

Specific Direction 12 on  
maintaining free-to-use ATMs

Stakeholder submissions  
to our consultation  
CP 21/9

March 2022

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

# Association of Convenience Stores

16<sup>th</sup> November 2021

Access to Cash Project Team  
Payment Systems Regulator  
12 Endeavor Square  
London  
E20 1JN

Dear Access to Cash Project Team

### **ACS Submission: Specific Direction: Protected ATMs 2018: LINK**

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

Convenience retailers are responding to changing consumer demands for payment services and investing to offer contactless and mobile payments (both available in 85% of stores)<sup>i</sup>. Convenience stores are also a valuable source of cash access, providing free-to-use (49%) and pay-to-use (23%) ATMs, Post Offices (24%) and cashback (70%)<sup>ii</sup>. Two-thirds (65%) of transactions were paid via cash in independent convenience stores in July 2021, although this figure will vary per store based on location and customer demographics<sup>iii</sup>. ACS believes payments choice should be driven by consumer demand and ensuring a diverse and resilient payments market. ATMs are the only suitable national infrastructure for access to cash and overwhelmingly preferred by consumers and retailers for privacy and security reasons<sup>iv</sup>.

LINK's ATM Footprint Report reinforces the need for the PSR to closely monitor management of the free-to-use ATM network. The report shows 13% of protected ATMs are no longer transacting, 90% of which no longer provide free access to cash on a permanent basis<sup>v</sup>. The high turnover of closed protected ATMs demonstrates the need for an efficient and more transparent ATM Replacement Procedure. Publicly available monthly reports on the ATM Replacement Procedure should be produced in an accessible and standardised format.

There also needs to be more transparency on direct commissioning and interchange premium policies until at least 2025, to provide medium-term certainty for operators to invest and retailers to host new sites. These policies have had limited effect because most trading ATMs require a viable and reliable commercial offer for a host convenience retailer. An independently set interchange fee would be the optimum way to provide certainty for retailers considering hosting an ATM. The sudden and unilateral switch of many ATMs from

free-to-use to pay-to-use by operators and wider trends on cash use have made retailers wary of taking on ATMs, reiterating the need for medium-term guarantees on premiums.

Paragraph 5.1.4 should specify criteria for determining acceptable alternative cash access points. These should replicate the definition of a qualifying cash access point, as is set to be defined by the FCA after access to cash legislation gives it overall responsibility on access to cash. The PSR should discuss exact criteria with the FCA for the purposes of this Direction, which should cover:

- **Security** – especially important for business cash deposit facilities.
- **Sustainability** – not subject to non-time bound or short-term commercial agreements.
- **Sufficiency** – can handle local demand for cash transactions and volumes.
- **Accessibility** – for disabled and vulnerable consumers.
- **Availability** – is not subject to restricted opening hours (e.g. available early mornings to late evenings).

Issuing a new Specific Direction on LINK will prove a positive contribution towards a nationwide ATM network and broader government objectives on access to cash. A Specific Direction is required to encourage LINK to act in the interests of payment users over reducing network costs for banking members. For more information on this submission, please contact ACS Public Affairs Manager [REDACTED] via [REDACTED].

Your sincerely,

[REDACTED]

[REDACTED]

[REDACTED]

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<sup>i</sup> ACS Local Shop Report 2021

<sup>ii</sup> ACS Local Shop Report 2021

<sup>iii</sup> Evolution of Payments in the UK's Independent Convenience Stores. The Retail Data Partnership. August 2021

<sup>iv</sup> Britain Thinks. [Access to cash research with consumers and small businesses](#) July 2019.

<sup>v</sup> <https://www.link.co.uk/media/1828/atm-footprint-report-september-2021.pdf>

# HSBC UK Bank

HSBC UK Bank plc

PAYMENT SYSTEMS REGULATOR

**DRAFT SPECIFIC DIRECTION (X) REQUIRING  
THE CONTINUATION OF APPROPRIATE POLICIES,  
MEASURES AND REPORTING OBLIGATIONS  
REGARDING PROTECTED ATMS (LINK)**

CP21/9

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**COMMENTS ON DRAFT DIRECTION**

**16 November 2021**

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## Comments on Draft Direction

HSBC UK Bank plc (**'HSBC UK'**) welcomes the opportunity to provide feedback on the draft Specific Direction (X) requiring the continuation of appropriate policies, measures and reporting obligations regarding Protected ATMs (LINK).

In 2018 we responded positively to the PSR's initial consultation regarding Specific Direction 8 (CP18/2). We welcomed the measures proposed which would ensure that LINK maintained its January 2018 commitments to monitor the impacts of its phased reduction in the Scheme interchange fees.

At the first review point in October 2019 we expressed our broad support for the actions LINK had taken, and continued to take, to manage a number of very important and complex issues.

As we outlined in our consultation response at the second review point in February 2021, HSBC UK believes that what we have seen to date demonstrates a very clear understanding and commitment to address those issues by LINK and the industry in general, and that for the most part the objectives of Specific Direction 8 had been achieved.

When reviewing the PSR's response to that Call for Views in July 2021 we recognised that some stakeholders had concerns regarding the need to further improve transparency, process resilience, and to review how well its financial incentives for maintaining and replacing Protected ATMs were working.

In recognising those concerns HSBC UK are supportive of the introduction of a new Specific Direction effective from January 2022, as outlined in the draft proposal. We have not commented directly on the specific proposals as we firmly believe that LINK themselves are best placed to provide detailed feedback on what they are being asked to do and how they intend to fulfil those obligations. We do however agree that the proposals are comprehensive and clear.

HSBC UK have been consistently supportive of the critical need to maintain free-to-use Protected ATMs as demonstrated by our support for Specific Direction 8 to date, our positioning within industry fora, and our financial contribution to the associated funding models. Alongside that commitment we have also repeatedly emphasised our belief that a broader strategic and coordinated approach towards access to cash in the UK is needed, including innovation in consumer access from sources that are not an ATM.

During the last 12 months there has been good progress in exploring alternative approaches through the Community Access to Cash Pilots (**'CACP'**) Programme, and the roll-out of the LINK 'Counter Services Cashback - No Purchase' proposition. In addition, senior executives at the major banks, including HSBC UK, are leading on the practical details of how access to cash will be protected in the long term through the UK Finance 'Cash Action Group', chaired by Natalie Ceeney. The Cash Action Group is making good progress, building on insights from the CACP Programme, to design and agree a target operating model for future access to cash.

Noting the increased industry activity in this area, and the proposed three-year duration of the Specific Direction, we believe it is vital that the PSR takes into account the wider access to cash activity when undertaking further reviews. We recommend that the PSR be prepared to bring forward the review points if the activity promotes significant positive changes to the matters under Direction. HSBC UK encourages the PSR to keep these matters under review to ensure that end-user needs continue to be met.



LINK

# LINK's response to the PSR's "CP21/9: Draft Specific Direction on maintaining free-to-use ATMs"

15<sup>th</sup> November 2021

[REDACTED]  
[REDACTED]  
[REDACTED]

Web: [www.link.co.uk](http://www.link.co.uk)

Classification: Public and available on LINK website

## Introduction

1. Link Scheme Holdings Ltd (LINK) manages the UK's main cash dispenser (ATM) network and is central to the operation of the UK's cash infrastructure.
2. 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) that are LINK Members to make cash withdrawals and balance enquiries with their payment card at almost all ATMs. All major card issuers and ATM operators currently choose to become Members of LINK. This helps to ensure that consumers in the UK have the choice of using cash should they wish to.
3. The LINK network is based on a highly resilient real-time high-volume infrastructure, currently supplied by Vocalink. LINK is the operator of the network and the systemic risk manager.
4. LINK is regulated by the Payment Systems Regulator (PSR) and by the Bank of England as a systemically important payment system.
5. Cash is in long term decline in the UK. Since the Government announced in March 2020 its intention to legislate to protect access to cash, that trend has accelerated as a result of COVID-19. Until legislation is introduced, there are no requirements that give consumers the right to access cash (free or otherwise). LINK has therefore chosen to set itself the objective of ensuring that communities throughout the UK have satisfactory free access to cash while policymakers consider a longer-term strategy.
6. LINK works closely with the members of the Joint Authorities Cash Strategy (JACS) Group which is the Government's vehicle for developing a longer-term strategy. This includes the PSR.
7. LINK is also working with the industry Access to Cash Action Group (CAG) to develop industry-led solutions while legislation is pending.
8. Part of LINK's objective is to support the orderly transition of the UK from cash to digital payments. Hence, LINK is active in supporting digital transition and has a broad interest in the successful development of an inclusive digital payments approach while ensuring access to cash remains available for consumers who remain reliant on cash.

## **LINK's Overall Position on Draft Specific Direction 11**

9. LINK is extremely disappointed that the PSR is proposing a new Specific Direction to replace Specific Direction 8 ("SD8") on its expiry in January 2022. LINK requests that the PSR carefully consider whether there is a requirement for a new Specific Direction and whether, in all the circumstances, it is proportionate to issue one.
10. LINK has been, and remains, fully committed to its objective of maintaining a broad geographic spread of free-to-use (FTU) ATMs in the UK and of preserving free access to cash more generally. The former commitment was made when LINK announced its proposed four-stage reduction to interchange fees in January 2018, which excluded those FTU ATMs which are now termed Protected ATMs from this reduction. If LINK had not made this public commitment, the PSR would not have then issued SD8 in October 2018.
11. As the PSR itself has acknowledged, LINK has in place a coherent set of policies and practices to support its commitment to the maintenance of a broad geographic spread of FTU ATMs. These policies are not static, but continue to evolve as LINK seeks to be responsive to ever-changing circumstances. For example, in April 2019, LINK introduced the Low Volume Premium to help prevent Protected ATMs with low usage from closure. In March 2020, in response to the pandemic, LINK revised the average withdrawal calculation from a 12-month period to a 3-month period for the purposes of determining whether this premium was payable. As previously indicated to the PSR, what LINK has actually done in respect of Protected ATMs, for all practical purposes, has not been influenced by SD8.
12. In addition to its Financial Inclusion Programme which was first introduced in 2006 to maintain coverage of FTU ATMs in the most remote and rural locations and the most deprived areas of the UK, LINK has more recently introduced its Retail Centre ATM Policy and its Community Request an ATM initiative. Notwithstanding that these do not fall within SD8, this has not precluded LINK from engaging voluntarily with the PSR and reporting to it on these initiatives.
13. LINK remains of the view (which it has previously expressed to the PSR) that, in light of wider market developments and the anticipated changes to the legislative landscape with regard to access to cash, SD8 has served its purpose and a replacement is not warranted. LINK will continue to have Protected ATM policies and measures in place and would be happy to publish its effective policies, irrespective of whether or not there is a regulatory requirement to do so pursuant to a Specific Direction. As LINK has demonstrated to-date, LINK is fully engaged with meeting its public interest objectives and will continue proactively to develop initiatives and implement measures to support access to cash without the need for intervention by the PSR. Similarly, LINK is also happy to engage with the PSR on a voluntary basis about supporting access to cash, including in the context of Protected ATMs, and believes that a more constructive mechanism could be beneficially employed than simply prescriptive data reporting requirements under a Specific Direction.
14. Furthermore, a new Specific Direction would continue to place a significant administrative burden on LINK. The current administration associated with SD8 adds around £150,000 per annum to LINK's costs and these costs are only expected to increase with the requirements set out in the draft Specific Direction. LINK notes that the

PSR has several staff requesting information under SD8. While no feedback has been received from the PSR on the information provided via these requests, the PSR staff involved will have an associated cost which ultimately flows back to the FMI's such as LINK that the PSR regulates and their industry members.

### **Specific Challenges with the Draft Specific Direction**

15. Notwithstanding LINK's position set out above that a new Specific Direction is unwarranted, LINK nevertheless wishes to raise concerns regarding particular aspects of the draft Specific Direction. Furthermore, if the PSR had conducted an impact assessment of its proposals, it would have been aware of the additional costs and/or complexities created by these proposals.
16. Section 3.7: Definition of Protected ATMs: LINK is concerned that the PSR has proposed a change of date with regard to Protected ATM status from 1<sup>st</sup> February 2018 to 2<sup>nd</sup> January 2022 without considering the actual practical implications for consumers or for LINK's strategy, costs and the interchange costs for its Issuer Members.
17. In particular, this will have a negative impact for some consumers. For example, there are currently 60 locations going through direct commissioning where the Protected ATMs have already closed but the replacement ATMs have not yet been installed. The change in date would mean that these locations would drop out of Protected status. Furthermore, approximately 173 Protected locations that are currently served by a post office would cease to be protected and therefore cease to be immediately eligible for a replacement ATM should the post office close.
18. LINK has also conducted an initial estimate as to the number of FTU ATMs opened since 1<sup>st</sup> February 2018 which are not currently Protected ATMs, but which would become so as a result of the date change. LINK believes that these would number about 200 and would increase the annual cost of interchange fees (in terms of the higher Protected levels of interchange rates and applicable premiums) by c.£750,000.
19. Furthermore, the proposed change in date would require LINK to reset its public reporting on the ATM Footprint which would reduce transparency for consumers and those wishing to monitor LINK's progress in maintaining the ATM footprint.
20. Section 7- Non-Objection Provision: The PSR is proposing to extend the minimum notification timescale regarding proposals to vary/revoke/replace procedures, policies, processes and measures from the current two weeks under SD8 to one month. In addition, LINK would be prohibited from bringing into effect any changes in the event that the PSR "raises objections" within one month of being duly notified.
21. The PSR has not explained why the current arrangement under SD8 has now become unworkable and why the proposal is necessary and proportionate in light of its negative impact on LINK. Fundamentally, the PSR has enforcement powers under FSBRA to ensure LINK's compliance with a Specific Direction, so LINK is unclear as to why an indirect approval process is necessary when such safeguards exist. Does the PSR not consider its legislative enforcement powers to be adequate? In addition, LINK notes that s54 FSBRA does not give the PSR the specific right to approve changes to policies and measures giving effect to obligations under a direction (while these rights are expressly provided in relation to payment system rules (s55)).

22. LINK is deeply concerned at the proposed Section 7, particularly 7.2, and considers it to be unworkable for a number of reasons. Fundamentally, LINK needs to be in a position to be able to respond very quickly to developments, if required, and make judgements, taking into account all relevant considerations, including the impact for the wider LINK Scheme.
23. Provided that any LINK proposals do not breach the Specific Direction, LINK must be free to decide itself how best to approach its commitments to maintaining the geographic spread of FTU ATMs without having to justify its position to the PSR. Similarly, the PSR should only be able to object if the proposal would mean that LINK was in breach of the Specific Direction rather than because the PSR might have a preference for a different approach (and, in any event, is unnecessary given that the PSR has requisite enforcement powers). Section 7.2 does not clarify that this is, indeed, the case nor provides any mechanism for swift resolution should the PSR raise an objection. This risks placing LINK in a completely untenable position. This provision also risks inhibiting innovation on the part of LINK as well as undermining positive engagement going forward.
24. LINK is also concerned that the non-objection requirement and the month-long notice period could compromise LINK's ability to fulfil its wider access to cash commitments in the context of the anticipated legislative changes with respect to access to cash and the potential regulatory role of the FCA.

### **Concluding Remarks**

25. LINK is committed to working with the PSR in supporting consumers and free access to cash initiatives. However, it does not believe that a new Specific Direction is necessary or proportionate to this objective and is concerned that it may have the opposite effect to that which the PSR is seeking to achieve.
26. Notwithstanding LINK's position above, if the PSR were still minded to proceed with a new Specific Direction following the conclusion of its consultation, LINK would urge the PSR to reconsider its proposed changes, given their serious, adverse implications as highlighted above. LINK reserves all of its rights in the event that the PSR were not to reconsider its proposals.

# Lloyds Banking Group

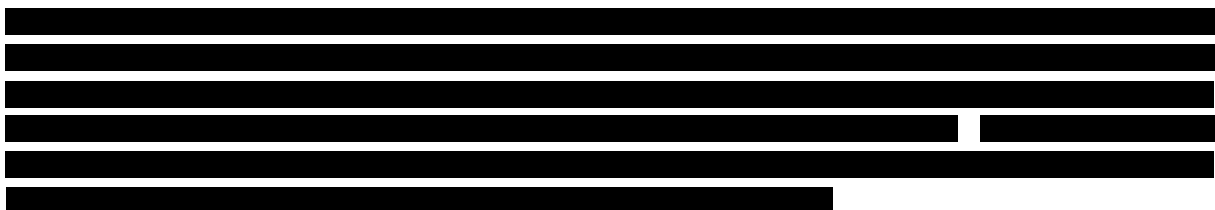
LLOYDS  
BANKING  
GROUP



**LLOYDS BANKING GROUP PLC**

**LBG views on PSR CP21/9: Draft Specific Direction on  
maintaining free-to-use ATMs**

**Submission Date: 17 November 2021**



Lloyds Banking Group (LBG) is pleased to respond to the PSR's Draft Specific Direction on maintaining free-to-use (FTU) ATMs. This opportunity to respond is particularly timely given the upcoming HMT legislation on access to cash.

**Protecting access to cash is vital for those who rely on it, and we are committed to maintaining this for as long as it is needed.**

Although research shows that cash usage is declining over time and this has accelerated through the Covid-19 pandemic, for the foreseeable future there will continue to be a significant minority of customers who rely on cash for a variety of reasons, of which for some cash is absolutely critical. It is positive that provision of cash across the UK is currently good, as evidenced by the Bristol University mapping research published in November 2020 and the most recent quarterly coverage assessment published this month (November 2021) by the FCA and PSR. However, it is important that we can reassure customers who depend on cash that this will remain the case, and in particular that where existing services close they will still have access to cash.

**We are supportive of legislation being introduced to ensure consumers continue to have access to cash.**

We responded to HMT's recent Consultation on Access to Cash, conveying our support for a high level geographic metric being contained in the legislation. Our suggestion was that any geographic requirement be as simple as possible while also differentiating between urban and rural areas as expectations and demand vary between urban and rural regions, just as is the case for other services. For instance, in urban areas businesses are open round the clock, while in rural areas people may reasonably expect to travel a little further to access cash.

**If HMT is to introduce access to cash legislation, the PSR's Specific Direction may no longer be required. Consumer cash needs will be met as a result of the legislative requirements and the various mechanisms the industry has agreed to put in place to meet these.**

We appreciate the outcomes delivered thus far as a result of the PSR's Specific Direction requirements and continued engagement from LINK. We believe LINK's policies have been instrumental in ensuring the broad geographic spread of ATMs, which has helped ensure cash provision in the UK remains strong. However, the landscape has evolved rapidly since Specific Direction 8 (SD8) was established in 2018 in several key ways: for example it is clear (including from the Bristol study) that the UK uses many channels to access cash, including the Post Office and cashback from retailers, and cash usage continues to decline significantly. Not only that, but since the PSR conducted its second review of SD8 in early 2021 we now have greater clarity on HMT's proposals to introduce legislation to ensure access to cash is maintained. Under such legislation it is likely that:

- There will be specific geographic requirements to which designated firms must adhere
- The FCA will become the lead regulator for monitoring and enforcing requirements on access to cash
- There will be a Coordinating Body that will evaluate 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 that the legislation will set the geographic requirements, and that the Coordinating Body will need to consider solutions beyond ATMs, we believe the Specific Direction may no longer be necessary. If the Specific Direction remained in place there would be a risk of duplication. We believe it would make things simpler if there was a single set of requirements for the Coordinating Body to follow. In our view, the legislative requirements and associated regulation that will need to be put in place by the FCA would likely need to supersede the requirements of the Specific Direction.



Since the legislation is yet to be finalised, it *may* be appropriate to extend SD8 until such time as the legislation is introduced, but we do not see any need for it to be extended until 2025. Given that its policies are well established, we believe LINK would remain committed to implementing them effectively to ensure a geographic spread of cash access, including before legislation is introduced, even in the absence of a Specific Direction.

**We believe a number of enhancements will be essential for the LINK schemes to play an optimal and continued role in preserving access to cash, in the context of the changing landscape and to align with the industry strategy and lower demand over time.**

As we shared in our consultation response to the PSR's review of SD8, we are supportive of the schemes and policies operated by LINK, but we also recommend a number of changes which we believe could drive more effectiveness, and help the schemes evolve to reflect changing consumer behaviour in relation to cash usage.

We believe LINK should make these enhancements to its policies and schemes whether or not it remains under any Specific Direction. Our proposed enhancements include:

#### **More dynamic definition of Defined Radius to reflect rural and urban locations**

- SD8 requires LINK to provide an outline of how Defined Radius will be set and applied flexibly where appropriate to reflect travel conditions on the ground. However, 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 people commonly access cash where they shop, work and live. As such we believe there should be a more dynamic definition of Defined Radius, which clearly differentiates between rural and urban areas (with a different radius for each) and reflects differing cash needs based on economic activity and population size. A helpful precedent is the Post Office SLA which reflects a 3 mile radius for rural settings, and 1 mile radius for non-rural.

#### **Need for a Minimum Population Definition**

- We believe consideration of cash needs, including need to replace a Lost ATM in a Protected Area, should be based on there being a minimum size of population in the area concerned, in order to justify provision of an access source. To ensure proportionality and to avoid bringing unnecessary cost of infrastructure, there should also be a local assessment of actual demand 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.

#### **Access to cash can and should be provided via a range of channels not just ATMs**

- We note the PSR's recognition in Section 5 that alternative cash access 'including but not limited to the Post Office' can be considered as an adequate substitute for a Lost ATM, as long as it meets certain criteria. We would like to see more explicit recognition of the established government and industry view that cash provision (and any legislative requirements) should be delivered via a range of channels, not just ATMs. This includes the Post Office, cashback from retailers, any shared facilities currently under consideration by the industry and other solutions as they evolve and develop.
- In addition to LINK considering such solutions for replacing a Lost ATM, we would strongly advocate that, in defining a Protected Area, LINK confirms that other sources of cash access such as a Post Office or retailers offering cashback do not exist within the Defined Radius and this be

refreshed over time. Again, circumstances can mean that certain solutions are not appropriate for the community in question, so in each case assessment must be made at a local level.

### **Removal of Protected ATM Premium**

- Given the breadth of our customer base, we have been able to examine the levels of activity at Protected ATMs and observe that the vast majority of Protected ATMs have the highest level of activity in the network, indicating they do not need supplemental financial support. However, issuers continue to incur incremental fees associated with the designation of Protected ATM. We value the support provided by Low Volume Premiums but, given the activity levels, it suggests the Protected ATM Premium is not required and not fulfilling its original purpose so we would be supportive of its elimination.

### **Regular Review of Protected Status**


- 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 removed if another ATM/cash access source is installed near to a Protected ATM. This review should take place at a reasonable frequency (e.g. every three years) 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.

### **More transparency of LINK's decision making processes**

- Upon reviewing the responses to the last SD8 consultation, we were disappointed by some of the feedback which indicated independent ATM operators are inflating their direct commissioning bids to supplement the profitability of their wider network. We welcome the PSR's support to help prevent this dynamic. 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 even appropriate. For example if an ATM has been closed due to lack of demand, it would not make sense to install a replacement ATM at inflated costs.
- On the monthly footprint report, we would like to see:
  - 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.

### **A mechanism to avoid gaps in provision following Closures and Conversions**

- We acknowledge that the Draft Specific Direction proposes 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 need to be mechanisms in place to prevent there being any lag in deployment when an ATM deployer announces a closure or conversion.
- To address this, the LINK commitment could include a rule that prohibits the conversion of an ATM from FTU to PTU and prohibits creation of new PTU ATMs within deprived areas and Protected ATM areas.
- We would also strongly advocate more proactive interventions, such as a mandatory 12 month notice period being required ahead of closure or conversion, or for incumbent deployers to be



prevented/prohibited from ceasing trading until plans are put in motion, a replacement deployer can be secured and an ATM installed.

- We would also like to see all ATM deployers and other providers of cash withdrawal facilities (e.g. the Post Office) to be included within the FCA's Branch and ATM closure and conversion guidance. This guidance is due for review, and, given its role in supporting cash access, we would expect that it would form part of the FCA's broader requirements of firms (as likely lead regulator) under the Government's Access to Cash legislation.

**We hope you have found our feedback useful and we would be more than happy to discuss any of the points we have raised in more detail if required.**

# Maylands Consulting

[REDACTED]

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**From:** [REDACTED]  
**Sent:** 06 December 2021 13:24  
**To:** [REDACTED]  
**Subject:** RE: Comments on DRAFT Specific Direction [X] requiring the continuation of appropriate policies, measures and reporting obligations regarding protected ATMs (LINK)

The efforts by LINK to replace closed, or closing, free-to-use (FTU) ATMs, merely scratch at the underlying problems with the supply of ATMs. The number of FTU ATMs fell by 6,685 in 2019, 3,628 in 2020 and a further 611 up to the end of September 2021. LINK has directly commissioned only 100 replacement FTU ATMs since the beginning of 2020.

Reasons for the decline in the number of ATMs include:

- Bank and building society branches and their associated ATMs have closed
- Financial institutions have retreated from the off-premise market, such as shopping centres and railway stations
- The decline in ATMs operated by financial institutions has not been met by independent ATM deployers (IADs) installations because the card issuers are unwilling to pay a realistic rate for their customers to use a FTU ATM.

At the same time as the financial institutions were removing their ATMs, LINK reduce the interchange fee paid to the ATM operators. The arbitrary reduction of 20%, which was subsequently partially rescinded under external pressure, ignored the agreement on setting the interchange fee that was reached some 20 years ago between LINK, its Members and the Office of Fair Trading. The agreement exempted the LINK interchange fee from the Competition Act 1998, despite it being a centrally set, multilateral interchange fee (MIF). One reason for the exemption was that the mechanism for setting the interchange fee is based on the average cost of a transaction, which is calculated annually using the results of an independently run, annual cost survey. The reasoning of the OFT at the time was to prevent the interchange fee from being set higher than needed for cost recovery. What the OFT did not foresee was setting the interchange fee lower than the average cost, resulting in an ATM operator running ATMs at a loss. The effect has been that IADs have not replaced the former financial institution ATMs or have, in some cases, introduced convenience fees at existing ATMs to make them financially viable.

The Covid pandemic has accelerated fall in ATM transactions, partly because there has been less economic activity and partly because many cash transactions have been replaced by contactless card transactions. Since much of the cost of running an ATM is fixed, this has the effect of increasing the average transaction cost. The use of the Post Office for cash dispensing and the potential roll-out of Cash at the Till will further depress ATM usage, as will the growth in popularity of contactless payments following the increase in the payment limit to £100. LINK has recently reported that the average cash withdrawal has increased from £66.99 pre-Covid to £78.54. The cost of cash provision to an ATM is a significant proportion of the variable cost of a transaction but the interchange fee is the same however much is withdrawn. Consequently, the combination of the reduction in the number of cash

withdrawals and the increase in the average withdrawal amount will lead to an increase in the average cost of a transaction. Yet LINK announced in July 2021 that interchange fees from January 2022 would remain unchanged from 2021 levels.

What is required is a mechanism that allows for an ATM operator to receive a fair fee for dispensing cash to financial institution cardholders to encourage a free market for the installation of ATMs. This cannot happen whilst the card issuers can dictate the interchange fee. The existing annual cost survey and calculation methodology provides an independent, objective method provided the results are not overturned.

[Redacted]

[Redacted]



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# NatWest Group

# Draft Specific Direction on maintaining free-to-use ATMs *November 2021*



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## Summary of NatWest Group views:

- We have been supportive of Specific Direction 8 and LINK's clear and transparent approach to implementing the Direction
- Moving forward, we believe a new Specific Direction needs to formally allow for a range of cash access solutions to reflect changing customer behaviour and cash usage; recognising that an ATM is not always the right solution to meet a community's needs
- The PSR and the proposals in the Draft Specific Direction must align with HM Treasury's plans on access to cash legislation and take into account wider joint industry work through the Access to Cash Action Group to find cash access solutions to meet consumer need
- The Draft Specific Direction should allow for LINK's independence and give LINK the ability to carry out its important role in considering the right cash access solutions; taking into account its potential new role as a central co-ordinating body to address cash 'cold spots' under forthcoming legislation

NatWest Group welcomes the opportunity to comment on the proposals in the Draft Specific Direction (DSD) to continue the work of Specific Direction 8 (SD8) to maintain the broad geographic spread of Free-To-Use (FTU) ATMs.

NatWest Group has a long and proud commitment to the provision and continuation of cash access. We have a unique insight into the role and usage of cash across the United Kingdom, as the only organisation involved in every stage of the cash cycle. We issue bank notes in Scotland and Northern Ireland; are a member of the Bank of England's Note Circulation Scheme; are a part of wholesale coin distribution, working with the Royal Mint and HM Treasury under HM Treasury's policy; we process wholesale cash; and provide cash to consumers via our branch and ATM network, as well as offering a range of cash solutions to our business customers, including cash collections and deliveries and secure 'Intelligent Safe' storage. We have a record of cash innovation, having introduced several own-brand services to customers to access cash such as our cash delivery service to vulnerable customers during the Covid pandemic. As a signatory to the Banking Framework our ring-fenced bank customers can undertake their banking via the Post Office network too.

We have made several commitments to support long-term cash access including previously, where a branch was closing and there was no alternative free cash access point available within 1km retaining an ATM. During Covid-19, we pledged with LINK and other key members of its Consumer Council to back Direct Commissioning for 12 months to protect free access to cash. We continue to support LINK's requirement of Direct Commissioning under SD8 with the ATM pledge. NatWest Group is also a signatory to the UK Finance five commitments to preserve long term access to cash for consumers and businesses.

## Specific Direction 8

NatWest Group is supportive of SD8 and LINK's clear and transparent approach to implementing SD8. We believe the policies and processes have been well documented and effectively communicated. LINK have ensured NatWest have been informed with adequate notice in instances where the classification of our ATMs change to become "protected" resultant of nearby closures.



## Defined Radius Requirement

We note the DSD seeks to maintain the broad geographic spread of the FTU ATM Network which includes a defined radius which is currently set at 1km. Whilst NatWest Group is committed to ensuring free access to cash for our customers, we believe that this access should not be restricted to a particular solution but rather be flexible to ensure community solutions meet the needs of local consumers and businesses. The recent HMT consultation proposes to set a geographic requirement of 1km to a free cash access point but does not prescribe the channel. This is something we support as we believe there should be a wide variety of cash access options for customers which can best meet their needs. We would question whether the DSD specifying a required distance to access a FTU ATM goes against the intentions of proposed legislation and wider industry work in ensuring consumers have adequate local access to cash through a range of solutions.

It is also important to note that recent mapping undertaken by the University of Bristol shows that 90% of the UK population already live within 1km of a free access point. The HMT consultation said that based on this mapping work “It is anticipated that this represents an appropriate distribution of cash access points to inform the initial geographic requirements under the proposed legislation.”<sup>1</sup>

NatWest Group are supportive of the 12-month and 24-month reviews of the DSD as an opportunity to reassess whether the requirements under the new Specific Direction are still relevant. This flexibility is needed to allow for long-term changing customer behaviour and cash usage, which based on industry projections will continue ahead of the 2025 finish date for the DSD. HMT’s consultation on future legislation set out that it expects geographic requirements to be flexible to “ensure the requirements remain proportionate in meeting cash needs and demand over time”.<sup>2</sup> We believe it is important that the DSD and the planned timetable for the reviews also aligns with forthcoming legislation and wider Government and industry’s views on the need to review geographic requirements as needed over time so infrastructure reflects the reality of consumer behaviour, customer needs and cash usage.

## Appropriate Alternatives

As customer behaviours and cash usage continue to change over time, it is vital that any rules or standards brought into the industry remain proportionate in meeting cash needs and demand.

We have seen more consumers than ever using the Post Office, in September they handled a record level of £2.99 billion of cash deposits and withdrawals, and it is important that the DSD reflect the changing way in which consumers access cash. New alternatives such as cashback without purchase will also provide an alternate channel for consumers to access cash. It is therefore important the DSD formally recognises current and new cash access solutions as adequate alternatives and provides the flexibility to LINK to ensure the most appropriate solution is deployed to meet customers’ needs: recognising that ATMs may not always be the best solution. In areas with security issues, customers may feel more comfortable with an alternative solution, where as an ATM may be more appropriate in a town with a large night-time economy.

As part of the proposals around the DSD we note there is a plan to reset the baseline date for ATMs to January 2022 and we have concerns about the impact this could have on consumer protection and ongoing

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<sup>1</sup> HMT Access to Cash Consultation - [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/997889/Access to Cash - Consultation.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/997889/Access_to_Cash_-_Consultation.pdf)

<sup>2</sup> HMT Access to Cash Consultation

transparency of LINK's financial inclusion schemes. Redrawing the baseline date from the one currently used under Specific Direction 8 could potentially misapply the important designation of protected ATMs to areas where this isn't required with previously unprotected ATMs gaining protected status, while 60 protected ATMs currently awaiting replacement could lose their status<sup>3</sup>. We don't believe this is the intended outcome of the proposed re-baseline but by changing the commencement date of these protections, it is possible that LINK will be required to disregard historic ATM activity. This will also impact LINK's reporting as this reset would remove historic reporting around actions taken and decisions made by LINK which in turn, affects the transparency for consumers and communities who rely on the LINK scheme to protect cash access and to effectively hold them to account on their decisions.

We also believe a review of protected ATMs should be part of the DSD to enable LINK to have the authority to change the protection status in either direction, based on an agreed set of criteria, to allow more flexibility which will reflect customer behaviour and ensure that the ATM estate doesn't become unsustainable. This flexibility would help to ensure that we don't see an oversupply of ATMs. Where there is an underused ATM that is no longer sustainable, an alternative solution such as cashback can comply with requirements and potentially provide a more viable solution, when considering local needs. This would ensure we can provide customers with a suite of cash access options, reflective of local requirements and consumer demand, while not being homogenous and therefore creating a more inclusive cash access framework.

### **Wider Industry work and aligning with HM Treasury and the FCA**

NatWest Group is committed to playing a key role in supporting the evolution of the cash access services and solutions for people, businesses, and communities to ensure that needs are met as we continue to transition to a 'less cash' society.

We were a founding member of the coalition which tested shared branch infrastructure in 2019 via the Business Banking Hubs initiative and have used insights from these pilots to develop and support the ongoing industry Community Access to Cash Pilots. The DSD needs to reflect this, and ongoing work across the industry to ensure that cash access remains sustainable. There is a risk that the DSD could duplicate or contradict industry progress if the correct steps aren't taken to ensure that the key players collaborate.

There is a concern around the DSD enabling the PSR to veto any proposed change by LINK to its policies or criteria, which could go against guidance from HM Treasury or the FCA and could impact industry solutions in the long run and lead to conflicting regulatory advice. In a worst-case scenario, the PSR potentially taking such a directional stance around LINK decisions could impact LINK's independence and ability to deploy the right solution to meet customer needs. For example, if HM Treasury and the FCA decide that the geographic requirement could be increased to reflect changing customer behaviour, there is no guarantee that PSR would support LINK in also changing their policies to reflect HM Treasury and FCA positions and could see LINK caught between regulators. We would also query whether under this particular proposal LINK is being treated fairly in comparison to its competitors and whether this creates a level playing field. Additionally, the DSD's inclusion of a one-month delay in the PSR making a decision on a proposed change from LINK could also impact their ability to act at pace. As Covid highlighted there are times we need to act quickly to protect consumers, such as our work during Covid with LINK and other ATM deployers to guarantee critical ATM machines remained in place, a one-month delay could potentially impact future swift intervention.

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<sup>3</sup> LINK Footprint Report – August 21 <https://www.link.co.uk/media/1812/atm-footprint-report-august-2021.pdf>

The DSD, and the PSR, should also consider the possibility of LINK taking on the role of a central co-ordinating body as part of the legislation on access to cash and how the proposals in the DSD will fit with this potential new role.

Under HM Treasury's proposals around access to cash legislation they are looking to the FCA to be the lead regulator on cash access. We believe it is vital that the regulators involved in cash work to be joined up, to ensure they are consistent in their approach to safeguarding access and that this reflects the intentions of the forthcoming legislation so cash access can continue to be sustainable. The provision of cash access relies on a whole-market view and an end-to-end understanding of the cash cycle to ensure long-term costs are flexible and sustainable, even as volumes decrease over time.

## **Summary**

NatWest Group are committed to doing everything we can to ensure cash access remains sustainable and available for our customers. We know these customers trust cash because it is the universal backstop payment method when others fail.

We are working across the industry to create and trial new effective solutions to maintain access as cash usage evolves over time. It is vital that this work across industry alongside planned legislation and future regulation is all in alignment so we can continue to provide our customers with the cash they rely on.

# UK Finance

# UK Finance response to PSR Specific Direction on Maintaining Free-To-Use ATMs

Closing date: 16 November 2021

## Introduction

UK Finance is the collective voice for the banking and finance industry.

Representing around 300 firms across the industry, we act to enhance competitiveness, support customers, and facilitate innovation.

We welcome the opportunity to provide comment and respond to the PSR's draft Specific Direction on Maintaining Free-To-Use ATMs. This is an area of great interest to our members and their customers.

The banking and finance industry is committed to ensuring access to cash remains free and widely accessible for those personal customers that continue to need it. Yet there is no 'one size fits all' approach and only via collaboration across government, regulators, industry, customer groups and communities can this be achieved.

## Overview

1. UK Finance members were broadly supportive of the PSR's [Specific Direction 8](#) (SD8) aimed at ensuring a broad geographic spread of Free-To-Use (FTU) ATMs across the UK. It must be remembered that the UK's coverage remains strong, with Bristol University research<sup>1</sup> highlighting how 90% of neighbourhoods have access to a free ATM within 1 mile and that this rises to 95% when including all free cash sources (ATMs and cashback). Nevertheless the initiative was recognised to be one of value.
2. LINK's approach in delivering the stipulated objectives has generally been commended by member firms for its clarity and transparency. Some members have in particular fed back how LINK has provided good levels of information in its adopted policies and in related engagement with industry participants. Others felt more information could be provided.

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<sup>1</sup> *Where to withdraw? Mapping the access to cash across the UK*, Bristol University, November 2020, <http://www.bristol.ac.uk/geography/research/pfrc/themes/finexc/where-to-withdraw/>

3. As set out in our response to the Call for Views on SD8 in February 2021<sup>2</sup>, the majority of UK Finance members were keen to see the measures remain in place until their proposed expiry of January 2022. There was a case for further retention but this needed to reflect how the landscape has changed significantly in the past couple of years, in terms of reduced cash demand, the emergence of alternative access to cash outlets, and variations in the level of cash acceptance.
4. The adoption of a new Specific Direction, building on SD8, is in principle welcomed by members. We are pleased to see the shift to encompass greater flexibility within the framework, both with regards to the 1km radius and in relation to recognising a wider range of alternative cash access outlets. There remains though concern that the framework may fall behind broader developments in the Payments market, and that the network of Protected ATMs may become prohibitively costly without periodic reviews, including on whether to maintain Protected Status at specific sites/machines.

### Proposed 2025 timeframe

5. Member support for the retention of Specific Direction 8 until January 2022 was already qualified by a minority view that the changes in the payment landscape in recent years were such that SD8 had served its purpose and was no longer required. There was also broad consensus that an over reliance on the ATM network fails to recognise the wider work on Access to Cash which has been successfully undertaken by industry and regulators, and which demonstrates that cashback, Bank Hubs, the Post Office, and digital 'click and collect' style solutions can all provide effective and attractive ways for consumers to withdraw cash.
6. The accelerated decline of cash use, which fell 35% in 2020/21<sup>3</sup>, means that Cash was hit hardest as a method of payment, and is now the preferred means of paying by only 17% of consumers. This context is already quite a development from the situation in 2018 and it is anticipated that by 2025 the payments market will have shifted further to digital channels and away from cash. It is vital that the new proposed Specific Direction reflects these wider changes, especially as it is not currently possible to forecast the level at which cash will stabilise post-Covid or whether any substantial rebound in demand will occur.
7. The 12-month and provisional 24-month reviews of the draft Specific Direction are welcomed as important opportunities to assess whether it remains relevant. It seems certain that over the next three years further Access to Cash developments will occur, and either LINK's Policies will need to be updated or the Specific Direction itself further reorientated if it is not to become out-of-date from failing to take account of the growing range of alternative cash access outlets on offer.

### Alternative Cash Access outlets / Access to Cash legislation

8. The clarification in the draft Specific Direction that LINK can recognise alternative cash access, *including but not limited to the Post Office* is an encouraging step. While SD8 did not exclusively designate Post Office branches as an adequate substitute, there remained a

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<sup>2</sup> UK Finance response to PSR Call for Views on Special Direction 8 (LINK), UK Finance, February 2021, <https://www.ukfinance.org.uk/system/files/uk-finance-response-to-psr-call-for-views-sd8-final.pdf>

<sup>3</sup> UK Payment Markets Report 2021, UK Finance, June 2021

perception that it did not fully register the potential of alternative cash access outlets. Whether in the LINK policies or in the Direction itself, there would be benefit in more formally recognising as adequate substitutes the range of channels referenced above. These have been successfully trialled in the [Community Access to Cash Pilots](#) which were live until the end of October 2021, with fuller analysis to be available in the CACP report due in December this year.

9. It is also possible that the incoming Access to Cash legislation may supersede, duplicate or even conflict with the draft Specific Direction. The latest proposals from HM Treasury have suggested that legislation will set out an Access to Cash obligation based on geographic requirements. This raises the prospect of potential inconsistency with the Defined Radius, but more broadly, the legislation is expected to address the issue of ATM coverage as part of the wider cash infrastructure landscape. This raises the question as to whether a stand-alone ATM policy sitting alongside the legislation is even required or will naturally become superfluous once the legislation comes into effect. This is especially the case with regards to the Direct Commissioning powers granted to LINK through the Specific Direction. There is a strong argument that this responsibility should be either grandfathered or incorporated within newly emerging arrangements, for example in the event that LINK takes on the role of a Central Co-ordinating Body under the Access to Cash legislation. There is across membership greater appetite though for the retention of increased interchange or other financial incentives for ATMs in areas of low demand, as set out in the PSR Direction.
10. Given that the Access to Cash legislation is not expected to pass through Parliament until later in 2022, there appears to be merit in the Specific Direction as an interim measure at the very least, but with the 12 month review not due to take place until January 2023, there are questions on how the two can be properly sequenced.

### Defined Radius

11. The proposal to drop the pre-determined 1km radius and replace this with a Defined Radius to be set by LINK is a positive update. UK Finance has previously cautioned against the one-size-fits-all geographic approach, which can fail to recognise that there may be good reasons why a FTU ATM is slightly further away, for example due to a nearby retail site with multiple ATMs, or in a sparsely populated rural area where travelling further for local facilities is seen as acceptable. It may also be due to concerns over safety and security, which mean that an ATM facility is not the most appropriate channel for cash withdrawals in that area.
12. By taking a more nuanced approach LINK should be able to ensure greater protection within locations of economic activity where consumers are actually looking to spend their cash. This is the approach of the Cash Action Group, co-chaired by Natalie Ceeney and David Postings, which is looking at identifying a sustainable longer-term model for Access to Cash across all channels. Greater flexibility should also lead to a different radius for urban and rural locations, with minimum thresholds in terms of population size.
13. In the event that LINK looks to adjust the default 1km radius, advance engagement with industry would help to ensure that a more tailored approach does not lead to subjective protection. We have previously suggested for example basing geographic requirements at a site level as opposed to ATM level.





# Which?

## Consultation Response

### **Which? Response to Payment System Regulator's (PSR) consultation CP21/9: Draft Specific Direction on maintaining free-to-use ATMs**

Which? welcomes the opportunity to respond to the PSR's consultation *CP21/9: Draft Specific Direction on maintaining free-to-use ATMs*.

In our view, Specific Direction 8 (SD8) serves an important purpose in maintaining access to cash, by ensuring that LINK has policies and practices in place to maintain a broad geographic spread of Free-to-Use (FTU) ATMs. This is particularly important for the 5.4 million adults who rely on cash for all or most of their daily purchases<sup>1</sup>. SD8 also provides helpful transparency of the measures that LINK has implemented to protect FTU ATMs, enabling the PSR and external stakeholders to monitor the actions that LINK has taken.

We therefore strongly support the PSR's proposal to issue a new Specific Direction to replace SD8, which is due to expire on 2 January 2022. The new Specific Direction should help to ensure that LINK continues to maintain broad geographic coverage of the FTU ATM Network in the UK and to meet the needs of the large numbers of consumers who continue to rely on cash.

In the 2020 Spring Budget, the Chancellor said the Government would bring forward legislation to protect access to cash and to ensure that the UK's cash infrastructure is sustainable in the long-term<sup>2</sup>. Clearly, there is likely to be some overlap between the planned legislation and the new Specific Direction. However, since both the scope of, and timetable for, legislation are uncertain at the present time, it is essential for the PSR to issue a new Specific Direction to protect consumers' access to FTU ATMs in the interim period. The new Specific Direction should remain in place until legislation to protect access to cash has been passed, a regulatory framework governing wider access to cash issues has been introduced, and a thorough assessment can be made of the impact and effectiveness of the new arrangements. This assessment should include consideration of any overlaps between the new legislative framework and the Specific Direction, and determine whether there remains a need for the new Specific Direction to continue.

We support the PSR's proposal for LINK to improve the transparency of its Direct Commissioning process, based on the findings from the PSR's previous review of SD8<sup>3</sup>. In addition, as part of the new Specific Direction, the PSR should consider requiring LINK to publish additional information to justify the closure and non-replacement of protected ATMs. Latest data published by LINK reveals that out of 3,016 protected ATMs, 422 are

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<sup>1</sup> <https://www.fca.org.uk/publications/research/financial-lives-2020-survey-impact-coronavirus>

<sup>2</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/871799/Budget\\_2020\\_Web\\_Accessible\\_Complete.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/871799/Budget_2020_Web_Accessible_Complete.pdf)

<sup>3</sup> [https://www.psr.org.uk/media/ewbm4tqs/sd8-second-review\\_june\\_2021\\_v3.pdf](https://www.psr.org.uk/media/ewbm4tqs/sd8-second-review_june_2021_v3.pdf)

no longer transacting and of these 228 (7.6%) will not be replaced<sup>4</sup>. Currently, there are a number of reasons which can be given to justify non-replacement, with LINK explaining:

*(a) ATMs are not replaced where consumers have free access to cash over the counter from a nearby post office, where the site was not accessible to the public, where there are security concerns, or where there is assessed to be no community detriment following a site visit by LINK<sup>5</sup>.*

While LINK's approach to determining where protected ATMs are not replaced is set out clearly in the 'LINK Policy on Protected ATMs'<sup>6</sup>, LINK should provide more granular detail about the reasons why it has been decided not to replace protected ATMs in specific locations. Currently, the published data merely lists the number in each category, though we understand that in each case a site visit is conducted following investigation of the local factors. Publication of the reports of these site visits would further improve transparency and provide greater confidence in the processes followed.

### **About Which?**

Which? is the UK's consumer champion. As an organisation we're not for profit - a powerful force for good, here to make life simpler, fairer and safer for everyone. We're the independent consumer voice that provides impartial advice, investigates, holds businesses to account and works with policymakers to make change happen. We fund our work mainly through member subscriptions, we're not influenced by third parties and we buy all the products that we test.



**November 2021**

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<sup>4</sup> [LINK Scheme ATM Footprint Report \(July 2020\)](#), Published 11 September 2020

<sup>5</sup> [LINK Monthly Report - October 2021](#)

<sup>6</sup> <https://www.link.co.uk/media/1437/protected-atm-policy-v51.pdf>

PUB REF: CP21/9 Submissions

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