMs were resolved through direct commissioning, premiums and the free market

### Progress to date

- 5.8** LINK’s Footprint Report for January 2021 shows 30 closed Protected ATMs within various stages of the direct commissioning process. Despite the improvements in information provided, a number of issues remain unclear – for example, what stage of the process these ATMs fall within, how many times they have been offered for bidding, or how long they have remained in the process.
- 5.9** The report also notes that 58 ATMs (17% of all closed ATMs) that were targeted for replacement were resolved (i.e. kept open). Of these, 15 ATMs (5% of all closed ATMs) were resolved through direct commissioning.
- 5.10** Figure 5 compares how LINK dealt with closed Protected ATMs between January 2020 and January 2021. In both years, direct commissioning helped to resolve the fewest numbers of Protected ATMs that closed, despite a doubling (53%) in overall numbers of closed Protected ATMs.

**Figure 5: Comparison of outcomes following confirmation of Protected ATM closures, January 2020 and January 2021**



- 5.11** From the data that LINK publishes, it is not clear how long it takes to resolve an ATM, from the time LINK confirms that it has closed, to the time it reopens following the direct commissioning process. LINK estimates that, after the two-week bidding period, it takes around three months to resolve the ATM, with the possibility of extensions that may last up to 82 days. Therefore, on average, communities could face a gap of three to six months between an ATM closing and a replacement arriving.

## Respondents' views

### LINK's decision on replacement of closed Protected ATMs

- 5.12** There were differing views on whether the Post Office is a suitable substitute for an ATM. Some recognise the important role that the Post Office plays in maintaining access to cash. Others remain concerned with issues such as privacy for customers in conducting financial transactions, potentially limited access times, and whether there is sufficient awareness of the Post Office as a free access point for cash.
- 5.13** In defence of the role that the Post Office played, one bank questioned whether consumers had a distinct need for round-the-clock (i.e. 24/7) access to cash. The Post Office response also noted that low demand for cash withdrawals outside of typical office hours implies there is not a prominent need for 24/7 access to cash.

### Direct commissioning

- 5.14** One recurring concern among respondents was the efficiency and transparency of LINK's direct commissioning process. Respondents would like LINK to publish more information on:
- why a Protected ATM closes, or how many convert from FTU to PTU
  - the time it takes to resolve a closed ATM
  - the stage of the direct commissioning process that ATMs fall within
  - a breakdown of the number of ATMs moving in and out of the direct commissioning process in each month
  - the results of the bidding process, including the winning bidders and the costs of the replacement
- 5.15** Suggested solutions for improving efficiency included LINK enforcing a minimum notice period for the closure of a Protected ATM and a maximum period for replacing a closed Protected ATM (suggested as 12 weeks). LINK confirmed that they sometimes only gain knowledge of closures through their regular monitoring of transaction volumes.

- 5.16** One respondent attributed part of the delays in replacing a Lost ATM to independent ATM operators who fail to give enough notice for closing an ATM. They suggested LINK enforce measures such as those provided in the FCA's recent guidance on branch and ATM closures (i.e. a 12-week notice period).<sup>30</sup>
- 5.17** Another operator queried how LINK decides which ATM within the 1km range receives Protected ATM status, when there may be several options to choose from during the replacement process. It saw a need for more transparency on such decisions. One operator questioned whether LINK has enough expertise to make decisions on replacing a Lost ATM, as some ATMs may have closed for security concerns.
- 5.18** One of the most repeated calls by stakeholders was for LINK to explore options for maintaining the resilience of ATM replacement processes and to safeguard critical ATMs where replacement procedures fail. Some respondents also urged us to consider other non-ATM solutions to complement LINK's maintenance and replacement initiatives.

## Our response and position

### LINK's decision on replacement of closed Protected ATMs

- 5.19** As funding for LINK's commitment comes from card issuers, we note the card issuers' responses to the call for views, calling for enhanced accountability, transparency and a more efficient use of these resources.

### Direct commissioning

- 5.20** As set out above, LINK developed direct commissioning as its mitigation plan as an alternative to offering interchange premiums, as required by Part 8 in SD8.

### Efficiency and transparency

- 5.21** Of all potential solutions to replacing an ATM, the direct commissioning process requires LINK to exercise the most expertise, funding and time. It is therefore important that LINK addresses concerns on the efficiency of the process and the need for enhanced transparency.
- 5.22** We recommend that LINK increases efforts to reduce the average time taken to replace an ATM through direct commissioning. This could include amending clause 5.3.2 of its Protected ATM Policy (that allows operators to replace an ATM 'as soon as practically possible') and potential mandatory time limits for replacement.<sup>31</sup>

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30 <https://www.fca.org.uk/publication/finalised-guidance/fq20-03.pdf>

31 <https://www.link.co.uk/media/1437/link-policy-on-protected-atms-v40-final-effective-22-june-2020.pdf#page=12>

**5.23** We also recommend that LINK reviews its monthly ATM Footprint Report to provide a clearer breakdown of information about the direct commissioning process with further detail, such as the average time taken for replacement.

**5.24** LINK views some of the additional information requested in respect of the direct commissioning process as confidential commercial data. This needs to be weighed against stakeholders' concerns on efficiency and high costs of meeting the initiatives outlined in this report. While LINK has indicated that they hold forums to discuss data on the outcomes of direct commissioning, we think there is scope to explore ways to satisfy calls for greater transparency.

### **Resilience**

**5.25** The declining long-term trend in the number of FTU ATMs places a risk on continued funding from banks for LINK's Protected ATM programme, particularly in light of concerns raised by stakeholders about the current costs of maintaining LINK's Protected ATM and Financial Inclusion programme and the efficient use of funding to support direct commissioning.

**5.26** As cash withdrawals are expected to continue to fall and FTU ATMs close in line with cash demand, it is likely that LINK's direct commissioning process will play a greater role in installing new FTU ATMs. We therefore see scope for improving the resilience of LINK's direct commissioning process, in order to ensure free access to cash via ATMs in the future.

# 6 Recommendations and next steps

## Our recommendations

### 6.1 Our conclusions are that:

- SD8 has been successful in ensuring that LINK has a coherent set of policies and practices in place to support its commitment.
- SD8 has enhanced the transparency of the measures that LINK has implemented to meet its commitment, but feedback from stakeholders suggest there is scope for improved transparency.
- There is a need for LINK to review how well its financial incentives for maintaining and replacing Protected ATMs are working.
- There is scope for improving the resilience of LINK's processes, in order to ensure free access to cash in the future.

### 6.2 We have therefore decided that SD8 should remain in place until it expires in January 2022, and we recommend that:

- LINK should explore how it might publish further details concerning the efficiency and transparency of the direct commissioning process.
- LINK should review how well its financial incentives for maintain and replacing Protected ATMs are working.
- LINK should explore how the resilience of its direct commissioning process could be improved.

## Next steps

- 6.3** We have engaged with LINK directly regarding our positions. We intend to agree timescales with LINK for further work in due course.
- 6.4** We will continue to monitor LINK's commitment and how it is being met, and will engage with LINK directly where we have concerns.
- 6.5** Many of the reasons that support keeping SD8 in place until January 2022 are likely to apply beyond January 2022 also. We are therefore currently minded to issue a new Direction to replace SD8 when it expires. We will assess the evidence in detail over the summer.
- 6.6** Should we decide that a new Specific Direction is required, we will consult on a new draft Direction later this year, including how it may interact with future access to cash legislation and industry developments.

# Annex 1

## Respondents' other views

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### 1km geographic criteria

Respondents questioned whether 1km is the best measure for designating a Protected ATM. Views differed, however, on whether this distance should be reduced or increased. Overall, the general feedback was that LINK should undertake a review of this rule and develop more flexible criteria, which better reflect the needs and experiences of communities.

Some respondents suggested that, for more remote locations, LINK should consider designating more than one Protected ATM within 1km. For example, where a single operator has a bank of ATMs that operate side by side, these should be considered one site and the criteria should consider ATMs within 1km of this.

We note that LINK has operated its 1km rule for many years, and already exercises some flexibility in its application. We also note the government's intention to reference 'reasonable travel distances' in its consultation on future access to cash legislation.

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### Awareness of Post Office services

In its response to our call for views, the Post Office reiterated the need to raise awareness of the role it plays in providing free cash access. It saw a need for both LINK and banks to play an enhanced role in promoting the cash services it offers.

We consider that more widespread awareness of the Post Office as a free-to-use channel for accessing cash would be beneficial, particularly given the prominent role the Post Office plays in LINK's decisions not to replace closed Protected ATMs.

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### Consideration of alternatives to ATMs

Respondents raised the possibility of LINK considering alternatives to ATMs when seeking to deal with the closure of Protected ATMs. Respondents felt such alternatives could be more cost effective than ATMs and help to resolve gaps that LINK's policies have been unable to address.

LINK's Protected ATM Policy allows LINK to consider alternative measures when it assesses an access to cash issue, caused by a Lost Protected ATM.<sup>32</sup> LINK can use its discretion to consider how else it can protect free access to cash, advise us and decide whether the new measure becomes a standard additional measure.

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32 See section 5.3.3 of <https://www.link.co.uk/media/1437/link-policy-on-protected-atms-v40-final-effective-22-june-2020.pdf#page=12>

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