Link Scheme Holdings Ltd

Call for views

Considering the incentives to deploy free-to-use ATMs in the LINK network

LINK Response – July 2019

A. Introduction

This document sets out LINK's response to the Call for Views document published by the PSR in June 2019. Section B below provides a short summary of LINK's views and Section C sets out LINK's detailed responses to the PSR's four specific questions set out in Section 3 of the Call for Views document.

B. Summary

LINK is completely satisfied that the current LINK Interchange structure meets LINK's objectives of a wide free-to-use access to cash network. The current structure, which has not changed significantly since its introduction in 2001, comprises a multilateral interchange fee with four main categories, equates ATM use with "value", and incentivises LINK's Members to install ATMs where consumers will use them. It allows LINK Members to compete for locations, negotiating with potential hosts as necessary, and provides a direct incentive to operate ATMs as efficiently as possible. This is supplemented by LINK's two Policies under its Financial Inclusion Programme (one dealing with ATM provision in deprived areas and the other dealing with Protected ATMs across a defined geographic area) which provide subsidies for ATMs in areas where low use would make them potentially uneconomic but where there is need for the local community to have a free-to-use ATM.

LINK believes the current interchange structure, which provides a broad series of multilateral interchange fees supported by a Financial Inclusion Programme, has proved to be the most effective interchange mechanism available during the long period of rising ATM growth and remains so now cash and ATM use are declining. LINK believes there is no "perfect" alternative interchange fee structure that is demonstrably better than the current system and that can be easily adopted and operated by the market participants within a "competitive market" approach and the confines of competition law. Looking forward, LINK does however recognise that the continued decline in cash usage, where consumers are only using cash for one in ten of their payments[1], will necessitate a more comprehensive change in the way that cash is both distributed and accessed by consumers. LINK is supportive of the Access to Cash Review recommendations and is of the view that a more "utility" based approach rather than a "competitive market" approach may well be required in the future to ensure that the UK's cash ecosystem continues to serve the interests of consumers in the years to come.

[1] UK Finance – UK Payment Markets 2019.

C. Responses to PSR's Specific Questions

1. *Do stakeholders agree with the description and framework (including the objectives we set out) for considering the* ***costs of providing ATMs****, and the* ***value they provide****, set out in this paper? If not, please explain why and set out your view of the alternative way these issues should be analysed*.

   LINK agrees with the objectives as set out in 1.5 to 1.9 and completely supports the objective of maintaining wide, free access to cash. However, we would also like to note that any system must incentivise ATM operators to manage their costs and not allow participants to "game" the interchange mechanism and install or operate ATMs without reference to costs or indeed consumer demand. The following sections set out LINKS's views on (i) ATM costs; (ii) additional income streams and (iii) ATM value.

   (i) ATM Costs

   While LINK has no access to Members' detailed cost or income models, LINK believes the average costs per transaction will depend on a wide range of factors, in addition to cash withdrawal volumes. While busier ATMs do usually incur higher costs, we believe that the simple straight line described in the Call for Views is an oversimplification as there are a wide range of business and operational models at play which are discussed below:

   - Rental is a significant proportion of a remote site's costs and it may be (i) flat; (ii) have a fixed element and an additional pence per cash withdrawal fee; or (iii) be entirely volume based. In other cases, LINK believes rental cost is a proportion of the LINK interchange fee itself. Which structure is used will depend on the negotiations between the ATM operator and remote site host.
   - Replenishment costs will vary by business model as well as volume. Cash replenishment using a third-party security carrier is relatively expensive. However, if that model is used, additional costs will increase only in large steps. For example, if only one replenishment is required a week, the amount of cash can be increased significantly at little extra cost until a second replenishment is required. Some LINK Members have their own internal cash delivery service and may use this entirely or alongside a third-party service. The level of internal cost for these deliveries will depend on the efficiency and capacity of this function. An operator may also choose a merchant fill alternative for cash replenishment where the store owner fills the ATM with surplus cash from the till. This can reduce the cash costs effectively to zero (the merchant will also carry any risk of robbery) provided the store generates enough cash to fill the ATM.
   - The issue of marginal costs is also very significant and should be fully understood and taken into account in any analysis. Figure 2 in the Call for Views document might suggest that at any one-time half the ATMs are "unlikely to be profitable" and at risk of closing. The stability of the network and, until recently, its significant growth, suggests this is not the case. This comment also ignores the point that an ATM may be unprofitable on the basis of historic costs, but that a decision on closure it more dependent on the relationship between marginal revenue and

marginal costs. In many cases the fixed costs of the ATM are low or fully written down and the ATM operator therefore only has to cover the ongoing marginal costs when considering whether to keep an ATM in place. Marginal costs are also a factor when installing an ATM. If the ATM operator is using its own staff to replenish and maintain the ATM and these staff have spare capacity, then the ongoing costs of adding another ATM near existing machines may be very low. This may explain why there are clusters of ATMs operated by the same LINK Member. Conversely, operating an ATM a long way from existing facilities may be very expensive.

- Installation costs. If the ATM is being installed in a new building or structure the costs of the bunker, alarms etc will have to be paid for by the operator up-front and depreciated over the lifetime of the contract (likely to be 5-7 years). If the ATM is removed before these costs are written off, then the value is lost. However, once these costs have been written down the ongoing costs of the ATM may be low and therefore it is more efficient to keep it going.
- The decision to install or keep an ATM is not necessarily related to each individual ATM's own costs or income. Many ATMs are installed as part of multi-site deals and therefore the ATM operator will be prepared to accept some ATMs which are poor performers because there are other ATMs which will perform well. Branch machines in particular are more likely to be installed on the basis of available space, competitors' facilities nearby and internal objectives of customer service or counter displacement. Some operators have also installed ATMs for social or status reasons. ATMs in hospitals or military bases may have a wider social purpose and ATMs in high status locations such as head offices or the House of Commons may be chosen to reflect on the ATM operator.
- The costs of deinstallation are a significant barrier to ATMs being removed and an important part of any ATM operator's decision process in deciding whether to keep an ATM. As noted above, for many ATMs the fixed cost of the machine itself and its installation may be fully written down. On an ongoing basis, the machine therefore only has to cover its marginal costs which in the case of a merchant fill machine may be very low indeed. Removal of the ATM will incur new costs for deinstallation, transport, making good the site and if the ATM is reinstalled elsewhere then the new location needs to be markedly better than the old location as a new set of installation costs will be incurred. If the ATM is not reinstalled then the ATM operator has an asset which is no longer even generating marginal income.
- Balance enquiries are another important part of an ATM operator's commercial considerations. They have a marginal cost of close to zero; they rarely form part of any rental arrangement and there appears to be little increase in average unit costs as volumes decrease.
- Maintenance costs are also a complex area. For a high volume through-the-wall site which is carrier filled they can be quite high as the host may not be involved with the ATM whatsoever. This means cleaning, routine maintenance such as journal rolls, first and second line maintenance will have to be carried out by a third party (in some cases the security carrier) or the ATM operator's own maintenance staff. If this is done by a third party, then servicing and maintenance costs may increase with volume (assuming the ATM needs more maintenance or breaks down

based on usage). However as noted above, if the operator is using internal resources then these costs may be more fixed or related to how close the ATMs are to each other. For example, an engineer may be able to cover 20 ATMs within 20km of his home but only 10 if they are within 40km of his home. In addition, if he is looking after only 18 machines within 20km of his home there may be spare capacity. If the ATM is internal and merchant filled, then its use is likely to be much lower and the ATM may require only routine scheduled maintenance (ie an "annual service") with all housekeeping and first line maintenance being covered by local store staff as part of the rental agreement.

(ii) Additional Income Streams

While these are not considered as part of LINK's interchange decisions and may not be processed by LINK, services like Direct Currency Conversion (DCC) can be a significant part of an ATM operator's business decisions. This is particularly the case in locations which are likely to attract overseas cardholders where a margin can be obtained when converting the sterling cash withdrawal into to their own currency. In addition, foreign currency dispense ATMs usually offer euro and US dollars to UK account holders and they can also prove profitable in the right location, again with the additional income from the currency conversion. Lastly, ATM advertising has been around for many years and while the evidence is that it is marginal to the overall business case for ATMs, in the case of a narrowly profitable ATM it might make a difference.

(iii) ATM Value

LINK completely supports the view that UK consumers value free access to cash and providing wide free access to cash is LINK's core objective.

LINK's interchange structure, a multilateral interchange fee with four main categories, equates ATM use with "value" and therefore incentivises Members to install ATMs where consumers will use them. It allows LINK Members to compete for locations, negotiating with potential hosts as necessary, and has a direct incentive to operate ATMs as efficiently as possible. This is supplemented by LINK's two Policies under its Financial Inclusion Programme (one dealing with ATM provision in deprived areas, and the other dealing with Protected ATMs across a defined geographic area) which provide subsidies for ATMs in areas where low use would make them potentially uneconomic but where there is need for the local community to have a free-to-use ATM.

However, a consumer's relationship with a specific ATM and the "value" they perceive from using it may be complex and depends on a wide number of factors. An important point is that given the large number of available free-to-use ATMs, for most people access to cash is not an issue and therefore not a subject of conscious decision making. Most people are easily able to obtain cash where they shop, work, go out, or as they travel between their home and these locations. Most people can therefore incorporate cash access into their daily routine and their marginal time and effort involved in cash access is close to zero. It is very rare for people, for example, to leave home, obtain cash from an ATM and then go home again. The "value" of an individual ATM is therefore likely to be low as alternatives are readily available, although as creatures of habit, some consumers may well have “favourites”. As the Call for Views document notes, most consumers appear to prefer not to queue as it is increases this marginal effort and are happy to use other ATMs nearby or postpone their cash withdrawal until they don’t have to queue. There are exceptions to this and some examples are below. Where a consumer has no access to these machines or their access is removed then it can have an impact.

- Lack of alternative ATMs. This may well be the case in rural or remote communities which rely on a small number of ATMs. This may also mean that the marginal effort in getting cash may be higher as the consumer may have to make a specific trip to get cash or modify their journey somehow rather than it being a part of their daily routine. The removal of such a machine can have a big impact if there are no alternatives available.
- Immediate demand for cash. While many consumers can keep a stock of cash either on them or at home (the Natalie Ceeney Access to Cash Review found that 97% of people carried cash and 85% of people kept cash at home), some consumers on tight budgets may not be able to keep stocks of cash and they may not be able to wait until they next have a convenient visit to an ATM. They may need cash immediately, whether to pay an urgent bill such as rent or utility payments or simply pay for day-to-day living. For these consumers, who cannot wait to get their cash, access to that specific ATM, at that time may be vital.
- Brand preference. While any card issued by a LINK Member can be used in any ATM connected to the LINK network, it is quite possible that some consumers seek out ATMs from a specific operator whether it is a bank, building society or IAD. This may be for a wide range of reasons, some of which are discussed below, but may include familiarity, ease with screen design or transaction flow, previous experience of that ATM operator, perceptions of the ATM operator or bank, or expectations of charging. While LINK rules ensure there is clear signage on all charging machines it is possible some consumers may feel they *may* be charged and avoid (some or all) IAD machines, or free-standing machines, for example. It is worth noting that around 16% of all cash withdrawals are on-us, ie consumers using their own bank or building society’s ATMs, and banks have had campaigns in the past to encourage their customers to use their own ATMs.
- Non-routine demand. In certain instances, consumers may want to take out a large amount of cash in one go, for example, to take on holiday, pay a builder or buy a large value item such as a car. In these cases, there is evidence that consumers like to choose locations which give them a greater feeling of security and certainty. They may therefore choose a bank owned ATM, especially from their own bank and an internal ATM rather than one on the street. The extra effort involved in visiting the specific machine is justified by their enhanced sense of security.
- Security/reliability. While many consumers may be confident and unconcerned when using ATMs and happy to use any LINK connected ATM, others may feel vulnerable and therefore choose ATMs which they feel are safer or more reliable. While LINK has no direct evidence, anecdotal comment suggests bank owned ATMs have a higher perception of safety and

reliability when compared to ATMs operated by IADs, and some consumers place a higher value on such machines.
- Additional features. Bank owned ATMs may offer their customers a range of additional services such as deposits, mini-statements, bill payment, account transfers etc. These may be attractive to certain customers at certain times. As noted some ATMs offer foreign currencies and while some consumers may only use these rarely, a regular traveller may well like the convenience of buying their euro or dollars at their local Tube station, for example. Some ATMs also offer features like audio assistance or braille and these machines may be of particular value to consumers who use or rely on these features.
- Travel/unfamiliarity. While most people obtain cash in regular patterns where they live and work, when travelling or on holiday consumers may be less aware of where ATMs are or visit areas where there are less ATMs and therefore must rely on a smaller number of locations. August sees a marked peak in pay-to-use cash withdrawals which may suggest consumers may have less opportunities to get free cash when on holiday, or perhaps are unwilling to spend precious holiday hours seeking out or traveling to a free machine.

Finally, it should be remembered that ATMs are not a consumer's only channel for cash access and that for a consumer who is familiar with and happy to use a post office counter, or cashback, then access through ATMs may be of little concern/value.

2. *Are there any other factors which the PSR should take into account when analysing the incentives to provide ATMs?*

LINK is of the view that the PSR should also take into account the competition that exists between the LINK Scheme and rival ATM schemes that operate both in the UK and internationally such as Visa and Mastercard. In this context, the PSR should note that in contrast to LINK, both Visa and Mastercard are commercial profit-making organisations that may not share LINK's objective of maintaining free access to cash. LINK Members however do have the ability and incentive to switch between schemes, so the impact of any proposed changes needs to be carefully assessed.

3. *What incentives and impacts does the existing LINK interchange fee arrangements as described in this paper (including in Annex 2) have?*

See response to Question 1 above. LINK is completely satisfied that the LINK interchange fee arrangements, which have broadly been place for many years and which are now being carefully developed and enhanced by the LINK Board including through the Financial Inclusion Programme, meet LINK's objectives of a wide free-to-use access to cash network, provided this is supported by other channels such as post office counters, bank branches and cashback. LINK does however believe that as we see cash usage fall to less than 10% of all payments during the next 10 years, changes to the cash infrastructure system will be required to ensure this demand can still be met.

4. *What structure of interchange fees would have appropriate incentive effects going forward?*

Before looking at alternative structures, LINK reiterates that it is happy with the structure of the market and fully supports the recommendations in the Access to Cash Review, which LINK commissioned in 2018. This comprehensive Review was commissioned as a response to the rapid decline in cash use and to the growing concerns about whether people who can't use or access cash in an increasingly digital society are being left behind. Chaired by Natalie Ceeney CBE, it had an independent panel of consumer champions and industry experts and was funded by, but independent of, LINK. It conducted extensive research into payment method trends, international developments, consumer needs and behaviour across the UK and the financial and economic drivers of the cash economy. The Review Panel met with regulators, banks, industry experts and consumer groups to understand the economics and practicalities of cash and digital payments.

The Access to Cash Review published its final report in March 2019 with the following recommendations:

1. Guarantee access to cash.
2. Ensure cash remains widely accepted.
3. Create a more efficient, effective and resilient wholesale cash infrastructure.
4. Make digital payments an option for everyone.
5. Ensure joined-up oversight and regulation of cash.

LINK welcomes this report and believes it provides a blueprint for how LINK and others can help maintain access to cash for many years to come.

In terms of the recommendations themselves and LINK's role going forward, LINK makes the following comments:

<u>1 Recommendation One: Guarantee access to cash.</u> LINK already has its Financial Inclusion Programme that encompasses policies to support access to cash in remote, rural and/or deprived areas, as well as those which may lose their free cash access because of the only free-to-use ATM within a 1km area being removed or moved to charging. LINK therefore welcomes a wider guarantee of cash access which would create a framework for this and incorporate other channels such as post office counters and cash from retailers' tills, over which LINK has no direct control. LINK believes that ATMs are part of a range of cash access channels and that to maintain wide free cash access as consumers' use of cash declines, a joined-up and coordinated approach will be required. LINK is therefore already speaking to consumer groups, its Members, other industry participants, regulators and HM Treasury about how to deliver this.

2. <u>Recommendations Two: Ensure cash remains widely accepted.</u> The cost of cash acceptance is a key element in whether retailers will still be happy to accept cash. So far, cashless retailers are largely

limited to cafés and the like in city centres where the impact on consumers is low. LINK recognises this issue and is keen to support innovation in this area to maintain low-cost cash acceptance for retailers. This might include, for example, consumers and businesses being given the opportunity to deposit cash automatically, ie not to be limited to ATMs or terminals belonging to their own bank or building society.

3. Recommendation Three: Create a more efficient, effective and resilient wholesale cash infrastructure. It will be possible to maintain an ATM network only if there is the back-end infrastructure to ensure that ATMs have the cash they need. LINK will therefore actively participate in the work recently announced by the Bank of England to ensure that the scale and structure of the cash infrastructure is as efficient and effective as possible and able to support the LINK ATM network.

4. Recommendation Four: Make digital payments an option for everyone. LINK has less of a direct role in this recommendation as this is mostly focused on alternatives to cash. However, where innovations impact on ATMs – such as contactless ATM use, the potential for card-less ATMs or even cashless ATMs which, instead of giving out cash, issue a receipt which can be exchanged for cash at the till – then LINK will support ATM operators and card issuers.

5. Recommendation Five: Ensure joined-up oversight and regulation of cash. LINK is committed to working closely with its regulators, the Bank of England and the Payment Systems Regulator, as well as liaising closely with HM Treasury, industry bodies like UK Finance and consumer groups. The launch of the Joint Authorities Cash Strategy Group is especially welcome.

Alternative Fee Structures

Section 2.21 of the Call for Views document raises some alternative fee structures. The current structure of LINK has been in use since 2001 and during that period a large number of individuals and organisations have considered and proposed, changes or alternatives. In some cases, this was to improve certain elements or address anomalies, but most usually it was to improve their own position. Whatever change is proposed or made there are a number of considerations that need to be taken into account:

- Firstly, in the case of this response we are considering changing the structure of interchange and not the level. In other words, how it is distributed, rather than the total amount of interchange paid. Therefore, it should really be anticipated that any change which resulted in a potentially higher figure in one situation would result in a lower figure elsewhere. This means issuing Members may have little interest in any modifications to the structure alone (assuming their customers' use was distributed evenly) as their proportion of the same total interchange bill will not change.
- Secondly, any change needs to be operationally and technically implementable. LINK connects some 60,000 ATMs and has 35 Members who are either issuers or acquirers or both. Behind this is a complex system of settlement and reconciliation which produces net monthly interchange positions for each Member in relation to all the other Members. Any structure therefore needs to be capable of being implemented in such a way that it is technically feasible.
- Thirdly, certainty and predictability. ATMs are usually installed on five to seven-year contracts, can have significant installation costs and the ATMs themselves have a material lifespan

significantly longer than that. It is therefore vital for ATM operators and the merchants that when they agree terms they have a broad understanding of short and medium interchange rates and therefore what the income will be and what the results of their investment decisions will be. A system which involved constant recalculation and change would make any sort of long- term decision making extremely difficult.

- Fourthly, measurability. The current structure is simple to operate and the definitions of cash/non-cash and branch/remote are self-evident and reasonably easy to define and monitor. A factor whose definition was difficult, or which changed over time, or which could be manipulated to produce a more favourable outcome, would cause problems. In addition, it is difficult, if not impossible for LINK to actually visit and check each location and any definition must therefore be set by the ATM operator itself and some reliance put on self-policing or other Members keeping an eye on their competitors. A factor which had no obvious physical characteristic, such as a business model, would be particularly difficult to check.

While there are an almost infinite number of alternative structures possible they could potentially include the following:

- **Network Contribution Interchange**. This was the system which operated before 2001 and basically had more attractive rates for those Members who "invested" more into the system. A large issuer would pay a lower fee per transaction as they were adding a lot of cards to the system while a large acquirer would receive a higher fee as they added a lot of ATMs. A large bank which had a large ATM network could achieve both, ie issue at a low rate and acquire at a higher one. A small bank would pay more for the benefit of having access to every ATM in the country despite having few cards and ATMs themselves while a small ATM operator would get a low fee for their transactions as they didn't add many ATMs to the total. A complex system of netting is required behind the scenes to balance each Member's position. Such a system is probably unacceptable as it introduces significant barriers to entry, either for start-up banks or new IADs.
- **No Interchange**. This was tried in Australia and is perhaps the purest model in that customers pay for the service they use, although it largely eliminates free access to cash except at the customer's own bank's ATMs. The experience in Australia was not necessarily positive. There was a proliferation of ATMs as banks wanted to offer their own customers free access (for which they ultimately paid) and IADs installed large numbers of charging machines which were perceived as expensive. Complaints from consumer groups, MPs and others over charges has led to the major banks dropping all charges at their ATMs, but this has led to concerns that ATMs will disappear as banks receive no income for their ATMs and IADs' charging ATMs cannot compete with free bank ATMs nearby.
- **Blended Rates, Removing Branch/Non-Branch Split**. This has the benefit of simplicity but would mean that branch ATMs were in effect receiving interchange for rent they did not pay (the main differential) and therefore their rates would rise while non-branch rates would fall. This would put pressure on non-branch locations and we would be unlikely to see a corresponding rise in branch ATM numbers as they are driven by other factors, and more branch ATMs are probably not needed anyway.

- **Non-Cash at Marginal Rate**. This apparent anomaly has been considered on several occasions. The structure of interchange means that balance enquires, with their income much higher than their marginal cost, are very profitable and this can lead to heavy promotion of balance enquires at some ATMs. It also makes balance enquires at ATMs an expensive way (for the issuing bank) for customers to check their balances compared to on-line or phone apps. However, reducing Non-Cash to the marginal cost would move this cost onto the cash transactions which would rise significantly. The effect of this across Members would not be even, some would win, some would lose and there would be little incentive for them to offer balance enquires at all if there was no income. LINK rules currently mandate that balance enquires are requirement and they remain an important way for those who are on tight budgets to check their balances. As around 30% of LINK transactions are still balance enquiries it appears consumers still value them as a service.
- **Cash Replenishment Model.** ATMs operate with a wide range of business models and by choosing a cost effective one an operator can reduce their costs compared to the average. Their replenishment model is perhaps the largest of these. Cash replenishment using a security carrier is expensive and by choosing a merchant fill alternative (where the store owner fills the ATM with surplus cash from the till) the cash costs for the operator can be reduced to close to zero (ie close to the non-branch rate). This means that merchant fill ATMs are being subsidised by carrier fill and therefore subdividing the category on this basis may appear attractive. However, this would decrease the interchange at merchant fill sites, which are usually low usage locations and thus potentially make them uneconomic while increasing it at carrier filled sites which are usually busier and therefore less likely to be at risk. In addition, the split between carrier and merchant fill is not even. Two LINK IAD Members are almost entirely merchant fill and they would be disproportionately affected compared to others. It would be difficult for LINK to tell whether an ATM was carrier or merchant fill and verify that ATMs were receiving the correct interchange. An audit process to check the ATMs would be complex and expensive and the situation where an ATM switched between carrier and merchant fill on a regular basis would also add complexity.
- **Internal/External/Working Hours or 24/7.** ATMs which are external, ie facing onto a public highway, are usually more expensive in themselves and require more expensive installation, anchoring and are subject to business rates. Internal ATMs by contrast are smaller, cheaper (they do not require weather protection) and often merely bolted to the floor. As with other options a change to the structure of interchange would result in lower fees for cheaper internal ATMs and higher for expensive through the wall machines. However, this would penalise the internal machines which usually see lower use and are in locations such as convenience stores while higher footfall [external] ATMs in locations like supermarkets and petrol stations would see a higher interchange rate.
- **Geography**. As noted the current structure is a single tier across the whole of the UK but with specific support for ATMs in remote, rural and deprived areas. This means that outside the Financial Inclusion Programme the "value" of an ATM transaction is the same whether it is in Scotland, Northern Ireland or Central London and regardless of the costs, proximity of other ATMs etc. Interchange rates could be modified to reflect an ATM's location in a number of ways:
    - Administrative criteria, eg; Region, District, Post Code or Super Output Area.

    - Characteristics of the area the ATM is in, eg; deprivation, urban/rural.
    - Characteristics of the ATM itself, eg: distance to nearest free ATM, last ATM in town.
- **Administrative Criteria**. These will usually be easy to understand and relatively easy to administer, assuming a reasonably small number of interchange rates and criteria are used. This could mean, for example, the interchange rates paid in Northern Ireland were greater than those in say, London. As we are only considering the structure of interchange at this point, then an increase in one area would lead to a decrease elsewhere. However, areas are not of equal size and do not have the same number of ATM transactions. Therefore, a 5p increase per withdrawal in say Northern Ireland, would have a smaller counter effect per transaction in London, as Northern Ireland only accounts for 4% of LINK volumes while London is 15%. Boundaries in whatever form will inevitably present a problem where an ATM just outside the area will not qualify for the effect but may be just as worthy as one within it.
- **Characteristics of the Area**. Here a range options could be considered. Some of these are easily determined, such as the ranking of an area's deprivation which is calculated for the whole country at a detailed level using the Index of Multiple Deprivation. It is however a ranking, like other criteria, and separate indices apply for England, Scotland, Wales and Northern Ireland. Therefore, the level of absolute deprivation may not be comparable and determining at which point an area qualifies will be necessarily arbitrary to some extent. Other criteria can also be conceived, such as urban/rural however these may not be readily so defined and therefore whether an area qualifies or not may be difficult to work out and subject to subjective views. While an area's characteristics do not change that often, they may evolve over time (deprivation is usually recalculated every 10 years) and while most areas will not change their characteristics markedly, those at the boundary of qualification may do so.
- **Characteristics of the ATM's location itself**. LINK already does this for "remoteness" in that ATMs which are more than one kilometre from the next nearest free-to-use machine are protected and eligible for subsidies. However, while this is possible to manage where a limited number of ATMs are concerned a more complex system of multiple density bands could prove very complex to administer as the position would be constantly evolving as ATMs being installed or removed would influence the interchange other nearby ATMs would receive. Protecting the "Last ATM in Town", for example, may also prove to be difficult to define as there is no obvious definition of a town, which in some cases will be a discrete settlement which is identified and understood as such, but could equally be a part of a much larger conurbation where ATM access was not an issue. The question of what would happen to a "Last ATM in Town" should another ATM be installed nearby would also need to be carefully considered.

Other criteria can certainly be envisaged but in each case, whatever is chosen, it must have a rational link to the value consumers place on the cash access which is to be protected or preserved. Objective criteria are likely to be arbitrary to some degree and therefore it is likely that some qualifying ATMs will be subject to an effect which does not match the objective of "value" however it was being determined. For example, ATMs could end up subsidised which consumers do really need, or which would be economic in any case, and worthwhile machines elsewhere may not be subsidised because they don't meet the criteria.

It is evident from the above that there is no "perfect" alternative interchange fee structure that is demonstrably better than the current system and that can be easily adopted and operated by the market participants within a "competitive market" approach and the confines of competition law. Looking forward, LINK does however recognise that the continued decline in cash usage will necessitate a more comprehensive change in the way that cash is both distributed and accessed by consumers. LINK is supportive of the Access to Cash Review recommendations and is of the view that a more "utility" based approach rather than a "competitive market" approach may well be required in the future to ensure that the UK's cash ecosystem continues to serve the interests of consumers in the years to come.