

THE LINK BOARD ANNOUNCES CHANGES TO OPERATION OF ITS ATM NETWORK

For issue at 7am on Wednesday 31st January 2018

The Board of LINK, which manages the country's main ATM network, has today announced a series of measures designed to maintain the nationwide network of free ATMs.

LINK is determined to defend the free ATM network and the consumers who rely on it. LINK will use its new powers as a regulated not-for-profit company with a clear public interest objective to reform interchange (the payment that card issuers make to ATM operators for every transaction), which is currently at unsustainably high levels.

This will include implementing a strengthened Financial Inclusion Programme to protect every community across the UK from losing free ATM access. Consumers can be assured that LINK will maintain their access to free ATMs for years to come.

The impact is expected to be a modest decline in the number of ATMs in areas where they are heavily concentrated but with no diminution in the overall geographical coverage.

The principal changes are:

- A phased reduction in interchange beginning with a 5% reduction from 1st July 2018. The position will then be reviewed annually taking into account the impact on consumers. The intention is to achieve a 20% reduction after four years through three further 5% annual reductions.
- A strengthened Financial Inclusion Programme that will ensure that all communities retain free access to cash. This will be without financial constraint and LINK will do whatever it takes to retain free access to cash for all communities. All existing free ATMs that are one kilometre or more from the next free ATM will be exempt from reductions in interchange. In addition, a premium of up to 30p (up from 10p now) will also be paid wherever needed to ensure that free ATMs remain in areas that could not otherwise sustain them.
- A one-kilometre criterion will be used to identify areas that will receive the premium. This will be applied flexibly to reflect actual travel distances on the ground, and problems with specific vulnerable communities where the one kilometre distance is too far. This will specifically include where closure of a bank branch is leading to a financial inclusion problem.
- LINK will set up publicly available monitoring on its website of every area of the country showing free ATM availability, and highlight any areas where free ATM availability is lost. This will allow clear and proactive action to be taken by LINK to retain free ATM access and for all stakeholders to have confidence that this is happening.

In addition, LINK has announced that it is establishing an independently chaired review of long term access to cash, recognising that the sharp decline in the use of cash to finance payments (33% in the last ten years with a forecast of a further 43% fall in the next decade) has longer term implications for the provision of ATMs.

Commenting on the announcement, John Howells, Chief Executive of LINK said:

“The LINK Board has put the needs of consumers first in addressing the task of reconciling:

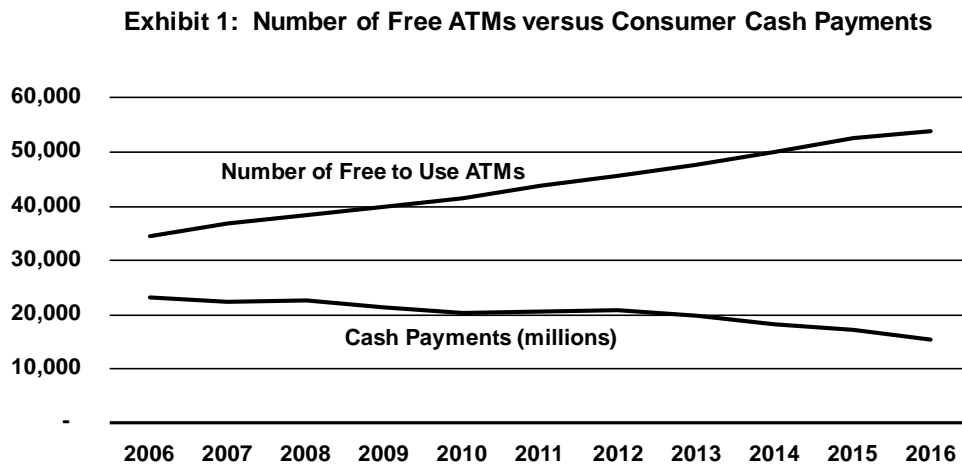
- *A sharp decline in the use of cash for payments with a universal wish to maintain a nationwide network of free ATMs.*
- *Card issuers wanting significant and early reductions in interchange with Independent ATM Deployers wanting any reduction to be as low and slow as possible.*

LINK has published an Impact Assessment (attached) of its proposals. The principal conclusion of this are:

- “Doing nothing”, that is maintaining the previous arrangements for setting interchange, would lead to reduction in free ATM numbers as consumer demand for cash withdrawals falls, with a concentration of free ATMs in busier centres.
- “Doing nothing” could cause some card issuers to leave LINK for schemes such as VISA and Mastercard. Alternative schemes are reportedly offering interchange rates 30% below those of LINK, effective this year. Such a precipitate reduction would result in a substantial and immediate decline in the number of ATMs and potentially put the commercial viability of some ATM operators at risk.
- It is anticipated that much, if not most, of the impact of the reduction in the interchange will feed through to lower rental payments to site owners; secondary effects will be a reduction in Independent ATM Deployer profitability and a gradual reduction in the number of ATMs over time.
- The LINK Board’s decision not to reduce the interchange for existing ATMs one kilometre or more away from the next free ATM, together with a much-strengthened Financial Inclusion Programme, will ensure that there will be no reduction in the geographical coverage of ATMs as a result of the general reduction.
- KPMG was asked to model the possible impacts of the reduction in interchange on the number of free remote ATMs. Its key conclusion was that the full 20% reduction in the interchange, once the strengthened Financial Inclusion Programme has been applied, would in the long term lead a reduction in free remote ATMs equal to 8 to 18% of the current estate of free remote ATMs. This analysis does not take into account mitigating factors which may reduce the impact of the change in interchange such as ability of deployers to renegotiate contracts, reduce costs, and earn additional revenues. In LINK’s assessment, this figure can be considered to be an upper limit, and the actual number will be lower and in the 1 to 11% range.
- The PSR has also commissioned Europe Economics to conduct a study to look at how potential changes in interchange might affect the future estate of free ATMs. This has an impact of a reduction of between 0.3 to 6.2% in free remote ATM numbers over time which is similar to LINK’s own assessment.
- The LINK Board’s Impact Assessment is confined to the effect of the policy decision to change the interchange methodology. General market trends, particularly the decline in the use of cash for consumer payments, will in any case reduce on the number and location of ATMs.

The Impact Assessment notes the paradox of falling use of cash for transactions and rising numbers of free ATMs.

This is illustrated in the graph that follows.



Total Cash Payments: Payments UK, UK Payments Markets 2017.
Number of ATMs: LINK Data.

The Impact Assessment attributes this phenomenon to the interchange rates being at such a level as to encourage non-price competition, that is proliferation of ATMs and bidding up of rents that ATM providers have been willing to pay.

In deciding on the measures announced today, LINK has taken full account of responses to a consultation paper issued in November. The consultation was aimed at the members of LINK but useful comments were also received from consumer bodies and politicians, including the independent LINK Consumer Council.

The main points from the consultation responses were:

- Full agreement with the policy objective of maintaining a sustainable and extensive free network.
- Very different views from the members of LINK on the amount and timing of reductions in the interchange - several large banks wanting a larger and faster reduction and the large Independent ATM Deployers wanting less and slower.
- Strong support for a strengthened Financial Inclusion Programme.
- Two large Independent ATM Deployers suggested that the Board's proposals would lead to a major reduction in the network and severe impact on consumers.
- Specific concerns were raised relating to the impact of costs outside the Independent ATM Deployers' control including interest rates, regulatory costs and changes in consumer demand.
- Strong concerns from consumer bodies and politicians about the impact on the provision of cash, and an emphasis that the impact should be well understood, and that the risk of consumer detriment must be low.

The LINK Board has responded to these points in a number of ways:

- The initial reduction will be delayed until July 2018 and there will be a “hard review” in 2019 before any decision is made for the rates to apply from 2020.
- Increased interest rate and regulatory costs will be taken into account in finalising the rate each year.
- The substantial strengthening of the Financial Inclusion Programme will ensure no closure of existing free ATMs that are one kilometre or more from the next free ATM, and an increased ability to install ATMs where they could not otherwise be justified.
- An independent review of long-term issues relating to access to cash in the face of declining use of cash for transactions. This review will begin later in 2018 and will report not later than early 2019.

The Board has also recognised that failure to take action could result in the break-up of LINK as card issuers have cheaper alternatives. It has responded to these different views with a package of measures which will both retain the card issuers in the LINK Scheme, helped by a reduction in the total cost of the Scheme, but also maintain a nationwide network of free ATMs by a significant strengthening of its Financial Inclusion Programme. No community will lose ATM access as a result of today’s announcement. However, there is likely to be a reduction in the concentration of ATMs in busy areas such as high streets (some of which have more than 50 ATMs) and transport centres. But the long-term issues cannot be ignored. Cash transactions have fallen by 33 % in the last ten years and are forecast to fall by a further 43% in the next decade. This will inevitably lead to a reduction in the number of ATMs quite independently of interchange. The reduction needs to be managed and mitigated if public access to cash, particularly for the elderly and less well-off, many of whom are heavily reliant on the use of cash, is to be retained. It is for this reason that LINK has announced that it is also establishing an independently chaired review of long term access to cash.

The full Decision and Impact Assessment attached