

LINK's Response to PSR Consultation CP25/2 on the Proposed Revocation of SD4

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Introduction

1. LINK is a not-for-profit company governed by an independent Board. It has a public interest objective to protect access to cash across the UK.
2. LINK sustains access to cash through maintaining the coverage of free-to-use ATMs in remote and rural locations as well as improving free access in deprived areas of the UK through the operation of its well-established financial inclusion programme.
3. As part of its work, LINK manages the UK's main cash machine (ATM) network. 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) that are LINK Members to make cash withdrawals and balance enquiries with their payment cards at almost all ATMs. All of the UK's major card issuers and ATM operators currently choose to become Members of LINK. LINK processes around 915 million cash withdrawals each year, dispensing around £80 billion in cash through a network of around 45,000 ATMs.
4. LINK's access to cash role also includes acting as a Coordination Body, having been designated as such by the Treasury on 24th May 2024. In this part of its role, LINK is notified by those Designated Firms that choose to participate in LINK's coordination arrangements of their intention to close branches, and LINK then assesses the impact of the closure on the local area. LINK also receives requests from communities (individuals and groups, including elected representatives) to review cash access. Where LINK identifies a gap in cash access services that cause a significant impact on communities it recommends new cash facilities such as shared banking hubs and deposit services. To date, LINK has recommended new cash deposit and withdrawal services in approximately 290 communities. Responsibility for implementing LINK's recommendations is with the bank or banks concerned, some of whom choose to use a bank-owned infrastructure company called Cash Access UK for implementation.
5. LINK is regulated by the Payment Systems Regulator (PSR), and by the Bank of England as a systemically important payment system and is designated as such by the Treasury. LINK is also designated by the Treasury and supervised by the Financial Conduct Authority (FCA) in its role as an industry Coordination Body, and is subject to the FCA's Access to Cash Sourcebook.

LINK's Response to the Consultation Questions

6. LINK is pleased to respond to the PSR's consultation on the proposed revocation of Specific Direction 4 (SD4)¹.
7. This response reiterates LINK's previous discussions with, and representations to, the PSR, while also commenting on the further issues raised in the PSR's consultation paper.

Proposed Revocation of SD4

8. LINK welcomes the PSR's consultation and supports the proposal to revoke SD4 for the following reasons:
 - a. The LINK Scheme operates in a very different environment from that which existed at the time SD4 was conceived. LINK does not consider that the mandated competitive procurement process envisaged by SD4 remains viable, proportionate or meaningful.
 - b. LINK's existing central infrastructure services (CIS) arrangements provide good value for money and excellent quality of service. A mandated competitive tender process is unlikely to provide higher levels of service, better value, or greater innovation for the LINK Scheme which is in any way consequential for LINK, its members or the public.
 - c. The LINK Board has been the driving force behind the various innovations in the LINK Scheme since the last competitive tender (such as counter terminal transactions and automated deposits). LINK anticipates that future innovation will be driven by LINK, regardless of the approach to CIS infrastructure. In any event LINK ensures that it has robust terms with its CIS provider which support innovation and change within the LINK Scheme.
 - d. LINK considers that a new contract is unlikely to be commercially attractive to alternative providers due to declining revenues (resulting from reductions in cash usage and ATM transaction volumes), the need for substantial investment, and increased costs and regulatory expectations. This is particularly the case in respect of any "like-for-like" procurement on the basis of the existing infrastructure.
 - e. Linked to this is that SD4's lack of flexibility also prevents LINK from pursuing alternative approaches to securing its CIS requirements which could provide better outcomes than a mandated competitive tender and/or renewal of existing services.
 - f. The direct costs of running the procurement exercise, as well as any transition fees, migration costs and other barriers to switching that would result from the appointment of a new provider, may be prohibitively high for LINK's members thereby leading to the wind-down of the LINK Scheme. The removal of SD4 would reduce some of the burden on LINK, its members, and its infrastructure provider in a cash ecosystem where costs are already high.

¹ In this response "SD4" refers to both Specific Direction 4 and Specific Direction 4a.

- g. SD4 therefore could undermine LINK's ability to obtain a viable commercial solution for CIS provision beyond the expiry of the current agreement and/or LINK's members' willingness to support such efforts.
 - h. As such, SD4 seriously risks the viability of the LINK Scheme itself, which in turn jeopardises LINK's public benefit objectives of supporting access to cash in support of a healthy and growing UK economy. It may also prevent LINK from pursuing other opportunities which might arise in the coming years, and which may offer a longer-term future for the LINK Scheme and wider public benefits.
- 9. The revocation of SD4 could avoid these issues and help LINK to maintain free access to cash across the United Kingdom in a safe, secure and resilient manner.
- 10. LINK understands the wish to prioritise competition generally in respect of the CIS elements of payment systems. In the context of LINK (and in light of the above), LINK believes the priority should be to give the LINK Board the flexibility to prioritise the continuation of the LINK Scheme and its access to cash efforts for the benefit of its members and the public as long as it is required. LINK, as a member organisation that is accountable to its members, inevitably has to ensure that the outcome of any steps that it takes in respect of CIS provision ensures "value" for its members (regardless of any mandated procurement process). If LINK does not do so, LINK would likely be unable to secure the support of its members for any arrangements following the expiry of the existing agreement.
- 11. LINK believes that the original aims of SD4 – to encourage competition and innovation with a view to securing benefits for end users – can be better achieved through alternative measures such as ongoing supervision by the PSR and LINK's other regulators. However, any such supervision or other measures taken by regulators would need to be proportionate and take account of the full context of the LINK Scheme (including declining volumes). It is important that regulators work collaboratively with the LINK Board to find the balance between regulatory objectives (including innovation) and the continuation of the LINK Scheme and its activities in a sustainable and resilient manner. Nevertheless, LINK considers that both its and its regulators' objectives will in any event be broadly aligned in the context of the LINK Scheme going forward.

The Proposed Legal Instrument

- 12. The draft Specific Direction revoking SD4, as set out in CP25/2, appears to be suitable for its intended purpose. The date to be inserted into paragraph 3.1 will presumably be on or shortly after the date on which the new Specific Direction is made, as no implementation period is required.

Further Information

- 13. Any request for further information relating to this response can be sent by email to risk@link.co.uk.

Ends.