Cash and digital payments in the new economy

Comments by LINK on HM Treasury call for evidence

1st June 2018

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Introduction

1. On 12th March 2018, the Treasury published a consultation document, Cash and Digital Payments in the New Economy. The consultation document describes the purpose of the consultation as follows –

> "The government wants to make sure that our economy is fit for the future and keeps pace with changes in the ways that people manage their finances. This call for evidence represents an important step in the discussion about cash and digital payments in the new economy, and how the transition from cash to digital payments impacts on different sectors, different regions and different demographics. It seeks to gather evidence to inform that debate, by exploring how the government can support digital payments; ensure that the ability to pay by cash is available for those who need it; whilst cracking down on the minority who use cash to evade tax and launder money. It is seeking both domestic and international evidence of what the government can and should do in this area."

2. The Treasury has called for evidence by 5th June 2018.

3. This paper responds to the Call for Evidence. LINK is particularly well placed to provide evidence as the UK's main cash machine network. Almost every cash machine in the UK is connected to LINK, and LINK is the way that almost all banks and building societies offer their customers access to cash across the whole of the UK. All the UK's main debit and ATM card issuers are LINK members. Further information on LINK is set out in Appendix 1.

4. This response is in three sections:

   a. A summary of key points.
   b. Detailed answers to the specific consultation questions.
   c. A description of LINK together with relevant key statistics.

Key points

- There are over 100 million UK issued LINK-enabled cards in circulation, which can be used in almost every ATM in the UK, nearly 70,000 machines. A record number of over 55,000 of these ATMs are free-to-use and they account for 98% of all cash withdrawals. The LINK network is a fundamental part of the UK's payments infrastructure and cash machines are by far the most popular channel for cash withdrawals in the UK, used by millions of consumers every day. The total value of LINK cash withdrawals can exceed £10 billion a month and, at its busiest, LINK has processed over 20,000 transactions a minute.
- LINK's role is to support consumers' access to cash for as long as they need it.
- As consumers have increasingly used digital means to make payments so the demand for cash to finance transactions have fallen. If transactions, where customers use their own banks' ATMs are included, the number of cash withdrawals from ATMs has fallen by 10% since the peak recorded in Q3 2015. LINK's most recent figures show a 6% year-on-year decline.
- UK Finance report consumers' use of cash for payments has been in decline since the early 1990s. For example, in 2006 cash accounted for 62% of all consumer payments. In 2016, 44% of the 15.4 billion consumer payments made was in cash. Hence, usage of cash for payments by consumers has dropped 33% over the last ten years. It is forecast to drop a further 43% over the next decade to account for 24% of all consumer payments by 2026[1].
- The public interest is best served by there being access to all forms of payment. Payment by cash should not be restricted.
- The average cost of a withdrawal from an ATM is around 25p. Consumers do not pay to use the vast majority of ATMs but ultimately do bear the cost of the provision of ATMs, currently around £1 billion a year through other charges or lower interest received on the credit balances. As transactions fall the unit cost may well rise.
- Around 2.7 million people are heavy users of cash, relying on physical cash and ATMs for their spending and budgeting. ATMs are particularly concentrated in low income areas as a result of the reliance on cash by this group.
- LINK is developing its well-established Financial Inclusion Programme to ensure that the geographical spread of ATMs is maintained in the face of a probable steady reduction in total ATM usage.
- LINK has established an Access to Cash Review to consider consumer requirements for cash over the next five to fifteen years, and the long-term development of the LINK payment system to address this. The Review has an independent Chairman in Natalie Ceeney CBE and eight Members with consumers and industry expertise. The Review will meet in 2018, all stakeholders including members of the public will be able to submit evidence, and it intends to publish its report in early 2019. This should complement this Treasury study.

Supporting digital payments

LINK does not have a direct interface with digital payments but believes consumers should have a choice of payment methods. It is LINK's role to support consumers' access to cash for

[1] UK Finance, Cash and Cash Machines 2017

as long as they need it. However, the volume and value of cash withdrawals through LINK ATMs can be used to assess the future direction for cash and digital payments.

Q1. How do you expect digital payment methods, and the adoption of these by merchants and consumers, to change over the next 10 years? What are the drivers of this?

Recent trends in ATM usage confirm that consumers are increasingly using alternatives to cash such as digital payments for their payments needs.

LINK volumes form a part of total ATM usage as LINK does not process "on-us" transactions where customers use their own banks' ATMs. Total ATM usage, ie including on-us, has been falling by volume and value for some time (see Table One) whilst LINK volumes and values (Table Two) have been falling from 2017. This suggests that consumers' reducing demand for cash was initially accommodated by fewer visits to their own banks' ATMs but that as this process has accelerated and they require still less cash, they are now using LINK ATMs less as well.

Table One: Total UK ATM Volumes and Values[2]

Total UK ATM Network inc on-us (millions)				
Variances are annual, quarter on quarter, ie Q2 2017 vs Q2 2016				
	Total ATM Withdrawals inc on-us		Total ATM Withdrawal Value inc on-us	
Q1 2015	666	-2.2%	£ 44,598	1.4%
Q2 2015	711	-1.9%	£ 47,975	0.5%
Q3 2015	717	-0.7%	£ 50,940	3.4%
Q4 2015	703	0.2%	£ 50,800	5.0%
Q1 2016	650	-2.3%	£ 44,945	0.8%
Q2 2016	695	-2.3%	£ 48,983	2.1%
Q3 2016	699	-2.5%	£ 49,984	-1.9%
Q4 2016	689	-2.0%	£ 50,168	-1.2%
Q1 2017	627	-3.6%	£ 44,305	-1.4%
Q2 2017	666	-4.2%	£ 47,656	-2.7%
Q3 2017	662	-5.4%	£ 48,188	-3.6%
Q4 2017	643	-6.6%	£ 47,315	-5.7%
Q1 2018	577	-7.9%	£ 41,080	-7.3%

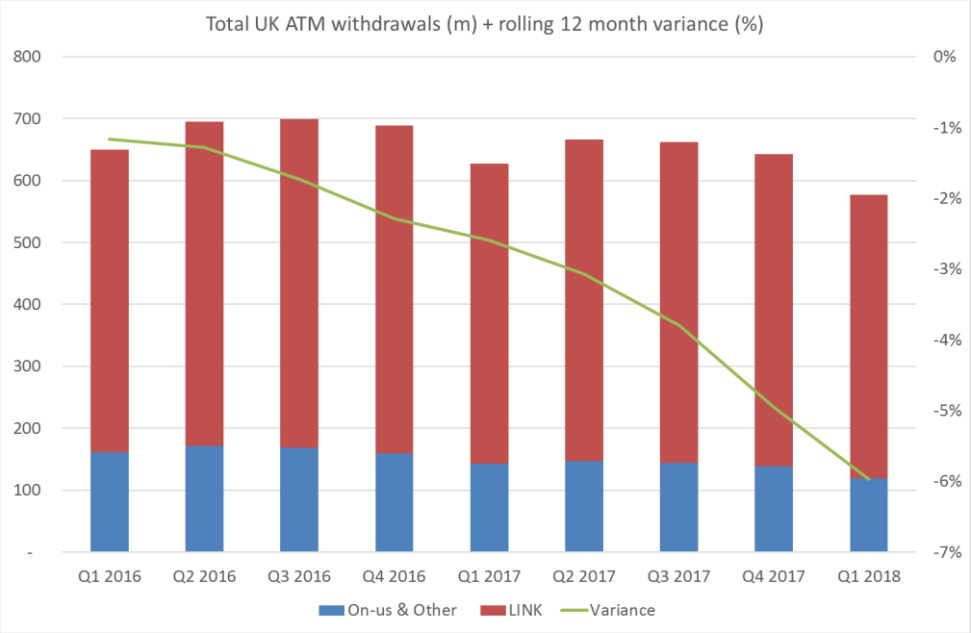
[2] UK Finance.

Table Two: LINK ATM Volumes and Values[3]

	LINK (millions)							
	Variances are annual, quarter on quarter, ie Q4 2017 vs Q4 2016							
	LINK Transactions		LINK Cash Withdrawals		LINK Balance and other		Total LINK Withdrawal Value	
Q1 2016	749	1.2%	489	0.5%	260	2.6%	£ 29,807	1.4%
Q2 2016	799	-0.8%	524	-0.5%	275	-1.5%	£ 32,492	0.2%
Q3 2016	815	0.6%	531	1.1%	284	-0.4%	£ 33,460	1.9%
Q4 2016	808	0.1%	529	0.6%	279	-0.8%	£ 33,907	2.2%
Q1 2017	740	-1.1%	484	-0.9%	256	-1.6%	£ 30,037	0.8%
Q2 2017	795	-0.5%	519	-0.9%	276	0.4%	£ 33,024	1.6%
Q3 2017	798	-2.1%	518	-2.5%	279	-1.5%	£ 33,555	0.3%
Q4 2017	772	-4.5%	504	-4.7%	268	-4.0%	£ 33,127	-2.3%
Q1 2018	702	-5.2%	458	-5.4%	244	-4.7%	£ 29,414	-2.1%

Although short term trends should always be treated with caution there is evidence that the reduction in overall cash machine use is accelerating and that LINK transactions, along with overall transactions which were broadly stable in early 2016, are now on a declining and probably at an accelerating trajectory, (Chart One). This would suggest that consumers' demand for cash is declining, while consumer use of digital payments is accelerating. UK Finance has forecast that total consumer cash acquisition from bank accounts will have fallen by 28% by 2026[4].

Chart One: Overall ATM Withdrawals[5]



[3] LINK.
[4] UK Finance, UK Payments Markets 2017.
[5] UK Finance/LINK.

Q2. What further action could the government take to support greater adoption of digital payments by merchants and consumers (including civil society groups)?

LINK believes that the public interest is best served by having the widest possible choice of payment methods, both to support those who choose cash as a personal preference and for those who rely on cash who are often in vulnerable or low-income consumer groups. LINK therefore supports adoption of digital payments if consumers wish, but this should not include denying people the opportunity to pay by cash.

Q3. Are there international examples of countries supporting the adoption of digital payments that the government should look to?

Developments in other countries will provide insight; from countries with similar levels of cash use, such as The Netherlands, to countries with low cash use, such as Norway, Denmark and Sweden[6], and high cash usage countries such as Germany[7]. However, in each case there are significant differences from the UK in terms of size, diversity, banking culture (for example the cost of payments and cash access) and their ATM networks. In addition, in Sweden and the Netherlands[8] the ATM networks have been consolidated such that they will be run as a single entity rather than the competitive market with multiple suppliers as there is in the UK. The government should therefore usefully consider the experiences of those countries.

Q4. Why does the cost of processing payments differ between cash and digital payments? How is it changing? And do you expect the change to continue?

LINK can provide evidence on the cost of ATM cash provision. In the UK, around 98% of ATM cash withdrawals are free to the consumer and the approximate cost of the UK free-to-use ATM network, as calculated through the LINK Cost Study, is around £1 billion a year. In very round terms this equates to about 25p per cash withdrawal. This is borne initially by card issuers - banks and building societies, and is paid either directly through interchange payments to ATM operators or through the internal costs in providing ATM access to their own customers through their own ATMs. However, the cost is ultimately borne by consumers, either through higher bank charges or lower interest on credit balances.

In addition to the free-to-use ATMs there are around 13,000 pay-to-use ATMs. These account for around 2-3% of total cash withdrawals and at these locations the cost of the cash withdrawal, including a presumed profit element for the ATM operator, is paid for by the cardholder with a fee added to the withdrawal value. These fees currently average £1.77 for each cash withdrawal and total around £80m per year for all 13,000 ATMs. Usually installed in low transacting locations, the number of pay-to-use ATMs has been falling rapidly in recent years from a high of 27,000 in 2007[9] to the current figure of around 12,500.

The following table shows key trends in the cost of the ATM network over the last six years.

[6] https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op201.en.pdf
[7] G4S World Cash Report 2018 http://www.g4scashreport.com/
[8] https://www.abnamro.com/en/newsroom/newsarticles/2017/partnership-joint-atm-network.html
[9] LINK

Table Three: LINK network costs and volumes[10]

	2011	2012	2013	2014	2015	2016
Total Network Costs - Cost Study (£millions)	£ 818	£ 895	£ 939	£ 1,023	£ 1,032	£ 1,004
Branch ATMs	19,534	19,348	19,175	18,971	18,602	18,014
Non Branch ATMs	24,355	26,286	28,540	31,234	34,161	35,909
Total branch withdrawals m	1,253	1,235	1,084	1,035	950	861
Total non branch withdrawals m	1,533	1,634	1,694	1,768	1,795	1,826
Cost per branch cash withdrawal (pence)	16.3	18.0	20.3	22.3	25.1	25.1
Cost per non-branch cash withdrawal (pence)	25.5	26.4	27.4	28.9	28.7	28.3

Total costs for the network have increased markedly over this period. Branch ATM numbers have been falling, although at a slower rate than branch withdrawal volumes, leading to steep increases in costs per transaction for branches. At remote, non-branch, sites the number of transactions has been rising, partially driven by a significant rise in the number of non-branch ATMs, whose extra costs have forced average costs up since 2011, although in recent years unit costs have stabilised.

If transaction volumes continue their recent falls then unit costs would be expected to rise as the reductions in costs (and ATM numbers) would not keep pace with falling volumes.

LINK's recent changes to interchange aim to address this, and also to maintain the balance of ATMs across the country by incentivising rural and remote as well as urban ATM deployment.

LINK is concerned that longer term the ATM infrastructure may become unsustainable as consumer usage of cash for payments declines. This would be most undesirable given the large numbers of consumers who are likely to remain dependent on cash. LINK has therefore commissioned an Access to Cash Review to consider the five to fifteen-year position. This is described further in the answer to question 8.

The future role of cash

Q5. Who uses cash as their main form of payment and why?

The UK Payment Markets Review states there were 2.7 million consumers (5% of the adult population) who relied almost entirely on cash in 2016. These consumers may pay their bills using Direct Debit or standing order and have access to a bank account and debit card, but are predominant users of cash and do not regularly use non-cash methods for their day-to-day payments. At the other end of the scale, there were 2.9 million consumers who rarely used cash in 2016, representing 6% of the UK's adult population. These consumers make cash payments once per month or less frequently. An addition, 3.3 million consumers make

[10] LINK Cost Study

a cash payment once a fortnight or less frequently. Combined, 12% of the adult population make a cash payment once a fortnight or less frequently[11].

However, it should be noted that outside those relying on and rarely using cash sit the majority of the UK population who are using both cash and digital payment methods to a varying degree. Indeed, cash is still relied on by some consumers to pay bills and save. in 2016, 17% of housing rent, 11% of utility bills and 26% of savings clubs were paid for using cash[12].

A 2017 study commissioned by Cash Services[13] showed that consumers offered similar rationales for their payment method preferences with regular cash users saying the key benefit was its tangibility, helping them to budget and control their spending. They found cash easy and convenient and expressed concerns over the security of new digital payment methods such as contactless.

Q6. How does cash usage and need vary by demographics, geography, and socio-economic status?

LINK is an ATM Scheme processing transactions between card issuers and ATM operators. As such, the data captured as part of each transaction is limited to the information required to process the transaction and this does not include personal details or demographic data. LINK does however have a substantial amount of information on where ATMs are and how they are used. However, it should be borne in mind that people may not use the ATM closest to where they live. Most people will use an ATM as part of their daily routine and may therefore choose ATMs close to where they shop, work, or travel rather than the one necessarily closest to their home.

ATMs, both free-to-use and pay-to-use, are more likely to be found in areas which are relatively deprived when compared to less deprived areas. This is to be expected as ATMs will be installed where they will attract the most use and those in lower socio-economic groups tend to be higher users of cash machines[14]. In addition, the 2.7m people who rely on cash are far more likely to come from lower income households. Over half of all consumers who relied predominantly on cash during 2016 had total household incomes of less than £15,000 per year[15].

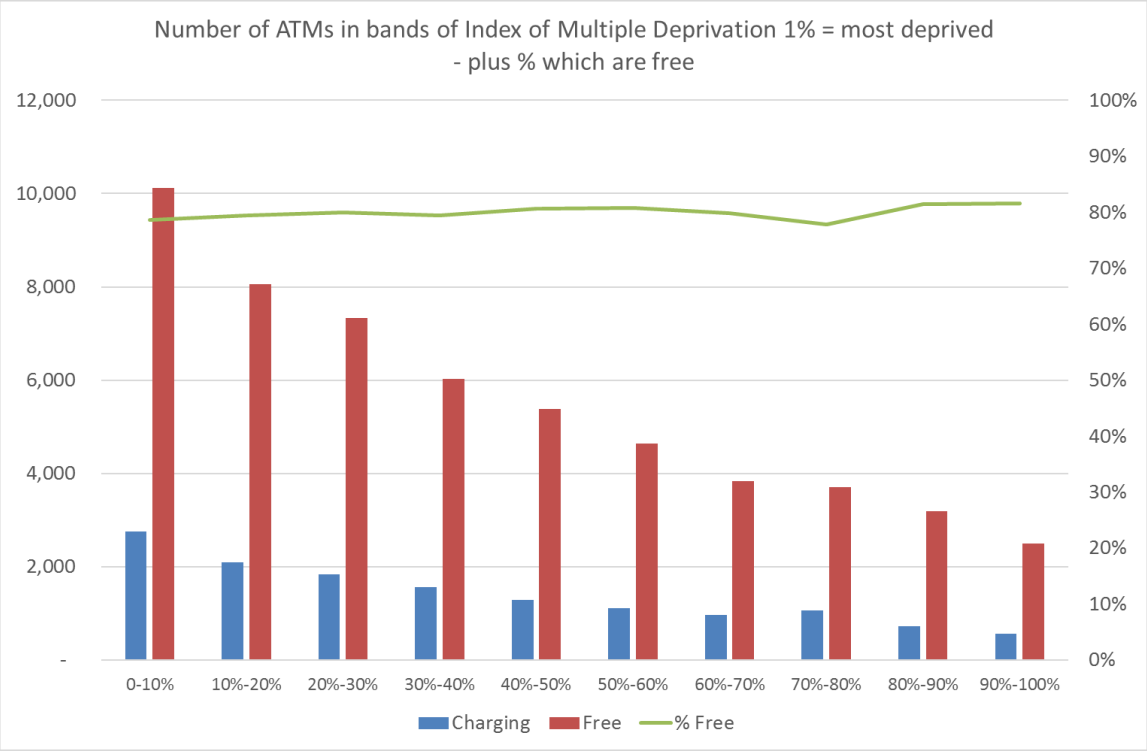
The other factor determining where ATMs are located is the availability of suitable premises. Locations like convenience stores, small supermarkets, petrol and railway stations tend to be in less affluent areas and therefore the supply of suitable premises in which to install ATMs is a factor in their location, as well as a local demand for cash.

Chart Two shows the number ATMs by the level of deprivation of the area in which they are installed, expressed as a percentage to allow comparison across the UK. As might be expected ATMs, both free-to-use and pay-to-use, are more likely to be installed in more, rather than less, deprived areas, reflecting both the requirements of the local community and the availability of suitable premises.

[11] UK Finance, UK Payment Markets 2017
[12] UK Finance, UK Payment Markets 2017
[13] Consumer Omnibus 2017, Cash Services UK
[14] UK Finance, Cash and Cash machines 2016.
[15] UK Finance Payments Market Review 2017.

It should also be noted that the percentage of charging to free ATMs is broadly similar across levels of deprivation showing that charging ATMs are not somehow disproportionately "aimed at the poor" as is sometimes suggested.

Chart Two: ATM locations by Deprivation[16]



The average withdrawal value varies by the level of deprivation of the area around the ATM with free-to-use ATMs in the most deprived areas having an average withdrawal value of £63.18 while those in the least deprived areas have an average of £68.98[17]. This gap is much smaller than the income differences between these areas and suggests that either the value consumers take out in one withdrawal is not an exact correlation to income or that consumers who live in affluent areas may get their cash at ATMs in less well-off areas, as this is where most ATMs are to be found, for example when commuting.

Q7. How does the level of cash that you handled or used this year compare to what you handled or used five years ago? What are the drivers for that change (for example, change in customer preferences, currency modernisation programmes such as new polymer banknotes and £1 coin)?

As the table below shows number of total cash withdrawals (including on-us) has declined significantly in the last five years. As noted in previous questions this seems to be a result of consumers using less cash for payments and therefore not needing to use ATMs as frequently.

[16] LINK.
[17] LINK.

From a LINK perspective, there appears no evidence that the introduction of polymer banknotes had any effect on either consumer demand for cash or the ATM industry's ability to supply it.

Table Four: Cash Withdrawal Volumes 2013-2017

Cash Withdrawals - (m)	2013	2014	2015	2016	2017
Free to use	2,832	2,769	2,738	2,677	2,548
Pay to use	67	62	59	56	50
Total	**2,899**	**2,831**	**2,797**	**2,733**	**2,598**

Q8. How do you think the level of cash you will handle or use in five years will compare to what you handled or used this year? What are the drivers for that change? And how will different sectors be impacted by this change?

LINK's own expectation is of a significant decline in cash usage by consumers for payments, in line with the figures produced by UK Finance, which has forecast a fall by 43% in the next decade.[18]

Whilst cash from ATMs can be used for saving or sending overseas the effect of these on overall ATM withdrawals would seem to be quite small. The predominant use of cash from ATMs is day-to-day spending and as cash demand for payments falls we would expect the volume and value of cash withdrawn from ATMs to fall.

The forecast above from UK Finance suggests that in 10 years' time cash will have been overtaken by debit cards (including contactless payments) as the most frequently used payment method but will remain the second most frequently used payment method. This means that despite the rise in digital payments and fall in the use of cash, the majority of people will still use cash in 10 years' time; however, the extent to which they do so will vary and overall will be less.

There are a multitude of drivers for this expected change, the main three being the migration from cash to debit cards (Chip & Pin payments), the increasing use of contactless payments and the growth of online shopping. A survey in January 2017 reflected this change and found that 63% of people perceived that they were using cash less than five years previously (41% much less, 22% a little less) particularly for payments in supermarkets and petrol stations, as well as for public transport travel tickets[19] (the remaining 37% were using cash at about the same level or more).

The increased use of contactless cards has made a big impact on cash and consumer payments and is likely to continue over the next decade. £23 billion was spent using contactless between January and June 2017, close to the total for 2016, when £25 billion was

[18] UK Finance- Cash and Cash Machines Summary 2017.
[19] Cash Services Research, 2017.

spent using contactless cards. This represents more than double the spending in the previous eight years combined (£11 billion) and has led to a 45% growth in the number of merchant owned terminals accepting contactless[20]. A major catalyst for such a rapid uptake was the introduction of contactless payments for Transport for London services in 2014, which in turn has led to consumers using contactless more often for payments in other sectors (e.g. restaurants, bars and supermarkets). The continuation of the growth in contactless (as well as mobile payments) may well be driven by the roll out of smart ticketing systems across the UK, as well as other sectors offering and in some instances encouraging their customers to use contactless rather than cash for low value transactions, for example parking, coffee-shops etc.

It should be noted that the take-up of contactless payments is not a direct replacement of cash payments. In the survey quoted above it was reported that 48% of consumers using contactless were doing so as a replacement for both cash and debit card payments and 40% were using it a direct replacement for debit card payments; only 12% were doing so solely as a replacement for cash[21]. This behavior is reflected in the forecast provided by UK Finance: the volume of contactless payments is set to increase by 6.4bn payments by 2026 while debit card payments remain relatively unchanged[22].

However, growth in the adoption of digital payments at the expense of cash by consumers could be limited by a number of factors.

Digital inclusion

The Consumer Digital Index 2017 found that 9% of the UK adult population (about.5 million people) is offline. Although this has reduced from 11% in 2016, the report shows that the remaining 9% are less engaged and less easily persuaded than ever before. There are also 9.2 million adults with low digital capacity, meaning they are far less likely to access online information and services, which leaves them less able to benefit from online and digital discounts. This could hinder the progress of digital payments as there is a significant section of society that has yet to embrace digital technology and are unlikely to do so of their own accord.[23]

Economic Growth

The performance of the economy is a driver for people's payment preferences. This was demonstrated in 2008 and in the years 2010-2012 where an increase in the volume of cash transactions was recorded, bucking the trend since 2001 and the years to follow[24]. This reflects a retraction in economic growth in 2008-2009 and the subsequent years before returning close to pre-2008 growth (in terms of Gross Domestic Product)[25]. Therefore, in uncertain economic times, consumers moved back to cash and as the economy improves they returned to digital. This is probably due to the tangibility of cash and its use as a budgeting tool. Should economic growth stall there may be an increase in cash.

Employment

[20] UK Finance, 'Contactless 10 year report', 2017 https://www.ukfinance.org.uk/wp-content/uploads/2017/09/UK-FINANCE_Contactless-10-year-report-September-2017.pdf.
[21] Cash Services Research, 2017.
[22] UK Finance, UK Payment Markets 2017.
[23] Lloyds Bank, Consumer Digital Index, 2017 https://www.lloydsbank.com/assets/media/pdfs/lloyds-bank-consumer-digital-index-2017.pdf.
[24] Payments Council, UK Payment Statistics 2007; UK Finance, UK Cash & Cash Machines 2017.
[25] Office for National Statistics, Gross Domestic Product: Year on Year growth: CVM SA %, 22/02/2018 https://www.ons.gov.uk/economy/grossdomesticproductgdp/timeseries/ihyp/pn2.

The UK is experiencing the highest employment rate (75.3%) and the lowest unemployment rate (4.3%) since comparable records began. However, patterns of employment are changing, which can have an effect on the use of cash and adoption of digital payments. For example, the self-employed now represent a larger share, up from around 12% of the labour force in 2001 to around 15.1% in 2016; around 26% of employment is part-time work and 4% of employment (1.3 million people) is in the "gig economy" (which is expected to grow)[26]. Traditional full-time employment, with salaries paid regularly and directly into a bank account, remains a core feature, but for those with different working patterns getting paid can be irregular and cash can be a more convenient way both to pay staff and to be paid. In 2016, the value of cash paid as wages increased by 10% on the previous year, a change attributed to high levels of self-employment.

Welfare Reform

The roll out of Universal Credit has the potential to impact the use of digital payments. For example, as a monthly lump sum payment some recipients may choose to withdraw their Universal Credit in cash in order to manage their budgets. However, this effect if difficult to predict. UK Finance is monitoring its rollout and how this will affect recipients' payment behaviour[27].

Other Factors

In addition to consumer demand for cash the supply of cash through ATMs will also be a factor. LINK is improving and widening its financial inclusion programmes to protect ATMs in rural and deprived areas. This will allow differential pricing by geography via the interchange paid to deployers for running free ATMs. This means that as ATM numbers reduce, the overall spread will be maintained and it will be ATMs close to each other in busy urban centers that reduce. The overall impact on consumers will therefore not be detrimental. However, a sustained and major fall in cash usage will require changes to the structure of the cash value chain. In the case of ATMs, this is likely to result in pressure to reduce ATM numbers and drive further consolidation of the deployer industry. If ATM numbers decline as a result of falling demand then this may further accelerate the decline in cash usage. LINK's role as a systemic end-to-end risk manager means that it is already responsible for developing its approach to risk management across the system to maintain a safe and secure network as these market changes takes place. LINK is also exploring the option of supporting other lower cost cash distribution mechanisms such as cash from retailers' tills.

Lastly these forecasts assume the current position of wide *free* access to cash is maintained. If charging for cash withdrawals became widespread, for example by banks introducing charges for using ATMs, then a much quicker decline in cash usage may well occur as consumers moved from cash towards "free" or low-cost payments methods.

LINK Access to Cash Review

In order to understand long term cash usage better, LINK has established an independent Access to Cash Review, chaired by Natalie Ceeney CBE, to gather evidence and understand the future needs for cash by consumers for the next five to fifteen years across the UK. Over

[26] Office for National Statistics, Statistical bulletin: UK labour market: March 2018 21/03/2018 https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/march2018.
The Taylor Review of Modern Working Practices, Good Work, July 2017 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/627671/good-work-taylor-review-modern-working-practices-rg.pdf

[27] UK Finance, UK Cash & Cash Machines 2017

the next 12 months, the Independent Review will look at the current trends of cash usage in the UK, understanding the role cash plays among different groups of consumers, and the factors that impact the importance of cash to people (including those with disabilities, lower income levels, and the elderly), and by geography, including the likely differences between rural communities and cities. Engaging with a wide range of groups, the Review will publish a final report next year, outlining what consumers are likely to need over the next fifteen years in terms of cash access and what needs to happen to support meeting these needs. It is hoped that this work will be useful to other stakeholders including government. The Review will keep all such interested parties briefed and its work will be accessible on its website.

Q9. What impact has the change in demand had on industries that process cash?

At this stage, the changes in ATM usage so far do not seem to have been any significant impact on ATM operators. The number of free-to-use ATMs is at an all-time high and the reduction in pay-to-use machines seen over many years appears to be a result of competition from nearby free machines and consumers general reluctance to pay to withdraw cash.

Q10. Does the current denominational mix (eight coins and four banknotes) meet your current and future needs? If not, how should it change?

From an ATM perspective, there seems no requirement for additional denominations.

Q11. Have you made, or do you intend to make, any changes to the way that you accept cash due to the change in demand (for example, implemented rounding, restricted the use of certain denominations, or changed machines so that they no longer accept cash)?

Not applicable.

Q12. What measures can be taken to ensure that coins of denominations that are needed remain in active circulation and do not fall dormant, either with the public or at cash processors?

Not applicable.

Q13. In what circumstances is a £50 note used in routine transactions and why (rather than multiple lower denomination notes)?

ATMs which dispense £50 notes are uncommon and usually restricted to specialist locations such as casinos.

Q14. How were counterfeit £1 coins able to enter circulation and circulate freely?

Not applicable.

Q15. When and how are/should coins be checked in the cash cycle, both now and in the future?

Not applicable.

Q16. Are there other international examples of countries managing decline in demand for cash that the government should look to? Should the UK follow a similar pathway as other countries in modernising the currency?

The government might choose to monitor developments in countries with similar levels of cash use (such as The Netherlands) to learn how they are dealing with the challenges raised by a changing payments landscape, including creating a national ATM utility, as well as countries with low cash use (such as Norway, Denmark and Sweden), although in each case there are significant differences to the UK in terms of size, diversity, banking culture and their ATM networks. Countries with similar cultural backgrounds but with quite different approaches to how ATM networks are funded may also be of interest, for example Australia.

Chapter 4: Understanding the role of cash in facilitating tax evasion and money laundering

LINK's only comment on this section is that LINK Members put significant efforts in to ensuring that ATMs are not used for money laundering. This includes checks on potential ATM locations and use of industry knowledge to validate forecast cash dispense values for each site, validation of bank accounts and settlement arrangements. LINK is working with HMRC to further enhance these checks and controls to help preserve the integrity of this vital business model.

To discuss any aspect of this response please contact:

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Appendix One - about LINK

The LINK Scheme is the national ATM Network that connects virtually all the UK's ATMs. LINK's role is to provide UK consumers with universal access to cash in a safe, convenient and rapid manner. LINK currently has 36 industry organisations as Members that issue ATM cards and deploy ATMs in the UK. Cash machine operators join LINK in order to offer cash to the holders of 100 million plus LINK-enabled cards in circulation.

The LINK network is a fundamental part of the UK's payments infrastructure, and cash machines are by far the most popular channel for cash withdrawal in the UK, used by millions of consumers every week. The total value of LINK cash withdrawals can exceed £10 billion a month and at its busiest, LINK processes over 1 million transactions an hour.

LINK cash withdrawals account for around three-quarters of all cash withdrawals, with the remainder made up of withdrawals where cardholders use their own bank or building society's cash machines to access their cash.

LINK supports access to cash. The number of cash machines in the UK has grown from 36,000 in 2001 to just under 70,000 today. The number of free-to-use ATMs is at an all-time high of over 55,000, and over 98% of all ATM cash withdrawals by UK cardholders in the UK are made free of charge.

LINK is governed by an independent Board, which has a clearly defined public interest remit.

Link Scheme Holdings Ltd is the operator of the LINK Scheme as set out in the Financial Services (Banking Reform) Act 2013. 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. More information on the LINK company Board and governance is available here[28].

For more information on LINK please visit the LINK website at www.link.co.uk.

The latest LINK statistics can be found here[29].

A LINK factsheet is also available for download[30].

Selected LINK Statistic below.

[28] https://www.link.co.uk/about/governance/
[29] https://www.link.co.uk/about/statistics-and-trends/
[30] https://www.link.co.uk/media/1374/introduction_to_link.pdf

Selected Statistics

Total Cash Withdrawals – including on-us

	Cash Withdrawals - Millions		
	Free to use	Pay to use	Total
2001	2,135	39	**2,174**
2002	2,215	53	**2,268**
2003	2,293	80	**2,373**
2004	2,432	96	**2,528**
2005	2,591	108	**2,699**
2006	2,634	118	**2,752**
2007	2,723	113	**2,836**
2008	2,765	101	**2,866**
2009	2,735	92	**2,827**
2010	2,700	86	**2,786**
2011	2,793	81	**2,874**
2012	2,842	73	**2,915**
2013	2,832	67	**2,899**
2014	2,769	62	**2,831**
2015	2,738	59	**2,797**
2016	2,677	56	**2,733**
2017	2,548	50	**2,598**

ATM Numbers

	ATM Numbers - thousands Y/E		
	Free to use	Pay to use	Total
1998	24.6		**24.6**
1999	27.5	0.2	**27.7**
2000	28.5	3.0	**31.5**
2001	29.3	7.1	**36.3**
2002	31.7	10.3	**42.1**
2003	32.2	15.3	**47.5**
2004	33.0	21.9	**54.9**
2005	33.1	24.8	**57.9**
2006	34.5	26.3	**60.9**
2007	36.9	27.1	**64.0**
2008	38.6	25.3	**63.9**
2009	40.0	23.1	**63.1**
2010	41.6	21.7	**63.3**
2011	43.9	21.2	**65.1**
2012	45.6	20.4	**66.0**
2013	47.7	19.8	**67.5**
2014	50.2	18.8	**69.0**
2015	52.8	17.8	**70.6**
2016	53.9	16.1	**70.0**
2017	55.1	14.6	**69.6**

Average Cash Withdrawals per ATM

	Cash Withdrawals per ATM per month		
	Free to use	Pay to use	Total
2001	6,082	461	4,989
2002	5,815	428	4,494
2003	5,927	436	4,162
2004	6,134	366	3,838
2005	6,526	363	3,884
2006	6,354	374	3,769
2007	6,147	348	3,694
2008	5,975	332	3,738
2009	5,699	332	3,733
2010	5,411	330	3,670
2011	5,303	319	3,681
2012	5,190	298	3,679
2013	4,946	282	3,579
2014	4,601	274	3,419
2015	4,324	276	3,302
2016	4,137	290	3,253
2017	3,856	286	3,110

Recent LINK Cash Withdrawal Values

	LINK Transaction Values (£millions)		
Month	2016	2017	2018
Jan	£9,470	£9,430	£9,289
Feb	£9,686	£9,536	£9,294
Mar	£10,650	£11,071	£10,831
Apr	£10,812	£10,938	£10,158
May	£10,966	£11,051	
Jun	£10,713	£11,035	
Jul	£11,424	£11,338	
Aug	£11,072	£11,253	
Sep	£10,963	£10,964	
Oct	£11,182	£10,795	
Nov	£10,686	£10,635	
Dec	£12,039	£11,696	
Total	£129,665	£129,743	£39,571