

Bank of England: Consultation on the Codes of Practice for wholesale cash distribution market oversight

LINK's Response to the Bank of England's consultation on Consultation on the codes of practice for wholesale cash distribution market oversight, published 30th November 2023.

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Introduction

1. LINK is a not-for-profit company with a public interest objective to protect access to cash across the UK. It is governed by an independent Board. LINK sustains access to cash through the operation of its well-established financial inclusion programme.
2. LINK's access to cash role is currently supported by a voluntary commitment from the UK's banking and ATM industry. The 2023 Financial Services and Markets Act places new obligations on a number of banks to support access to cash. This means LINK's work on financial inclusion will become regulated by the Financial Conduct Authority (FCA), alongside existing regulation by the Payment Systems Regulator (PSR) and the Bank of England (the Bank) as a systemically important payment system and is Recognised as such by the Treasury (HMT).
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. In 2023, LINK processed 1.5 billion transactions and dispensed £81 billion in cash through a network of around 49,000 ATMs.
4. LINK also assesses whether intervention is required to provide cash access facilities on behalf of the banking industry in all communities where cash infrastructure (such as bank branches) closes. Where there is inadequate access to cash after a closure, LINK specifies new shared facilities such as shared banking hubs and deposit services. These are then put in place by Cash Access UK.
5. Cash is in long term decline in the UK but still plays a significant role in many peoples' lives. There were 6.4 billion consumer cash payments in the UK in 2022, an increase of 7% from 2021 (a year affected by COVID19) accounting for 14% of all payments. Cash was second after debit cards (50%) and above Direct Debit (10%) Credit and charge cards (9%) and Faster Payments (9%). Around 45.4 million people used cash machines

in 2022, with 52% of cash machine users withdrawing cash at least once a month. However, cash use is still expected to halve to less than 7% of payments by 2032.¹

6. LINK therefore agrees with the Bank's Consultation that, while an increasing number of people are using and benefiting from digital payments, cash use is declining. However, cash remains vital for many in society and in addition plays an important contingency role should other payment systems fail. LINK agrees that declining cash volumes cause inefficiencies that are putting the UK cash infrastructure under pressure and that, should one aspect of the cash supply chain fail, then all will fail including those areas of retail distribution such as ATMs, which are LINK's responsibility.
7. LINK therefore welcomes the Bank of England's new powers to ensure that the wholesale cash distribution (WCD) infrastructure remains effective, resilient and sustainable as cash usage further declines and believes that the Bank's proposed oversight regime is appropriate, proportional and effective.

LINK's Response to the Consultation Questions

Question 1. Do you agree with, or have any feedback or comments on, the proposed CoP on Information Gathering?

The Bank's requirements, as specified in the WCD Data Catalogue, appear very comprehensive and what would be expected of designated participants operating in a critical sector where failure could have significant consequences for consumers. LINK notes that additional information may be required if circumstances change. LINK supports this flexible approach as market conditions can change quickly and unexpectedly, in some cases as a result of unexpected external factors, of which COVID19 is a recent example.

Question 2. Do you agree with, or have any feedback or comments on, the proposed CoP on Third Party Arrangements?

LINK believes that this is an important element as the number of participants in the WCD system is very small. For the WCD system to function effectively, a range of material third party arrangements will need to function as well. A proportionate risk assessment in relation to the risk of failure or disruption by these suppliers is therefore needed and LINK supports the proposed approach.

Question 3. Do you agree with, or have any feedback or comments on, the proposed CoP on Cash Centre Closure and Market Exit?

LINK believes that an unexpected cash centre closure or market exit by a major participant is perhaps the biggest risk to the WCD system. LINK therefore welcomes the proposal that requires recognised firms to engage with the Bank at as early a stage as possible. LINK notes the proposed timescales in this area (e.g. six months for cash centre closure, 12 months for market exit) appear realistic in terms of the notice, given what may be unexpected circumstances. However, and especially in the case of market exit by a significant participant, this may require rapid and decisive action if this risk crystallises and

¹ UK Finance: UK Payment Markets 2023.

the WCD system is to remain effective in continuing to meet the requirements of the wider cash user community, such as ATM operators and retailers.

Question 4. Do you agree with, or have any feedback or comments on, the guidance for the CoPs?

LINK has no further comments on this.

Question 5. Do you agree with, or have any feedback or comments on, the WCD Data Catalogue?

LINK has no further comments on this.

Ends.