

Access to Cash: Call for Evidence

LINK's response to HM Treasury's call for evidence on Access to Cash published in October 2020

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Introduction

1. On 16th October 2020 HM Treasury issued a call for evidence on the key considerations associated with cash access, including deposit and withdrawal facilities, cash acceptance, and regulatory oversight of the cash system. Responses to the call for evidence will assist the Government in informing the development of its legislation, committed to in the March 2020 Budget, to protect access to cash and ensure that the UK's cash infrastructure is sustainable in the long-term.
2. 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.
3. 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) who 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.
4. 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.
5. LINK is regulated by the Payment Systems Regulator (PSR) and by the Bank of England as a systemically important payment system.
6. Cash is in long term decline in the UK and, whilst the Government committed in March 2020 to introduce legislation to protect access to cash, this has yet to be implemented, meaning there are no obligations 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 whilst policymakers consider a longer-term strategy.
7. 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.

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 to provide all consumers with an alternative to cash as it declines.

Note: All sources are LINK's unless stated otherwise. This response is not confidential.

Executive Summary

9. LINK supports the Government's objective of maintaining a sustainable infrastructure for cash in the UK and the criteria that legislation needs to meet.
10. The most significant legislation that will help maintain an appropriate network of cash withdrawal facilities is the removal of barriers to the widespread adoption of cashback without purchase¹, and a general obligation on banks to provide access to cash.
11. If the Government decides to enshrine a responsibility on the banks in primary legislation, then this should be high level, such *"an inclusive and resilient facility that provides consumers with free and convenient access to cash"*. Clearly, such an arrangement is already provided by LINK and LINK would be keen to continue to provide this facility to the banks to meet their obligations, should they choose. The appropriate regulator can then ensure that satisfactory arrangements remain in place as part of its ongoing supervisory work.
12. With such a provision, the Government could also accept an undertaking from all the retail banks that they would, for example, maintain membership of the LINK network or of an alternative network providing similar arrangements in respect of financial inclusion, participate in the Post Office Banking Framework arrangement, and allow their customers to use cashback without purchase when this becomes available.
13. If a more precise legal obligation is considered necessary, LINK suggests that something along the following lines might be appropriate:
 - Banks shall ensure that their customers can obtain cash free of charge throughout the United Kingdom from at least:
 - 20,000 free-to-use ATMs. [The number LINK expects to be required in 2024.]
 - All post offices that provide cash withdrawal facilities.and shall have arrangements in place, approved by the regulator, to ensure access to cash in rural and disadvantaged areas.
14. The obligation should also include a requirement for the approach taken by the banks to be resilient. This resilience should cover operational and commercial factors across the payment system(s) that are used and not just the central infrastructure(s).
15. Cashback without purchase can play a significant role in the provision of cash withdrawal facilities. Legislation is needed to remove the current barriers to cashback without purchase.
16. It is questionable whether legislation is the appropriate tool to use in respect of cash deposit-taking facilities. The Post Office provides the most effective existing shared

¹ The expression should be taken as including withdrawals at retailer' terminals throughout this paper.

service and is likely to continue to be important in managing the costs of providing deposit-taking services in the context of declining cash usage. However, should a shared deposit-taking service be required it should be noted that the same issues apply to the provision of automated deposits as they do to cashback without purchase as set out in the call for evidence. The Government should consider whether to address this in legislation at the same time as it deals with cashback without purchase.

17. Detailed research is needed on what types of SMEs are heavy users of cash and what the obstacles are to them accepting digital means of payment.
18. A single regulator should have overall statutory responsibility for maintaining a well-functioning retail cash distribution network and that regulator should be the FCA.

The Government's Aims

19. LINK supports the Government's objective as set out in paragraph 2.2 of the consultation *"to maintain a sustainable infrastructure for cash in the UK, to ensure financial inclusion for all parts of society, including the most vulnerable who rely on cash in their daily lives"*. LINK also agrees with paragraph 2.3 of the consultation that legislation will need to meet four criteria: be proportionate, allow flexibility, be cost-effective and support competition and innovation.
20. The obligation should also include a requirement for the approach taken by the banks to be resilient. This is because the provision of satisfactory cash withdrawals is likely to involve an ecosystem of many organisations where the failure of one element could jeopardise overall consumer provision. This resilience should cover operational and commercial factors across the payment system(s) that are used and not just the central infrastructure(s).
21. LINK particularly emphasises the need for flexibility, given a fast-moving environment. This points to the need for the legislation to be high-level and enabling, with detail to be made to secondary legislation, but that also needs to be fairly high level rather than prescriptive otherwise it risks being inappropriate and ineffective.

Cash Withdrawal Facilities

22. The analysis in this chapter is accepted by LINK and gives the necessary information to facilitate appropriate discussion about the form of legislation. However, it is worth updating the figures in paragraph 3.8 on cash withdrawals over the LINK network. The paragraph notes that monthly cash withdrawals across January/February 2020 declined by 21% compared with the same period in 2017. The pandemic has accelerated this process. In October 2020 withdrawals were 36% lower than a year earlier.
23. Paragraph 3.14 of the consultation correctly notes that, despite everything that LINK is doing, the availability of free-to-use ATMs remains a concern. It suggests that existing initiatives have largely focused on standardised geographical measures which may not capture the specific needs of local communities. LINK can provide an update on this. Recognising this point, it has initiated the Community Request an ATM initiative. Running for one year, this initiative has heard from over 2,600 communities who perceive a problem in accessing cash. While many have excellent access to cash

already, LINK has visited 250 locations and has so far installed 35 free ATMs. The initiative has been highly successful and has allowed LINK to understand specific issues within communities that are not possible to see from top-down analysis alone. LINK notes that requests, many facilitated by Which?, seem to be concentrated in better-off areas. For that reason, LINK has initiated a programme to seek to identify more disadvantaged areas which need a free-to-use ATM but which have not been vocal in asking for one. A pilot using social media to invite requests in deprived areas, and engagement with elected representatives, has resulted in several requests from more deprived communities. The early indications are this programme is proving very successful with two free-to-use ATMs installed near Larkhall in Scotland and good engagement with a social media campaign in the North East of England.

24. LINK endorses the comment in paragraph 3.32 of the consultation that cashback without a purchase has the potential to be a valuable facility for cash users in future, playing an important role in the UK's cash infrastructure. LINK has been arguing this point for some years and is pleased that its representations have now been accepted by the Government. LINK has recently implemented a pilot programme whereby retailers in four towns are offering cashback without a purchase, and early take-up has been encouraging. LINK will evaluate this pilot and consider how it can be developed support a multi-channel approach to cash access.

Question 1: How can the Government ensure the UK maintains an appropriate network of cash withdrawal facilities over time through legislation?

25. As in so many other areas, the Government can best achieve its objectives by removing barriers rather than imposing requirements. The most significant legislation that will help maintain an appropriate network of cash withdrawal facilities is undoubtedly the removal of barriers to the widespread adoption of cashback without purchase. There are over 46,000 convenience stores in Great Britain and 37% are in locations where there are no other retail or service businesses nearby². The ability to withdraw cash for free and without the need for a purchase at even some of these locations would greatly increase the options available for consumers.
26. We note that the Government is considering imposing a legal obligation on retail banks to ensure that their customers have access to a comprehensive network of facilities for accessing cash. LINK agrees with this approach, given the strain on the cash withdrawal infrastructure, not least the voluntary nature of LINK membership. This should not be confined to accessing cash from bank branches and ATMs but should include specifically post offices and, as it comes on-stream, cash withdrawals from retailers' tills. LINK cautions against prescriptive legislation such as, for example, a requirement on banks to ensure that their customers can obtain cash from a bank branch, ATM or post office such that a given proportion of the population is within a certain distance of a point of access. Such a requirement would be similar to the current national access criteria for the Post Office which include that 99% of the population must be within three miles of their nearest post office and 90% of the population must be within one mile of their nearest post office. It would also be inappropriate because people need access to cash

² https://www.acs.org.uk/sites/default/files/acs_local_shop_report_2020.pdf.

where they spend money rather than where they live. This would also be unhelpful because the market is changing rapidly and enshrining something in primary legislation could quickly become out-of-date. Rather, it would be more appropriate to have a simple high-level requirement in legislation which never-the-less guarantees access to cash, such as *“an inclusive and resilient facility that provides consumers with free and convenient access to cash”*. Clearly, such an arrangement is already provided by LINK and LINK would be keen to continue to provide this facility to the banks to meet their obligations, should they choose. The appropriate regulator can then ensure that satisfactory arrangements remain in place as part of its ongoing supervisory work.

27. With such a provision, it might be possible for the Government to accept an undertaking from retail banks (and building societies) which issue current accounts that they would, for example, maintain membership of the LINK network or of an alternative network providing similar arrangements in respect of financial inclusion, participate in the Post Office Banking Framework arrangement, and allow their customers to use cashback without purchase when this becomes available. The threat of regulations being introduced would achieve the Government’s objectives without the need for the regulations to be made. However, with such an approach it would be necessary to ensure external oversight of the commercial relationship between the banks and the Post Office.
28. The Government will consider alternative arrangements, and no doubt will come under pressure to do so from those who believe that the only solution to a problem is legislation or regulation, ie, to impose, by law, a specific obligation on the retail banks. If this route is chosen LINK suggests that something like the following might be appropriate:
 - Institutions which issue current accounts shall ensure that their customers can obtain cash free of charge throughout the United Kingdom from at least:
 - 20,000 free-to-use ATMs. [The number LINK expects to be required in 2024³.]
 - All post offices that provide cash withdrawal facilities.And shall have arrangements in place, approved by the regulator, to ensure access to cash in rural and disadvantaged areas.
29. The provisions should apply until 31st December 2023, when the current Post Office Framework comes to an end.
30. It would be important to have a “sunset clause” given the speed with which the market is changing. A decision could then be made as to what regulations, if any, would be needed from the beginning of 2024. For example, if cashback without purchase becomes a popular means of accessing cash then the need for regulations may disappear.
31. In terms of organisations in scope, all banks with a retail customer base and that issue current accounts should be included. Scope should also extend to building societies

³ LINK’s 2020 Strategic Plan originally forecast 20,000 free-to-use ATMs being required in 2028. However, the reduction in ATM usage as a result of the coronavirus crisis means this number of ATMs appears likely to be needed in 2024.

which offer current accounts. The industry, in consultation with the appropriate regulator, is best placed to determine the precise criterion.

Question 2: What is the potential cashback to play a greater role in the provision of cash withdrawal facilities, and how can legislation facilitate further adoption of cashback?

32. LINK's response covers cashback without purchase through point of sale arrangements with card schemes such as VISA and Mastercard, and cash withdrawals through retailers' terminals such as the service being trialled by LINK and PayPoint as part of UK Finance's *Community Access to Cash Pilots*. The distinction is relevant as the term "cashback" is taken across much of the payments industry to refer to point of sale arrangements only.
33. The simple answer to the first part of this question is "considerably". Moreover, as it would involve removing barriers rather than imposing obligations there can be no arguments against the appropriate action being taken. However, it is important to get the legislation absolutely right on this issue. LINK has previously held detailed discussions with the Financial Conduct Authority (FCA) on the matter. For convenience, this is summarised as an appendix to this submission.
34. The take-up of cashback without purchase cannot be certain. For retailers this is not a simple issue. If retailers are to be seen as a reliable source of cash, they need to be in a position to be able to meet demand consistently. As a comparison, LINK has a target of LINK ATMs being available 97% of the time. Retailers may not be certain of how much money they will have in their tills at any one time as this depends to a large extent on cash paid in and this can be unpredictable. Retailers would not want to be in a position of having to hold large amounts of cash simply to meet occasional unexpectedly high demand. It therefore remains to be seen what the take-up would be from retailers and indeed from customers given a general decline in the use of cash and the availability of alternative access channels. On the assumption that the barriers would be removed not later than the beginning of 2022, this would allow plenty of time to review what overall arrangements might be necessary from the beginning of 2021. The *Community Access to Cash Pilots* provide an excellent vehicle to do this through as they have a range of cashback solutions in trial.

Cash Deposit Taking Facilities

35. LINK agrees with the comments in paragraph 4.16 of the consultation that the Post Office currently provides the most effective existing shared service for cash deposits and is likely to continue to be important in managing the costs of providing deposit-taking services in the context of declining cash usage.
36. Cash deposits have not been implemented through the LINK network and there is no expectation that LINK's membership wishes to make the necessary changes to enable such a facility. Technically, it would be possible to do so, but there are significant practical problems such as upgrading and replacing hardware for both banks and ATM operators as recognised in the call for evidence. LINK would, of course, be happy to support such a development should its membership or legislation require it.

Question 3: How can the Government ensure the UK maintains an appropriate network of cash deposit-taking facilities over time through legislation?

37. LINK agrees that maintaining adequate deposit-taking facilities is an important mechanism to support cash acceptance as this is a key driver of the costs to retailers of working with cash.
38. As with cash withdrawals, the Government may decide that a similar requirement relating to cash deposits on large retail banks would be an effective mechanism. Here, the number of business accounts could be the appropriate criterion. The industry, in consultation with the appropriate regulator, is best placed to determine the precise criterion. Again, building societies offering business accounts should be considered for being placed in scope. A high level of flexibility should be maintained, given the lower level of data available on the business needs for cash deposits. Therefore, LINK does not recommend detailed requirements and metrics in any primary legislation.
39. As with LINK's recommendations on cash withdrawals, the provisions should apply until 31st December 2023, when the current Post Office Banking Framework comes to an end.
40. It would again be important to have a "sunset clause" given the speed with which the market is changing. A decision could then be made as to what regulations, if any, would be needed from the beginning of 2024.
41. There is still a great deal of misunderstanding among many SMEs about using digital means of payment and the relative costs of accepting cash vs. digital payments. Contrary to a commonly expressed view, a fast broadband connection is not needed as facilities such as Square allow digital payments to be made off-line. This issue could perhaps be better dealt with longer term by initiating detailed research on what type of SMEs are heavy users of cash and what the obstacles and costs are to them accepting digital means of payment compared with cash. This could be beneficial to the SMEs and their customers as well as reducing the demand for cash deposit-taking facilities.

Cash Acceptance

42. The call for evidence makes the point that there is a lack of data on why SMEs use cash. The point was made in the previous section that there is still considerable misunderstanding among SMEs about digital means of payment. LINK can offer no evidence itself but merely endorses the need for a better understanding of the issues so as to inform policy.

Question 4: What are the key factors and considerations for maintaining cash acceptance in the UK?

43. The coronavirus crisis has led to a significant number of businesses either discouraging cash payments or refusing to accept them altogether. This accelerated a growing trend for not accepting cash, particularly for automated payment systems such as car parking and public transport. LINK's own research shows this is widespread but more research

should be done on the impacts of such moves on those consumers who rely on cash and the degree to which they are excluded from accessing products or services.

44. Some of these changes may be temporary and a result of concerns over the COVID-19 virus and these premises may revert to accepting cash payments in time. However, for others the change may be permanent. Again, more research is needed to determine whether these changes are temporary or permanent.
45. As noted above, LINK believes that the key to businesses accepting cash (notwithstanding the impact of COVID-19) is the availability of accessible and reasonably priced cash deposit facilities, particularly for SME businesses. As noted previously, the Post Office Counter Service is currently the most effective shared service in this area.

Regulatory Oversight of the Cash System

46. LINK agrees with the analysis in the section which is very much in line with its *Response to the call for evidence on regulatory coordination*⁴ in 2019. LINK notes in passing that there has been a substantial improvement in the co-ordination of policy between the various regulators and the Treasury over the past year.

Question 5: Should the Government give a single regulator overall statutory responsibility for maintaining a well-functioning retail cash distribution network? If so, with which regulator should this responsibility sit?

47. The simple answer to this is “yes” and for the reasons stated in the consultation that regulator should be the Financial Conduct Authority.

Appendix: Legislation Needed to Allow Cashback Without Purchase

48. LINK has held extensive discussion with the Financial Conduct Authority on this matter and summarises the key points below. LINK notes that the Treasury’s call for evidence summarises a position that is the same as LINK’s analysis.
49. Cashback with purchase is specifically exempt from the EU’s Second Payment Services Directive (PSD2). However, this is not the position with cashback without purchase. This is therefore the position that has been transposed into UK law via the Payment Services Regulations (PSRs). The result is that cashback without purchase is within scope of the PSRs. As noted in the call for evidence, this means that widespread rollout of cashback without purchase is not commercially viable, due to the PSR obligations placed on issuers, acquirers and retailers involved in a transaction.
50. The solution is to add exemptions for cashback without purchase, including cashback via retailers’ terminals, to the UK legislation.
51. As noted earlier, a similar position exists in relation to automated cash deposits. Therefore, to maintain the option of developing this service in the future, a cash deposit exemption should be added to the legislation.

⁴ <https://www.link.co.uk/media/1541/regulatory-framework-link-response-final.pdf>

52. LINK notes that the situation with regards to balance enquires and their PSR status is not clear cut. However, given the fact that an automated balance enquiry service has operated by LINK in the UK for many decades without issue, and that there are always risks through complicating legislation by adding additional services, LINK does not see the need to extend legislation explicitly to balance enquiries.