

The Rt. Hon. Nicky Morgan MP,
Chair of the Treasury Committee,
Treasury Committee,
House of Commons,
Committee Office,
SW1A 0AA

30th November 2017

Dear Nicky,

I was grateful for your letter of 27th November, and I am delighted to have an opportunity to respond to the points you raised.

LINK's independent board is guided in everything we do by our public interest remit.

Given the central role cash continues to play in the lives of people in the UK, we are resolutely committed to protecting cash-access. This means not only maintaining our nationwide network of free-to-use ATMs, but to expand its reach to serve those communities which are currently underserved.

Working with your predecessor, we were proud to create the Financial Inclusion Programme, which, to date, has delivered cash access to over 1,700 communities. The programme subsidises ATMs in rural areas and less affluent communities. If left to market forces alone, those areas – which happen to be the most dependent on cash - would not have ATMs. As you will have seen in our proposals, we plan to triple the maximum subsidy for such ATMs, which would not only protect but expand the spread of ATMs across the UK.

The situation in urban, more affluent areas is quite different. As a result of market forces, 80% of existing free-to-use ATMs are within 300 metres of another free ATM. For context, this trend is reflected in your constituency, where 24 free-to-use ATMs are within 400 metres of each other in the town centre of Loughborough.

This brings us to the central focus of our proposals, which are currently out for consultation. Recognising that the number of ATMs may have to decrease in response to technological advances in cashless payments, we firmly believe any corresponding reduction in the number of ATMs should take place in those areas that have a high saturation of machines.

As the public pays for ATMs, it is only right that is shaped to serve their needs. Saturation of ATMs serves no one.

This brings us to the driver of the market force that has created the current spread of ATMs, the Interchange Rate.

Our proposal is clear; any change in the rate should only occur gradually, giving ATM operators sufficient time to address any contractual arrangements which may be in place. We have suggested a four-year period. Any decision to change the rate by the LINK Board will only be made following careful assessment. We are being guided by the independent LINK Consumer Council, and should we come to believe that the reduction is having an undesirable effect on the spread of ATMs, we will have the power to modify, and even reverse, any reduction in the Interchange Rate.

At this stage, our proposals are being finalised. ATM operators have been asked to provide to the Board, in confidence, their own analysis of the impact the proposed changes would have on the ATM network.

We will carefully consider all the responses offered by ATM issuers and operators and the LINK Consumer Council, and adopt any that are in the public interest.

I hope this goes some way to explain the background to the consultation and the aspirations of our proposals.

I would now like to address your questions directly below:

- 1. The LINK Board has stated that it is difficult to precisely answer questions on the impact of the proposals on the number of ATMs in the UK, as this depends on LINK members' business models (which are confidential). What assurances can you provide to the Committee that the proposals will preserve the existing geographic spread of ATMs, and will have no negative impact on financial inclusion?**

The proposals are designed to maintain the present geographical spread of ATMs, with any reduction being in areas where there are currently multiple ATMs located close together. Around 80% of free-to-use ATMs are currently within 300 metres of another free-to-use machine.

We do not expect significant numbers of machines to close immediately as a result of the proposals. The current interchange rate will reduce by 5% under our proposals next year. As the current rate has led to around 5,000 new free-to-use machines over the last three years we believe that the initial impact will be to stop this unnecessary growth.

We note that interchange for non-branch cash withdrawals was 26p (approximately 9% lower than now) only three years ago and that deployers were happy to add machines vigorously and not remove them at that level.

We intend to maintain coverage by boosting LINK's Financial Inclusion Programme. The proposed 30p maximum premium is six times the proposed reduction in Interchange, a reduction which will in any case be phased over four years.

- 2. How many ATMs do you project will close as a result of the proposals?**

As noted above, we expect the immediate number of closures to be negligible.

In the long run, we do expect ATM numbers to decline, should consumers choose to move from away cash to alternative payment options. Our proposals will ensure that this is achieved by closing machines close to each other rather than closing more remote ATMs or seeing them able to turn to a charging model. We aim to avoid the clustering of free high use machines in busy locations and a network of charging machines in more remote locations.

3. What arrangements have you put in place to monitor ATM closures and the introduction of ATM fees, and to prevent closures and/or fees that would lead to consumer detriment?

LINK will monitor ATM numbers on a monthly basis and identify any constituencies where the number of free-to-use ATMs is falling, or the proportion of pay-to-use machines is on the rise. If this is the case, then the matter will be investigated to see how the Financial Inclusion Programme can be used to maintain the geographic coverage of free ATMs in that area. The results will be regularly reviewed by the LINK Consumer Council, which includes representatives from the DWP, Citizens Advice, and Toynbee Hall, to ensure that LINK's objectives of maintaining the present geographical spread of ATMs is achieved.

4. What action will LINK take if the changes fail to maintain a geographical spread of ATMs that is consistent with consumers' needs?

LINK believes that the proposed strengthened Financial Inclusion Programme, with its increased maximum 30p premium will be able to address any consumer detriment should it arise. If this proves not to be effective, then the Board has the powers to make further adjustments to Interchange, or to the Financial Inclusion Programme, without limit and in line with its public interest objective.

5. What is LINK's process for determining whether the closure of a given ATM will lead to consumer detriment?

The LINK Financial Inclusion Programme uses 1km to determine reasonable access, along with relative deprivation and/or a high proportion of benefit claimants. In addition, local factors such as ease of access on foot and barriers like hills, rivers, major roads or railway lines are also taken into consideration, along with the cash needs of the local community. Therefore, the removal of an ATM or switching from free to pay-to-use which creates a 1km area with no free ATM access will be assumed a detriment.

6. Only certain areas qualify for subsidies as part of the Financial Inclusion Programme. How can LINK prevent the closure of an ATM in an area that doesn't qualify for a subsidy, but whose closure would nevertheless lead to consumer detriment?


The Board will look at all areas of the UK when it considers using the Financial Inclusion Programme to maintain free access to cash and address consumer detriment.

7. What engagement have you had with the Payment Systems Regulator and HM Treasury in developing these proposals?

The setting of the Interchange Rate is a matter for the LINK Board in line with its objectives of maintaining wide consumer access to cash and LINK's competitive attractiveness compared with the alternative ATM schemes in the UK. LINK is keeping all of our regulators and HM Treasury closely informed of our proposals.

Should you have any questions, we would be happy to answer them in writing, or meet with you or any member of the committee.

With best wishes,

A handwritten signature in black ink that reads "Mark Boleat". The signature is written in a cursive style with a large initial 'M' and 'B'.

Sir Mark Boleat
Chairman LINK Scheme.

PS – as we are committed to transparency, we will place this letter in the public domain.