



## **Public Accounts Committee Inquiry into the Production and Distribution of Cash**

### **Response from LINK Scheme Ltd**

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### **Summary**

Cash use in the UK is in long term decline, and this trend has been accelerated by the coronavirus crisis. Currently, cash is used for around one in ten payments. It is hard to argue that cash will be an important payment mechanism within ten years' time.

However, cash is still important to a significant minority of consumers now. Some five million consumers are reliant on cash to some extent despite the pressure that the crisis has put on people to move to digital. Low income is the strongest indicator for being in this group. Therefore, free cash access needs to be maintained until all consumers have an alternative. The UK is not ready to go cashless yet.

The reduction in volumes is putting significant strain on the cash infrastructure, including automated teller machines (ATMs). This infrastructure is provided by a competitive market made up of scores of commercial companies. Whilst several regulators supervise aspects of the marketplace, none is responsible for ensuring that consumers have access to cash. This is an unsatisfactory position in a declining market with high fixed costs, and runs the risk of the withdrawal of a vital service based on profitability rather than need.

LINK, a not for profit company with a public interest objective, has chosen to manage the decline in ATMs in a way that most benefits society pending development of a more coordinated approach by policy makers and the industry. A joined-up approach across the whole value chain, including cash deposits (as well as withdrawals), wholesale cash and post offices should be the policy goal. It is likely that some elements of supply will need to be delivered in a more "utility" style given the decline in the market and the high fixed costs.

Fortunately, there is significant overprovision in many areas. One example is ATMs in urban centres. Therefore, with the appropriate support, industry can maintain a good overall provision for consumers at lower cost. However, some participants will have to change their business models or exit the market and support from policy makers and regulators may be needed to help achieve this.

LINK welcomes the Government's intention to support the transformation required, with legislation where necessary. LINK will actively support this work.

LINK also considers that work to support the development of an inclusive digital approach to payments should now be initiated by industry and sponsored by the Government. At some point soon, cash will cease to be an important payment mechanism in the UK and it is vital that digital alternatives are designed that can support every citizen.



## **About LINK Scheme Ltd**

1. LINK Scheme Ltd (LINK) is the operator of the UK's largest cash machine network. Effectively, every cash machine in the UK is connected to LINK, and LINK is the only way banks and building societies can 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.
2. 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.
3. LINK supports access to cash. It is regulated by the Bank of England and the Payment Systems Regulator (PSR). It sets the rules for ATM operators that want their cash machines to be part of the UK ATM Network or card issuers that want their cardholders to be able to use the UK ATM Network.
4. LINK does not own or operate any cash machines. It is owned by its Members and operates in the public interest. LINK operates on a not-for-profit basis.
5. The evidence submitted to this inquiry focuses on ATMs as the primary means of consumer access to cash. It highlights the need to prevent vulnerable people who rely on cash for transactions from being excluded from accessing cash. It does not express any views on the production of notes.
6. This submission utilises data about the distribution of the ATM network, and how consumers use it, to highlight the continued importance of safeguarding free cash access while the UK becomes an increasingly digital economy. More information about the ATM network can be found at [www.link.co.uk](http://www.link.co.uk).

## **The ATM Network**

7. The ATM network is the most common source of consumer cash access. With around 60,000 ATMs connected to the LINK Network across the UK, there is excellent access currently for most consumers.
8. Between December 2017 and December 2019, withdrawals of cash at ATMs reduced by around 18% and LINK has seen much larger falls this year due to COVID-19. Over the same period, the number of free-to-use ATMs has also reduced, by 17%. Given that ATMs are costly to maintain and run, it is vital that the overall cost of the ATM network is reduced as cash withdrawals reduce.
9. LINK ATMs are operated by several companies. Some 25% are run by banks, and generally are situated in bank branches or at large supermarkets. The majority are run by private companies on a for profit basis.
10. Around 75% of ATMs are free-to-use. These machines are funded by the cardholder's bank, which pays an interchange fee to the operator of the machine every time a withdrawal or balance

enquiry is made. The remaining 25% are pay-to-use, funded directly by the consumer when a cash withdrawal is made. The fees paid by consumers at these ATMs are typically around £0.99.

11. There was a 37% increase in pay-to-use ATMs during 2019, although since then the number has fallen by 13%. This was a result of commercial decisions taken by operators. Pay-to-use ATMs are a legitimate commercial business model, but LINK will take action to provide free access to cash if a significant group of consumers have no alternative to a pay-to-use ATM.
12. LINK provided data to the National Audit Office to support its research and has verified the NAO's findings about the distribution of the network. A key point to note about the distribution of ATMs is that there is a heavy concentration in urban areas (over 85% of ATMs). As many are concentrated in deprived inner city locations, and given the operators' commercial strategy to change some free machines to charging, it is not surprising that the proportion of free-to-use ATMs has declined faster in more deprived areas. This decline does not necessarily coincide with a reduction in convenient free access to cash.

#### **Steps being taken to protect the ATM Network**

13. LINK is focused on protecting free access to cash. LINK protects over 3,000 ATMs which are more than 1km away from another free machine. As well as providing commercial incentives to ensure those machines are viable to run, LINK has a well-established programme for replacing those which do close.
14. In addition, LINK provides commercial incentives for over 1,000 ATMs which are in the most deprived areas of the country, to ensure that the most vulnerable consumers are still able to access to cash.
15. In 2019, LINK guaranteed to provide free cash access within 1km of every UK High Street. At present, 12 High Streets are being targeted for the deployment of a new free ATM. LINK has also invited communities which require better cash access, but which do not meet the formal criteria of its programmes, to request an ATM. In the 11 months since the launch of that programme, over 30 free-to-use ATMs have been funded by LINK and will remain in place for a minimum of five years.
16. These steps are designed to ensure that, while the ATM network reduces in size, its geographic footprint remains strong at a national level. These measures are funded by banks and building societies, which spend over £1m a month on commercial incentives for strategically important ATMs, and have provided £4m to invest in new ATMs requested by communities or required to support High Streets.

#### **Consumers' use of ATMs and the impact of COVID-19**

17. As noted above, consumers are already using cash less. This is a natural result of the take-up of digital and contactless payment methods, and the shift to online shopping.

18. The 2019 Independent Access to Cash Review forecast that by 2028 cash would make up just 10% of transactions, down from 28% in 2018.<sup>1</sup> LINK expects that the COVID-19 crisis will substantially accelerate that shift away from cash.
19. The Access to Cash Review forecast for 2028 could, in fact, happen as soon as 2023. The Review sets out a number of risks from this transition, from people being left behind to a threat to the resilience of payment methods.
20. While LINK does not collect data about the people who use the ATM network, it has commissioned surveys throughout the year which ask consumers about their cash usage. When surveyed in May, 78% of people said that they were using cash less, and just 2% said they were using cash more. In September, the same question found that 71% of people were using cash less.
21. However, it is clear that large numbers of consumers continue to rely on cash. Over £1bn was withdrawn every week even at the height of lockdown, and people's spending has been concentrated in "essential" locations, particularly in convenience stores and supermarkets.
22. In April 2020, cash withdrawals were 60% lower than April 2019. While transactions have grown gradually as lockdown measures have eased, they remain substantially lower than those in 2019.

#### **Deprivation is a key indicator of cash usage**

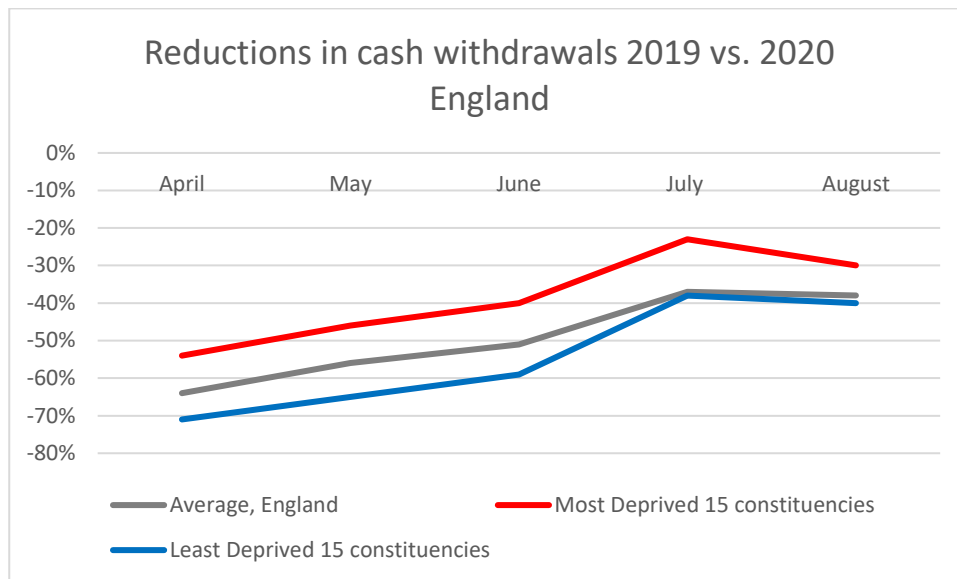
23. The Access to Cash Review found that, in 2019, around 2.2 million people used cash for all their daily transactions, and that over 15% of people with incomes of under £10,000 a year rely completely on cash, compared to less than 2.5% of all higher income groups.<sup>2</sup>
24. The fact that more deprived groups rely on cash more heavily has been borne out in the change in transaction volumes at ATMs. While transactions overall reduced by over 60% in April, in the most deprived areas of the country, the reduction was just 56%.
25. This is clear evidence that the most deprived consumers continued to rely on cash much more heavily than the most well off. The chart below compares the reduction in withdrawals in the most deprived 15 constituencies in England with the reduction in the least deprived 15 constituencies in England.<sup>3</sup> It shows that the most deprived constituencies saw much smaller reductions in cash withdrawals than the national average. The wealthiest constituencies moved away from cash much faster.

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<sup>1</sup> The Access to Cash Review, 2019, Chaired by Natalie Ceeney CBE, <https://www.accesstocash.org.uk/>.

<sup>2</sup> *ibid.*

<sup>3</sup> Constituencies selected using House of Commons data: <https://commonslibrary.parliament.uk/research-briefings/cbp-7327/>



26. When repeated at a ward level, the poorest areas in cities showed much smaller reductions in cash withdrawals than the wealthiest. In Cardiff, for example, while the Ely Ward, which is among the most deprived in Wales, saw withdrawals drop by 24% year on year in April, Llandaff, among the least deprived, saw transactions reduce by 83% year on year.<sup>4</sup>
27. While there are many local reasons which may influence cash withdrawals, deprivation is a significant indicator of areas continuing to take cash out at ATMs during the pandemic. This reinforces the continued importance of cash to the most deprived areas.

### Impact on COVID-19 on the ATM Network

28. LINK expects that cash withdrawals will be around 35% lower in 2020 as a whole than they were in 2019, even if the country returns to more normal levels of economic activity. As ATMs are funded on a per-transaction basis, this puts increasing strain on the ATM network, and could result in significant upheaval in the industry.
29. LINK expects the reduction in free-to-use ATMs to continue over time as a result of these reduced transaction volumes.
30. Over the past two years, operators have converted over 4,000 ATMs from free-to-use to pay-to-use, though some have since converted back to free-to-use, and others have closed. The further reductions in transaction volumes may prompt operators to convert more machines for commercial reasons. If this happens then it will result in an increased proportion of people being charged when they withdraw cash. Careful monitoring needs to be undertaken to ensure that this does not lead to consumer detriment, especially for the more vulnerable.

<sup>4</sup> Deprivation data based on lower super output areas detailed in the Welsh Index of Multiple Deprivation, available at <https://wimd.gov.wales> ATM withdrawals are counted at Council Ward level.

31. LINK will continue to incentivise ATMs in remote or deprived areas and replace ATMs which are lost. However, the location of ATMs is primarily determined by commercial actors in the marketplace. The rapid shift in the market means that there is a strong public interest in taking steps to protect the most vulnerable communities.

### **Responding to the risks**

32. As a result of the pandemic, LINK has increased its powers to respond to the closure of certain ATMs and provided additional incentives for protected ATMs and ATMs in deprived areas. It has also decided not to go ahead with a planned reduction in interchange which was due in 2021.
33. LINK has supported the work lead by the FCA during the pandemic to maintain good coverage of access to cash across the UK.
34. In addition, LINK has committed to maintaining its community request scheme open. Funded by banks and building societies, this gives communities the option to raise issues with cash access, which LINK can respond to by funding a new free-to-use ATM. To-date, over 30 ATMs have been installed using this funding.
35. However, the risk of the most deprived communities being left behind is significant. LINK considers that its current initiatives will maintain coverage for the time being. However, LINK also welcomes the Government's intention to legislate to support a more sustainable approach.
36. In recent months, LINK has worked closely with the PSR, HM Treasury and Financial Conduct Authority, consumer groups and its Members to identify industry-led responses to these challenges and to inform the Government's planned legislation.
37. This includes new ways of thinking about cash access, utilising other systems to ensure that cash remains viable. For example, LINK is currently trialling a method for withdrawing cash over the shop counter without purchase.<sup>5</sup> Coupled with the Post Office (which offers free cash withdrawals and deposits to consumers and businesses at all of its branches), this multi-channel approach to cash access offers a mechanism to sustain free cash access for many communities, as it is not currently practical for a retailer to provide cash unless a purchase is also made.
38. LINK also considers that work to support the development of an inclusive digital approach to payments should now be initiated by industry and sponsored by the Government. At some point soon, cash will cease to be an important payment mechanism in the UK and it is vital that digital alternatives are designed that can support every citizen.

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<sup>5</sup> <https://www.thegrocer.co.uk/convenience/million-pound-scheme-launched-to-help-improve-access-to-cash/648577.article>

## Conclusion

39. The ATM network continues to be the most popular source of cash, accounting for 87% of all consumer cash acquisition,<sup>6</sup> and is likely to remain so for the foreseeable future. Despite the lockdown of the economy, over £1bn was still being dispensed from LINK ATMs every week in April 2020.
40. The ATM network provides excellent coverage for most consumers and is the most reliable source of accessing cash. However, it remains vital that the costs of the network are managed down as consumers choose other forms of payment.
41. As consumer behaviour changes, there will be increasing pressure on the economics of the ATM network. LINK has well established policies to manage this and maintain the geographic footprint of the ATM network. However, public policy should focus on ensuring that people are not left behind, as it will be those least able to adapt who are impacted by any problems which arise.
42. LINK agrees that there is a role for co-ordinated regulatory, legislative and political action to help manage the transition of the UK towards a more cashless society. LINK welcomes the Government's intention to take such a co-ordinated approach.
43. This transition has undoubtedly been accelerated by COVID-19. The need to manage is clear and the warning of the Access to Cash Review that the UK cannot sleepwalk into a cashless society, is more apposite than ever.

**-ENDS-**

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<sup>6</sup> PSR and Britain Thinks, 2019, <https://www.psr.org.uk/psr-publications/news-announcements/psr-publishes-report-into-how-people-and-business-access-cash>