



INTRODUCTION TO THE LINK SCHEME

2018

The LINK Scheme is a network which connects the UK's cash machines and provides consumers with universal access to their cash.

Link Scheme Holdings Ltd "LINK" is the operator of the LINK system as set out in the Financial Services (Banking Reform) Act 2013. It works with the Payments Systems Regulator "PSR" to achieve its core objectives of promoting innovation and competition in LINK and furthering the interests of people and businesses that use LINK.

LINK is Recognised as an inter-bank payment system under section 184 of the Banking Act 2009, bringing LINK into the scope of the Bank of England's supervisory regime. This is because of the crucial role that LINK plays in the UK economy as the main facilitator of free-to-use cash withdrawals.

Link Scheme Holdings Ltd Registered Office: RSM Central Square, 5th Floor, 29 Wellington Street, Leeds, West Yorkshire, United Kingdom, LS1 4DL. Registered in England and Wales. Company Number 10535808.

Access to cash and cash machines is vital for the UK economy:

- Cash is still the most significant payment method in the UK in terms of volume. There were 15.4 billion cash payments in 2016, accounting for 44% of all consumer payments¹.
- ATMs dominate consumers access to cash with 49 million consumers making around 2 billion LINK cash withdrawals in 2017, amounting to £129 billion.
- While 2.9 million consumers rarely use cash around 2.7 million (5% of the adult population) rely on cash almost entirely. While these are spread fairly evenly across age groups lower income households are far more likely to rely on cash with over half of all consumers who rely on cash having a household income of less than £15,000 per year.²

The LINK Scheme provides the operational service and contractual certainty which connect card issuers and cash machine operators together to enable card holders to access their cash:

- LINK membership consists of all the UK's main debit and cash machine card issuers (predominantly banks and building societies) and also all the main cash machine operators (banks, building societies and independent ATM deployers or IADs).

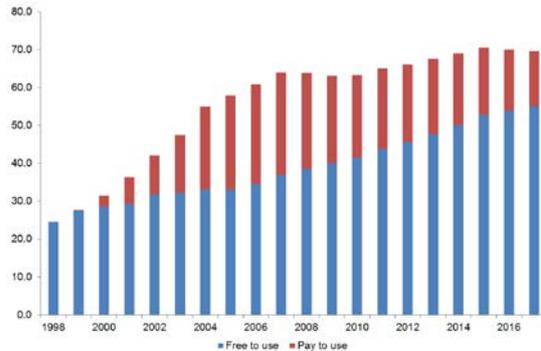
¹ Source: UKFinance – Cash and Cash Machines 2017 - Summary.

² Ibid

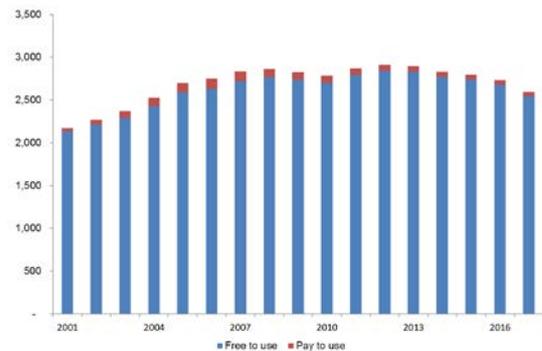


- Effectively all of the UK's approximately 70,000 cash machines are LINK-enabled and around 55,000 of these ATMs are free-to-use³. There are over 100 million UK issued LINK-enabled cards in circulation.

ATM numbers (thousands)



Free-to-use and pay-to-use withdrawals (millions)



- LINK is not involved with cash machine withdrawal made by a card holder at their own bank or building society. These now account for around 25% of total consumer cash withdrawals, a percentage which is falling as card issuers reduce their ATM networks and IADs increase theirs.

LINK's objective is to provide universal access to cash for consumers and financial inclusion is a key common objective for all of LINK's Members:

- LINK's Members compete vigorously to identify and secure new ATM locations. There is no central organisation or plan for ATM locations, rather competition to meet consumer demand. This has proved very effective and UK consumers enjoy excellent access to free-to-use cash machines.
- LINK and its Members are committed to defending and improving access to cash and LINK has operated a Financial Inclusion Programme to support this since 2006. This Programme contains over 1,000 ATMs in deprived areas which previously had limited access to cash and is funded voluntarily by the industry at an investment of approximately £1 million per annum⁴.
- LINK has an independent Chairman and Directors to support governance, consumer focus, and Member participation.
- LINK has a Consumer Council to provide advice on relevant consumer issues and to represent consumers in the governance and development of the network. The Consumer Council brings together delegates from consumer organisations such as Toynbee Hall, Citizens Advice Bureau and Consumer Council Northern Ireland, independent members including Teresa Pearce MP, Lady Margaret Bloom, plus card issuing banks, and independent operators. It gives advice to the Scheme's governing body for consideration and can independently publish its views as it wishes. Its

³ Source: LINK Scheme - www.link.co.uk.

⁴ Source: LINK.



independent Chair is Tracey Graham who is also an Independent Non-Executive Director of Link Scheme Holdings Ltd.

Innovation is important to LINK remaining more attractive than the other schemes that it competes with:

- LINK membership is voluntary with low barriers to entry and any Member can leave and join a competitor, indeed many ATMs are already connected to other schemes such as VISA, and Mastercard to facilitate overseas ATM transactions. LINK's ability to support innovation is an important feature over competing schemes.
- LINK has innovated to enable its Members to collectively support their financial inclusion plans in an effective and efficient manner by providing industry-subsidised enhanced pricing for the provision of ATMs in deprived areas through its Financial Inclusion Programme.
- LINK launched an ATM Locator App in 2017, the most comprehensive mobile tool for finding ATMs in the UK. Connected to LINK's ATM database it shows the location of all 70,000 LINK ATMs – effectively every cash machine in the UK.
- LINK's focus on consumer access to cash means it has supported new business models which have improved cash access:
 - The growth of the substantial Independent ATM Deployer (IAD) sector, was enabled by LINK rule changes. These companies now operate over half of all UK cash machines.
 - The merchant refill model which has extended the cash machine network.
 - Charging cash machines which have provided additional reach alongside the extensive free-to-use ATM network.
- The Bank of England has noted the effectiveness of the £5 and £10 polymer note programme at ATMs.
- Charity Giving at ATMs went live in 2012.
- Innovation in fraud and crime control.
- LINK is working closely with the Bank of England and the whole industry on the introduction of Polymer banknotes, £5 notes were issued in September 2016 with £10 notes following in September 2017.

The LINK network is a safe and secure payments system that makes and receives real-time payments at high volume across the UK:

- LINK's transactions are processed by Vocalink, (which also processes for the BACS and Faster Payments schemes) in a contractual relationship.
- The ATM infrastructure is capable of dealing with very high transaction volumes, peaking at almost 14 million a day⁵.

⁵ Source: LINK Member Stats December 2017.



- Vocalink is a commercial organisation, owned by MasterCard, and also offers a range of commercial ATM and other products and services.
- Switching and Settlement fees are paid to Vocalink.
- Risk management is key to LINK and, as with the other Recognised schemes
- LINK Scheme membership fees are paid to Link Scheme Ltd. (a wholly owned subsidiary of Link Scheme Holdings Ltd).
- LINK Scheme fees are set to recover costs and these were approximately £2.5 million in 2016
- The settlement between Members for the cash dispensed through the ATMs is made the following working day through a net settlement mechanism at the Bank of England. All Members must have access to a Real Time Gross Settlement Account (known as an RTGS account) at the Bank of England, whether directly or through another LINK Member.

Link Scheme Holdings Ltd operates the LINK payment system. It is regulated by both the Payment Systems Regulator and the Bank of England

- In March 2017, following the Independent Governance Review, LINK Members agreed to the abolition of the LINK Network Members Council (NMC), effective from 1st May 2017. Decision-making authority then passed to the majority-independent Board of Link Scheme Holdings Ltd. All Members are obliged to become guarantors of Link Scheme Holdings Ltd

Membership is open to all on equal terms – existing Members have no say over who joins:

- LINK currently has 36 Members consisting of banks, building societies, schemes, and independent operators:

AIB Group	Creation Financial Services	Northern Bank
American Express	Cumberland Building Society	Note Machine
Bank of Ireland	DC Payments	PayPoint
Bank of Scotland	G4S	Raphaels Bank
Barclays Bank UK	Halifax	Santander
Barclays Bank plc	Handelsbanken	Sainsbury's Bank
Cardtronics	HSBC UK	Tesco Bank
Change Group	Lloyds Bank	Triodos Bank
Citibank Savings	Metro Bank	TSB
Clydesdale Bank	Moneycorp	Travelex
Cooperative Bank	Nationwide Building Society	Yorkshire Building Society
Coventry Building Society	NatWest	YourCash

- LINK Members have no control over potential members joining the Scheme. This process is controlled by the LINK management team and, whilst there are criteria



around solvency and security requirements, no potential Member has ever had an application refused.

Cash machine operators cover the cost of free-to-use ATMs through a per-transaction ATM interchange fee paid to them by the card issuing banks and building societies:

- Card issuers pay operators of free cash machines an ATM interchange fee. ATM interchange is unrelated to the interchange charged by card issuers through schemes such as VISA and MasterCard to retailers for point-of-sale transactions.
- On 31st January 2018 LINK announced a phased four year 20% reduction in interchange beginning with a 5% reduction from 1st July 2018. This will be reviewed annually taking into account the impact on consumers.

The LINK rules also support pay-to-use cash machines as they supplement the strong free-to-use network with additional machines to improve consumer access:

- These cash machines do not receive ATM interchange for their charging transactions. They account for a very low proportion of the total number of cash withdrawals, less than 3% and around 20% of all ATMs, approximately 14,500. All decisions about charging are made by the ATM operator in agreement with the owner of the premises where the ATM is located and not by LINK itself. The majority of pay-to-use ATMs are in low transacting locations and Government and Parliament have recognised that charging as well as free machines can help to improve the public's access to cash and benefit local businesses.
- LINK requires all cash machine owners and card issuers which use the LINK network to follow rules on charging and the signage and transparency of charging.
- Currently, all charging ATMs are provided by IADs with all bank and building society cash machines being free-to-use. IADs now provide well over half of the free-to-use machines in the UK.