

Annual review of Specific Direction 8

Response to Call for Views

March 2020

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1 Summary

Why access to cash matters

- 1.1** The Payment Systems Regulator (PSR) is the economic regulator of the UK's main payment systems. Among the payment systems we regulate is LINK – the UK's largest ATM network – which enables cardholders to withdraw cash at any ATM connected to its network. Cash remains an important payment method in the UK and we want everyone to have a good choice of how to make payments in a way that works for them.
- 1.2** In the area of cash, our overall aim is to support cash access, including widespread geographic access, which meets the needs of those UK consumers who need or want to use cash as a payment method. ATMs are important because they are currently the main way most people access their cash.

What this document is about

- 1.3** This publication is our first annual review of Specific Direction 8 (SD8), which we issued to LINK in October 2018. SD8 requires LINK to do all it can to fulfil its commitment to maintain the broad geographic spread of free-to-use (FTU) ATMs. SD8 was issued because we considered that the PSR and other stakeholders needed greater clarity on the commitment and how LINK would meet it.
- 1.4** In October 2019, as part of this annual review, we published a call for views seeking people's thoughts on a range of topics, including how well LINK's commitment and SD8 are working. By the closing date of 1 November 2019, we received 12 submissions from a range of stakeholders.¹
- 1.5** In this review, we have considered whether SD8 should remain in place, taking into account the 12 stakeholder responses, the reasons for which SD8 was introduced, and how it is working in practice.
- 1.6** We have also made recommendations to ensure that LINK meets its commitment as well as it can.
- 1.7** Overall, we have concluded that SD8 remains necessary at this stage to ensure that LINK does all it can to deliver on its commitment to maintain widespread cash access and that information about LINK's progress is transparent.
- 1.8** LINK's commitment and SD8 support cash access in the short-term. We are also working with other authorities as part of the Joint Authorities Cash Strategy Group and industry to develop longer-term solutions to society's ongoing need for access to cash in a rapidly changing environment.

¹ Respondents comprised two ATM deployers, four issuing banks, two consumer associations, three retail associations and LINK. Two responses were confidential. Non-confidential responses are published on our website.

Our key conclusions

Position 1: LINK's commitment and SD8

- 1.9** LINK's commitment is a sensible short-term measure to help maintain widespread access to cash for people who need it, and SD8 should stay in place for the time being.

Position 2: LINK's policies to maintain Protected ATMs

- 1.10** The low-volume premium (LVP) is a helpful measure in the short term, but may not be fit for the long term and should be kept under review.
- 1.11** LINK should keep the policy of targeting all Protected ATMs for replacement (other than where exclusions apply) under review. This is because there is a risk that it may be targeting some Protected ATMs that do not serve a local need.

Position 3: LINK's policies to replace closed Protected ATMs

- 1.12** LINK should undertake a review of the robustness of the Protected ATM premium.
- 1.13** LINK should publish high-level information on the outcomes of the direct commissioning process.

The structure of this document

- 1.14** The rest of this document is set out as follows:
- **Chapter 2** sets out what LINK does, its commitment, and why we issued Specific Direction 8, as well as wider developments in access to cash.
 - **Chapter 3** sets out a discussion of whether SD8 should remain in place, taking into account stakeholder responses, along with the reasons why SD8 was introduced and how it is working in practice.
 - **Chapter 4** sets out a discussion of LINK's policies to **maintain** and **replace** Protected ATMs, and how these can be made to work as well as they can.
 - **Chapter 5** sets out the next steps.

How we have dealt with respondents' feedback

- 1.15** In Chapters 3 and 4, 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.²

² <https://www.psr.org.uk/psr-publications/policy-statements/cp19-5-responses-to-call-for-views-research-cash-access-use-and-acceptance-summary-of-roundtable-discussion>

2 Introduction

2.1 This chapter sets out:

- what LINK does
- LINK's commitment and why we issued Specific Direction 8
- wider developments in access to cash

What LINK does

2.2 The LINK ATM system connects UK card-issuing banks and ATM providers, to enable card holders to withdraw cash at ATMs. The LINK ATM system is used if a card holder makes a transaction (for example, a cash withdrawal or balance inquiry) at a UK ATM that does not belong to their issuing bank.

2.3 The LINK ATM system is operated by LINK Scheme Limited (LINK). LINK neither provides nor operates ATMs itself, but sets the rules for ATM providers who want their ATMs to be part of the LINK network, as well as for card issuers who want their card holders to be able to use the network.

2.4 Free to use (FTU) ATMs generate revenue for their providers through 'interchange fees' the card issuing banks pay for each transaction. These interchange fees are set by the LINK Board.

LINK's commitment and why we issued Specific Direction 8

2.5 On 31 January 2018, LINK announced a 20% reduction in interchange fees. This was to be introduced in stages, through four cuts of 5% each (it has subsequently cancelled the third cut and postponed the fourth). It predicted a modest reduction in the number of FTU ATMs in the UK because of these cuts.

2.6 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 1 kilometre range. These are known as Protected ATMs.

2.7 This action on Protected ATMs is referred to as 'the commitment' in this document. Interchange fee cuts were not applied to these Protected ATMs. LINK also committed to offer an enhanced subsidy wherever needed, to ensure Protected ATMs remain open.

2.8 The issue of how to maintain people's access to cash as societal needs change is being considered by us and other authorities as part of the Joint Authorities Cash Strategy group, along with industry. 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.

2.9 We considered, however, that greater clarity was needed on:

- the commitment and its underpinning policies and processes
- the resources LINK would secure to fulfil the commitment
- how it would comply with certain minimum requirements

2.10 We therefore issued SD8 to LINK in October 2018, using our powers under Section 54 of the Financial Services (Banking Reform) Act 2013 (FSBRA).

2.11 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.

2.12 The requirements that LINK has to meet under SD8 expire on 2 January 2022. We undertook to review SD8 after 12 months (this review) and, if still in place, again in October 2020.

2.13 After we issued SD8, LINK did two things:

1. **Developed and published the Protected ATM policy**³: This policy covers the commitment itself, and defines incentives and replacement processes for when a Protected ATM closes (meaning, in this document, closure or conversion).⁴
2. **Introduced the Low Volume Premium (LVP) in April 2019**⁵: This provides additional funding, in the form of a higher interchange fee that issuers pay, to help prevent Protected ATMs with low usage from closing.

2.14 To implement and fund the Protected ATM policy, LINK secured additional funding from issuers and invested in additional resources.

2.15 LINK has been giving us regular updates on progress and data on Protected ATMs, and publishing monthly 'footprint' reports.

Wider developments in access to cash

2.16 The commitment and SD8 form just one element of the wider access-to-cash space. There have been a number of significant developments since we issued SD8, which form an important context for our review:

- There has been a significant rise in independent ATM deployers (IADs) converting ATMs from FTU to pay-to-use (PTU). This has reversed the previous trend of significant decline in PTU ATMs. The total number of PTU ATMs increased by approximately 4,000 in 2019.⁶

3 https://www.link.co.uk/media/1437/v-ops-management-method4-method4-change-2019-l083_19-protected-atm-policy-effective-17th-july-2019.pdf

4 In this document, 'closures' and 'closed Protected ATMs' have the same meaning as the 'Lost ATM' definition – 3.4(1) and 3.4(2) – in SD8.

5 <https://www.link.co.uk/about/news/super-premiums/>

6 <https://www.link.co.uk/media/1574/monthly-report-jan-2020-final.pdf>, page 3.

- Transaction numbers are falling and are expected to continue to decline.⁷
- In March 2019, the LINK-funded Independent Access to Cash Review published its final report, which considered the access to cash issue. The Review made five recommendations relating to cash and access to digital payments.⁸
- In October 2019, the Post Office Banking Framework agreement, which allows for customers of major banks to withdraw cash over a Post Office counter, was renewed for three years from January 2020.⁹
- Also in October 2019, LINK launched the Community Access to Cash Delivery Fund/Community Request an ATM Initiative.¹⁰ This is a local engagement initiative allowing communities with cash access issues to request FTU ATMs directly from LINK. LINK has already received over 2,700 applications.¹¹ This initiative was announced in conjunction with UK Finance, who have set up a separate scheme to request non-ATM cash provision (the Community Access to Cash Pilots Initiative¹²) which launched in February 2020.¹³

7 See UK Finance's *UK Payment Markets 2019* report at <https://www.ukfinance.org.uk/policy-and-guidance/reports-publications/uk-payment-markets-2019>

8 <https://www.accesstocash.org.uk/media/1087/final-report-final-web.pdf>

9 <https://www.onepostoffice.co.uk/secure/latest-news/our-business/banking-agreement-to-continue-for-three-more-years/>

10 <https://www.link.co.uk/about/news/link-community-support/>

11 <https://www.link.co.uk/media/1574/monthly-report-jan-2020-final.pdf>, p. 4

12 <https://www.ukfinance.org.uk/press/press-releases/uk-banking-and-finance-industry-update-local-access-cash>

13 <https://www.ukfinance.org.uk/press/press-releases/uk-finance-responds-launch-community-access-cash-pilots-initiative>

3 LINK's commitment and the future of SD8

3.1 In this chapter we consider whether SD8 should remain in place, taking into account stakeholder responses, the reasons for which SD8 was introduced, and how it is working in practice. It is set out as follows:

- We explain how LINK clarified the commitment after SD8.
- We summarise respondents' views on the commitment and SD8.
- We outline our response and provide our position.

How LINK clarified its commitment after SD8

3.2 We issued SD8 to LINK to require it to do it all can to deliver on the commitment by putting appropriate and effective policies in place, in line with minimum requirements we set out and to timely deadlines. Subsequently, LINK developed policies which are published on its website.¹⁴

3.3 SD8 provides a mechanism for us to input actively into this development process, and through this we told LINK to:

- make sure the commitment covers ATMs that newly meet the criteria for protection due to the closure of all other FTU ATMs within a 1 kilometre radius; accordingly, LINK's November 2019 Footprint report listed 2,900 Protected ATMs (rising from 2,365 in January 2018)
- include a mechanism for flexibility in respect of the 1 kilometre 'as the crow flies' distance where there is a barrier (for example a road, river or railway line) that has a significant adverse impact on a community's ability to access cash
- change its evaluation focus from 'lowest bid' to 'best value bid' as part of the direct commissioning process

3.4 During this period, LINK also introduced policies in relation to the Post Office. While LINK's Protected ATM policy is focused on the provision of ATMs, when there is a Post Office near a Protected ATM that closes, LINK treats the Post Office as an adequate substitute to the closed ATM provided it is open at least five days a week. This is because most card holders of UK issuer banks can get cash at the Post Office counter.

3.5 In LINK's latest Footprint report¹⁵, 107 closed Protected ATMs (48% of all confirmed Protected ATM closures) were not included in LINK's replacement processes due to a Post Office being within 1 kilometre.

¹⁴ https://www.link.co.uk/media/1437/v-ops-management-method4-method4-change-2019-l083_19-protected-atm-policy-effective-17th-july-2019.pdf

¹⁵ <https://www.link.co.uk/media/1424/atm-footprint-report.pdf>

Respondents' views

3.6 We received 12 responses to our call for views, from a range of stakeholders including issuers, consumer groups, trade bodies, and LINK itself. These responses and insights have been an important input into our review. We have summarised the feedback under the following four key themes:

1. Merits of the commitment
2. Non-ATM ways of accessing cash, including the Post Office
3. Ongoing relevance of the commitment and SD8
4. Transparency

1 Merits of the commitment

Respondents had differing views on the ongoing merits of the commitment. Two respondents – one issuer and one trade body – criticised the 1 kilometre rule as being inferior to local case-by-case assessments of social and economic need. Consumer groups and retail trade bodies said that LINK's policies underpinning the commitment, including its response to SD8, were not sufficiently protecting consumers from harm. Issuer respondents, by contrast, were generally supportive of the commitment and LINK's measures.

2 Non-ATM ways of accessing cash, including the Post Office

Issuer respondents emphasised that cash access options are much wider than just ATMs, including cashback, and one issuer also called for SD8 to be amended to include all cash access methods.

Other respondents had strong views on the substitutability of the Post Office as an alternative cash access source:

- One consumer group said that a Post Office should not be considered a substitute by default, and others cast doubt on relying on it for cash access. Three respondents specifically said Barclays' (now reversed) announcement that they would no longer allow cash withdrawals at Post Office branches highlights the fragility of the Post Office Banking Framework Agreement for consumer cash access.
- Some respondents also criticised the Post Office's reduced access times (compared with ATMs), alleged poor customer service, and the risk of local Post Offices closing because of potentially unsustainably low sub-postmaster pay.
- LINK, on the other hand, said that local Post Offices provide 'the same service as ATMs in respect of access to cash'.

3 Ongoing relevance of the commitment and SD8

Some respondents questioned the ongoing relevance of the commitment and SD8 in the context of new local engagement initiatives such as:

1. LINK's retail centre policy and local engagement-driven Community Access to Cash Delivery Fund/Community Request an ATM Initiative, which it launched in October 2019¹⁶
2. UK Finance's Community Access to Cash Pilots initiative – a grant scheme for funding alternatives to ATMs through local engagement – which launched in February 2020¹⁷

Many said these initiatives have, to some extent, superseded the commitment, and called into question the need for SD8. This included LINK itself: it said that the context in which the commitment was originally made and SD8 was given has changed, due to these initiatives. Another respondent said that the new initiatives mean that SD8 had 'run its course'.

One respondent said that we are conducting this review too early and should review SD8 and the new initiatives together once they are established.

Some respondents also provided a view on the requirements within SD8 for LINK to report each month on its commitment and changes in the Protected ATM footprint. LINK's submission stated that, while the reporting could continue, reporting could focus on the overall development of the marketplace rather than on the Protected ATM footprint.

4 Transparency

An issuer and a consumer organisation commented on the importance of transparency in respect of Protected ATMs and the impact of LINK's initiatives. There was a suggestion from another issuer that greater transparency is still needed in respect of LINK's replacement procedure (see Chapter 4).

Our response and position

Overview of our observations

- 3.7** Having reflected on the feedback we received, we have concluded that the commitment remains a sensible short-term measure and that SD8 should stay in place for the time being. Our general observations are set out below.

ATMs should be in locations where they are needed

- 3.8** We broadly agree with respondents that there are limitations in using a measure of 'distance to the nearest FTU ATM' to decide which ATMs should be protected. Ultimately, we want ATMs where people need them. In order to achieve this outcome, the use of a simple metric has some benefits, by providing a clear rule that can be applied to the large number of ATM locations relatively easily. Any rule will, however,

¹⁶ <https://www.link.co.uk/about/news/link-community-support/>

¹⁷ <https://www.ukfinance.org.uk/press/press-releases/uk-finance-responds-launch-community-access-cash-pilots-initiative>

fail to capture all of the relevant local factors, which points to the need for LINK to apply some discretion, ideally informed by evidence about local need.

- 3.9** Under the current structure of the Protected ATM policy, some ATMs may be Protected even though they do not serve a specific need. Meanwhile, other areas with a local need will not be in scope of the policy as they did not have an ATM when LINK made its commitment. We make a recommendation in Chapter 4 around whether some discretion could be applied in individual cases.

Finding the right role for other sources of cash, including Post Offices

- 3.10** We agree with the respondents who say that other sources of cash may play a part in ensuring suitable access to cash. At the same time, we find some merit in the observation that part of the value of ATMs is that they can be used outside of working hours (and often 24/7). Post Office opening times mean that they may not be a full substitute to an ATM in all locations, depending on patterns of local use.
- 3.11** The local engagement mechanisms, such as the schemes announced by LINK and UK Finance, should allow communities to raise cash access problems. We think these could play an important part in identifying where cash access is needed and may also help determine the role that other sources of cash (for example, local Post Offices) have in communities. LINK has told us that, under its local engagement scheme, it will meaningfully assess the role a Post Office plays for a community when considering whether it appropriately substitutes for an ATM, rather than only focusing on opening hours. This is a better approach than a blanket policy treating all Post Offices that are open five days a week as substitutes.

The relevance of local engagement to the commitment and SD8

- 3.12** We welcome the local engagement schemes being implemented in this space. We want to see these develop further, and will monitor them closely. However, we do not agree with respondents who argued that the local engagement schemes mean that the commitment or SD8 is no longer needed. The focus of these schemes is on filling gaps in provision, rather than protecting the geographic spread in the same way that the commitment aims to. In addition, they have only recently been launched and we do not yet have enough evidence on their effectiveness. For these reasons, we consider calls to reflect these schemes in SD8, or revoke SD8, to be premature.

Transparency

- 3.13** With regard to comments on the importance of transparency around LINK's initiatives, we make a recommendation in relation to this in Chapter 4 (paragraph 4.32).

LINK's Progress

- 3.14** Overall, reflecting on LINK's work to fulfil the commitment, and our own regular engagement with LINK, we consider that there has been generally good progress in developing policies to meet the commitment (specific policies are discussed in Chapter 4). SD8, including its reporting requirements, continues to give us assurance on LINK's progress, which we still need going forward.

The commitment and the future of SD8

- 3.15** Having considered all stakeholder views, we conclude that the commitment remains, broadly, a sensible short-term measure in response to the problem of maintaining cash access for people who need it.
- 3.16** Furthermore, SD8 remains necessary at this stage to ensure that LINK does all it can to deliver on the commitment, that information about LINK's progress is transparent, and because it is a mechanism for the PSR to input into LINK policies (as shown in paragraph 3.3). In coming to this conclusion, we have taken into account our findings in Chapter 4 on LINK's policies to maintain and replace Protected ATMs.
- 3.17** Keeping SD8 means that LINK will continue to publish the monthly Footprint report on its website for public transparency and provide us with detailed Protected ATM data, subject to periodic reviews. This will allow us to monitor LINK's ongoing delivery against our SD8 and the commitment. We will review SD8 again in October 2020.

Position 1:

The commitment and the future of SD8

LINK's commitment is a sensible short-term measure to help maintain widespread cash access for people who need it, and SD8 should stay in place for the time being.

4 Maintaining and replacing Protected ATMs

4.1 This chapter is in two parts:

Part 1: Maintaining Protected ATMs

- We explain LINK's incentives for ATM providers to maintain Protected ATMs and prevent closures.
- We summarise respondents' views on the incentives.
- We outline our response and provide our position.

Part 2: Replacing Protected ATMs

- We explain LINK's replacement procedure for closed Protected ATMs.
- We summarise respondents' views on the replacement procedure.
- We outline our response and provide our position.

Part 1: Maintaining Protected ATMs

4.2 LINK has several incentives in place to maintain Protected ATMs. At a minimum, all Protected ATMs receive higher interchange rates: they were exempt from LINK's two interchange cuts in July 2018 and January 2019. In addition, card issuers pay an additional interchange premium, the Low Volume Premium ('the LVP') for transaction at Protected ATMs with low usage.

4.3 LINK introduced the LVP in April 2019 to prevent Protected ATMs with low usage from closing, and therefore from having to be replaced. This premium is automatically paid on a per cash withdrawal basis to operators of ATMs with low usage. The amount paid is dependent on which of six designated bands an ATM falls into. This is determined by an ATM's average withdrawal volume in the preceding 12 months and will be reassessed annually in March.

4.4 Despite these measures, some protected ATMs have still closed. As of the latest Footprint Report, LINK is targeting 50 closed Protected ATMs (1.7% of all Protected ATMs) for replacement. A further 171 closed Protected ATMs (5.9% of all Protected ATMs) are not being replaced due to either a nearby Post Office which LINK considers an adequate substitute (107), the ATM not being accessible to the public (46), or there being a security issue (18).

Respondents' views

4.5 Most respondents on this topic were critical of the financial incentives provided by LINK to ATM operators to keep Protected ATMs open and free to use.

1. One consumer group and two retail trade bodies stated or implied that (what they see as) high numbers of Protected ATM closures demonstrate that incentives are not sufficient.
2. Others said the premium model was inappropriate:
 - The LVP is based on varying volumes and subject to periodic review. One large IAD said that interchange premiums were of limited value, since their complexity and unpredictability means that it is difficult to negotiate (typically lengthy) site contracts. In the IAD's view, this weakens the incentive created by the premiums to keep the ATMs and as open and FTU.
 - One large IAD submitted that while LINK's incentives are welcome, they cause inefficient spending across the network. One major issuer said that information was lacking on whether LINK's objectives (including maintaining the Protected ATM estate) are being met effectively or efficiently.
3. According to LINK, ATMs that receive the LVP are half as likely to close as those that do not.

Our response and position

Overview of our observations

4.6 Having reflected on the feedback we received on LINK's policies to maintain Protected ATMs, we set out our view of the LVP and have identified one action we recommend LINK take to ensure that it meets the commitment as well as it can. Our general observations are set out below. Our position is set out below paragraph 4.10.

Short-term impact of the LVP

4.7 The LVP was implemented in April 2019 and appears to have had a positive impact already. It should help LINK deliver on its commitment and alleviate possible strain on LINK's replacement processes. So far, it appears to act as a preventative measure to a closure and, therefore, should reduce the possible consumer detriment resulting from an ATM closing and reopening. We will continue to follow the impact of the LVP as it is further established. In the short-term, we consider the LVP is a helpful measure to try to mitigate the risk of Protected ATM closures.

Long-term impact of the LVP

4.8 Taking into account stakeholder concerns about complexity and unpredictability, however, the LVP and its cost structure may not be fit for the long-term. We therefore asked LINK to keep the LVP under review when we responded to its proposal to introduce the LVP as a variation under section 9 of SD8 in early 2019. We remain of this view.

Inefficiency

- 4.9** With regard to claims of inefficiency, the commitment is framed in terms of the preservation of the geographic spread of ATMs of January 2018, regardless of their usage. As a result, there may be some Protected ATMs that do not serve a local need but cause costs to be incurred in seeking to retain them.
- 4.10** Rather than assessing the local need of all Protected ATMs, this problem could be addressed at the replacement stage. In attempting to replace all Protected ATMs that close (other than where existing exclusions apply), there is a risk that LINK will unnecessarily raise the overall costs of the network. There may, therefore, be benefit in LINK being prepared to exercise some discretion when deciding which Protected ATMs should be replaced; this would avoid replacement in locations where an ATM may not serve a local need. We want LINK to keep its approach under review.

Position 2: Maintaining Protected ATMs

- The LVP is a helpful measure in the short term, but may not be fit for the long-term and should be kept under review.
- LINK should keep the policy of targeting all Protected ATMs for replacement (other than where exclusions apply) under review. This is because there is a risk that it may be targeting some Protected ATMs that do not serve a local need.

Part 2: Replacing Protected ATMs

- 4.11** In this part we have considered LINK's ATM Replacement Procedure for Protected ATMs that have closed, despite incentives to stay open, including direct commissioning.
- 4.12** Under LINK's Protected ATM policy, if LINK confirms a Protected ATM has closed and no existing exclusions apply, LINK progresses the following measures – together forming the Replacement Procedure (described in the following).

Protected ATM premium

- 4.13** The Protected ATM premium is an additional per cash-withdrawal payment to the ATM operator, the size of which is dependent on the average volume of cash withdrawals at that ATM. The premium is offered under two circumstances:
- If the ATM operator notifies LINK of its intention to close a Protected ATM to PTU due to reasons of economic viability, LINK will offer the Protected ATM premium to the operator to prevent this.
 - If the ATM subsequently closes, or has already closed, LINK offers the Protected ATM premium to its whole membership to replace the ATM.

4.14 If no LINK member accepts the Protected ATM premium within two months of being offered, the site is moved to the direct commissioning process.

4.15 As of the latest Footprint report, there are nine closed Protected ATMs targeted for replacement via the Protected ATM premium.

Direct commissioning

4.16 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.

4.17 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.

4.18 We considered LINK's proposals for the direct commissioning process. The first tender ran in early 2019. Following initial lessons learned, LINK amended the direct commissioning process in summer 2019. LINK now conducts research to identify a potentially suitable host site for a directly commissioned ATM before it offers a site for bidding.

4.19 As of the latest Footprint report, there are 17 closed Protected ATMs within the direct commissioning process.

Outcomes

4.20 As of the latest Footprint report, the number of ATMs replaced through LINK's replacement procedure, combined with closed Protected ATMs that were replaced through natural market turnover independent of LINK intervention, amounts to 33 sites.

4.21 In some instances, LINK has been unable to replace a closed Protected ATM through its replacement procedure due to an absence of suitable sites, willing site owners, or operators willing to deploy replacement ATMs in the direct commissioning process. This amounted to 24 as of the latest Footprint report (<1% of all Protected ATMs).

Respondents' views

4.22 The feedback is summarised under the following 3 themes:

1. General commentary on the replacement procedure
2. Protected ATM Premium
3. Direct commissioning

1 General commentary on the replacement procedure

Some respondents provided broad commentary on the Protected ATM replacement procedure.

LINK noted that several closed Protected ATMs were replaced naturally without intervention. LINK also said that the benefit of intervention may be limited because

consumers quickly adapt to ATM closures. Replacement ATMs that are installed a few months after closures are unlikely to have the same volumes as the ATMs they replace, due to changed consumer behaviours.

Some consumer groups and retail trade bodies who responded said that the replacement of a closed Protected ATM takes too long and has adverse impacts. They called for this to be shortened: one respondent suggested 12 weeks.

2 Protected ATM Premium

LINK provided a detailed assessment of the Protected ATM Premium and why it plans to retain it despite its limitations.

LINK pointed to these limitations. The Protected ATM Premium, despite being offered in 75 locations where a Protected ATM closed, only reinstated free ATM access in 5 locations. LINK said that the premiums have limited effectiveness in replacing ATMs that are already closed, since if ATMs close for economic reasons they will do so not 'because they have become marginally unprofitable in relation to average running costs' but because 'they have become massively unprofitable'.

LINK explains that the marginal costs of keeping an existing ATM running are small, though where 'massive unprofitability' has led to an ATM closure, 'even a substantial increase in the interchange payment' will be insufficient to make up this unprofitability as well as the expense of installing a new ATM (if necessary).

LINK also says that where ATMs have closed for non-economic reasons (for example, retailers shutting down or security reasons) premiums will similarly be ineffective. Regardless of whether the reason for closure is economic or non-economic, direct commissioning is often the only option for the replacement of closed Protected ATMs.

Despite the above, LINK supports retaining the Protected ATM Premium. It submits that the market independently replaced ATMs in 10 closed Protected ATM sites during the two-month period in which the premium was offered. Because of this, LINK favours retaining the premium before attempting direct commissioning, as the timeframe of the premium provides the market with an opportunity to replace these ATMs.

3 Direct commissioning

Commentary on the replacement procedure from respondents other than LINK mainly focused on direct commissioning.

One IAD criticised direct commissioning: it said that replacement ATMs will not be efficient, often being quite rural with no available host sites. One issuer argued that local engagement is an improvement on the Protected ATM direct commissioning approach, as it is demand driven.

Some respondents, including issuers and a consumer group, said that LINK's replacement measures lacked transparency, and one complained that it had not been made aware of the outcomes from direct commissioning.

Our response and position

Overview of our observations

- 4.23** Having reflected on the feedback we received, we have identified two actions we recommend LINK take to ensure that it meets the commitment as well as it can. Our general observations are set out below. Our overall position on replacing Protected ATMs is set out below paragraph 4.32.

Consumers adjusting to loss of their ATM

- 4.24** We acknowledge that consumers may adapt to ATM closures by using alternative sources of cash. This reinforces our view that LINK it could exercise discretion over replacement (see paragraph 4.10 in Part 1 above for more detail).

Timeframes for Protected ATM replacement

- 4.25** These can be lengthy and, in some instances, having to obtain planning permits and conduct security assessments can mean that a quick turnaround is not possible. We note that LINK has recently adjusted its direct commissioning process so that it now seeks suitable sites before it offers a site out for bidding, and that the period for bidding has been shortened from four to two weeks. We welcome this adjusted process as one way to achieve faster replacement.

LINK should undertake a review of the Protected ATM Premium

- 4.26** The premium has been successful in securing replacement of a closed Protected ATM in only 5 cases, but LINK points to the fact that the market independently replaced ATMs in 10 closed Protected ATM sites during the two-month period in which the premium was offered. There is some evidence the Protected ATM Premium is working, but, as LINK points out, there are limitations in the extent to which any reasonable premium can provide sufficient incentives to replace ATMs which have already been removed.
- 4.27** The Protected ATM Premium period does however cause a delay to introducing direct commissioning, which may have a negative effect on replacement timeframes. We are also mindful of the relatively high concentration amongst current deployers in the provision of ATMs, particularly where locations do not have other sources of cash nearby. This introduces risks that LINK's Premium policy could be less effective, due to insufficient competitive pressure between potential deployers. There are also risks that the Premium has the potential to drive perverse incentives, in so far as deployers may be incentivised to convert ATMs solely in order to gain the Premium, rather than for reasons of economic viability. For these three reasons, we think LINK should undertake a review of the robustness of the Protected ATM Premium.

Direct commissioning

- 4.28** Directly commissioning ATMs is a sensible short-term approach for placing ATMs in areas where they are needed but difficult to service, or to find host sites.
- 4.29** We acknowledge that there is a risk that some ATMs may be directly commissioned at high cost where there may not be a local need, which further reinforces our view that LINK could exercise discretion over replacement (see paragraph 4.10 for more detail).

- 4.30** With regard to comments comparing direct commissioning of replacement Protected ATMs to local engagement, we agree that local engagement provides a helpful demand-driven process, but think (as made clear in Chapter 3) that it is still important to protect the geographic spread of cash access – which direct commissioning of replacements for Protected ATMs does.
- 4.31** The relatively high concentration amongst ATM deployers, mentioned above, introduces risks into the competitive dynamic of the bidding process. We will be mindful of this in our monitoring of direct commissioning (particularly the efficiency of the process and its success in securing replacement ATMs) as part of our regular engagement with LINK under SD8.
- 4.32** As the process is also used for LINK’s local engagement initiative and retail centre policy, it is important that it is transparent. The integrity of the competitive process must be maintained. However, we think that LINK is not precluded from publishing high-level information on the outcomes of the direct commissioning process. LINK supports this conclusion and we welcome the addition LINK has made to its Footprint reports to include the outcomes from direct commissioning (this started with the November 2019 report).

Position 3: Replacing Protected ATMs

- LINK should undertake a review of the robustness of the Protected ATM premium.
 - LINK should publish high-level information on the outcomes of the Direct Commissioning process.
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5 Next steps

- 5.1** We have engaged with LINK directly regarding our positions. In the case of the new review of the Protected ATM Premium which we have asked it to undertake, we intend to agree timescales in due course.
- 5.2** The commitment and SD8 support cash access in the short-term. We are also working with other authorities as part of the Joint Authorities Cash Strategy Group and industry to develop longer-term solutions to society's ongoing need for access to cash in a rapidly changing environment.
- 5.3** We will continue to monitor LINK's commitment and how it is being met, and will engage with LINK directly where we have concerns.
- 5.4** SD8 is due for a second review in October 2020 and we will reassess the direction and related policies at that time. We will then call for views. Any conclusions and broader market developments may result in changes to SD8, which we would consult on first.

Annex

Respondents' other views

Long-term access to cash solution needed

Several respondents commented on the need for a coordinated longer-term and/or overarching cross-authority solution to access to cash issues. Respondents also underlined the importance of local cash access for local retail ecologies and communities.

We agree. Alongside our work as part of the JACS Group, we are engaging with industry to develop longer-term solutions to society's ongoing need for access to cash in a rapidly changing environment. SD8 is a short-term measure designed to ensure LINK does everything it can to fulfil the commitment it made. While we recognise the commitment may be incomplete in itself, our conclusions seek to point to where more can be done to ensure it works as well as it can while a long-term solution is being developed.

Review of LINK's interchange fee structure

Some respondents (ranging from IADs to consumer and trade organisations) commented on the impact of LINK's interchange fee cuts and noted the need for a review of the current interchange fee structure, including consideration of geographic zoning (where fees are adjusted based on locality).

This is outside the scope of our Annual Review of SD8. We called for views on LINK's interchange fee structure in June 2019 and held a roundtable event in July 2019. We published submissions to our call for views, as well as a summary of the roundtable discussion in September 2019. This can be accessed here: www.psr.org.uk/psr-publications/policy-statements/cp19-5-responses-to-LINK-interchange-fees-discussion-paper-and-summary-of-roundtable

We are considering these views alongside our wider work to develop a long-term access to cash solution and consider the role that LINK interchange fee might play in this.

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