



PSR Submission to the Welsh Assembly Committee on Economy, Infrastructure and Skills inquiry into Access to Banking

Introduction

The Payment Systems Regulator (PSR) is the economic regulator for the payment systems industry in the UK. We regulate many of the systems that move people's money – including LINK, which connects most of the country's ATMs.

We have statutory duties, powers and objectives under the Financial Services (Banking Reform) Act 2013 (FSBRA – the legislation that created us). In summary, our objectives are to:

- ensure that payment systems are operated and developed in a way that considers and promotes the interests of all the people and organisations that use them
- promote effective competition in the markets for payment systems and services – between operators, payment service providers (PSPs – banks and others) and infrastructure providers
- promote the development of, and innovation in, payment systems, in particular the infrastructure used to operate those systems

As part of fulfilling our role, we're committed to making sure that people and businesses can access cash and, more generally, pay for things in ways that meet their wants and needs. We recognise that access to cash is about more than just ATMs, although our remit doesn't extend to wider banking or financial services, such as the provision of bank branches. This is a key reason why we work closely with central government, the Financial Conduct Authority (FCA), the Bank of England and other regulators and consumer groups to promote accessibility of payment systems as part of financial services generally.

We are a member of the newly established Joint Authorities Cash Strategy Group (JACS), chaired by HM Treasury. The Group will coordinate work to support nationwide access and help safeguard cash for those who need it. We would also welcome the opportunity to work on this with the devolved parliaments.

This submission gives an overview of our work and, where it's relevant to your consultation, on access to financial services in Wales.

Access to banking services in Wales – the current position

Including issues relating to financial inclusion and digital inclusion

Research shows that a significant proportion of the UK population continues to want or need to be able to pay for things with cash. We want to protect that choice being available. This means that there needs to be suitably widespread facilities for people to easily access cash. In the short-term this means protecting the current geographic spread of free-to-use (FTU) ATMs, while we explore what the options are to safeguard access to cash in the longer term, working with the other authorities which also have a role to play in this.

Over the longer term, further changes may be needed to protect access to cash. The work includes looking at the arrangements for how ATMs work into the future, and removing barriers to developing different ways of accessing cash (we discuss this below). We will also need to take account of the costs businesses face when they choose to accept cash, the overall cash system (including how cash is sorted and delivered around the country) and the interaction with other ways of paying.

Against the background of an increasing number of different payment methods, and increasing popularity of different ways of paying, cash use is declining across the UK. This has two important impacts, as summarised in the recent reports of the Access to Cash Review¹ (an independent review, funded by LINK, to consider consumer requirements for cash over the next five to fifteen years). In particular:

- it means that the costs of providing and operating the current network of FTU ATMs are being spread over a smaller number of transactions. This increases the average cost per transaction. The banks that provide personal banking services meet these costs each time their customers withdraw cash from another organisation's ATM, through LINK's interchange fee. This fee is ultimately part of the cost of providing 'free' bank accounts which allow access to the LINK network of ATMs.
- this reduction in cash usage affects how businesses choose to accept payments, as the costs of handling cash and of accepting electronic payments change over time. A particular issue here is the ability for businesses to deposit cash takings, and the associated cost.

Communities face reductions in local services, transport, shops and local bank branch closures. While bank branches are not within our remit, the aspect of local financial services impacted by our work is people being able to, both, access their cash and spend it.

¹ Access to Cash Review www.accesstocash.org.uk/media/1087/final-report-final-web.pdf

Access to free-to-use ATMs

We monitor the availability of free and pay-to-use ATMs in Wales, as we do across the UK.

ATM use – key facts and figures

Between March 2018 and 2019 in Wales²:

- the number of cash withdrawals fell by 4%
- the number of FTU ATMs fell by 10% (by 236 – from 2,517 to 2,281)
- the number of pay-to-use (PTU) ATMs increased by 1% (by 8 – from 724 to 732)

For comparison, between March 2018 and 2019 across the UK and Channel Islands:

- the number of cash withdrawals fell by 5.9%
- the number of FTU ATMs fell by around 8% (by 4,216 - from 54,343 to 50,127)
- the number of PTU ATMs fell by around 1% (by 180 - from 12,924 to 12,744)

In the last decade, the number of FTU ATMs in the UK grew by about 35% (to 52,000 in 2018, from 38,600 in 2008). The number of cash withdrawals from LINK ATMs peaked in 2012 and (as described above) has fallen every year since then.

LINK is a not-for-profit network, originally organised by banks to allow them to offer cash withdrawal services to each other's customers. Its membership comprises both banks and independent providers of ATMs (independent ATM deployers or IADs). LINK does not deploy or manage ATMs itself – it provides the connectivity and communication between ATMs and banks to allow people to withdraw their money in cash from any ATM on the network, regardless of the ATM's provider.

In late 2017, following a consultation, LINK announced a phased reduction in its interchange fee. This is the fee paid by a cardholder's bank when a customer uses an ATM not operated by their bank. LINK cut this fee to address the increase in ATM numbers against a backdrop of declining use of cash. Lower interchange fees, combined with falling withdrawals from ATMs, has reduced the income available to those that provide FTU ATMs.

IADs have cited these two factors as the reason why more FTU ATMs are closing or being converted to a charging basis by their operator.

² Data provided to PSR by LINK in May 2019.

PSR steps to protect access to free-to-use ATMs

LINK announced a commitment to maintaining the broad geographic spread of FTU ATMs across the UK in January 2018. We then asked LINK to:

- monitor the effects of its interchange reduction programme, and to take steps to protect that geographic coverage
- report to us on any changes in the Protected FTU ATM network and what it's doing to address them

In October 2018, we issued Specific Direction 8 (SD8)³, requiring LINK to do all it can to fulfil its public commitment. In response, LINK formalised and published its policies to protect FTU ATMs that are more than 1km from another FTU ATM ('Protected ATMs'), to help preserve free access to cash. Where a Protected ATM is known to be at risk of closure, LINK has established mitigation measures aimed at either making it more attractive to keep the ATM open, or procuring a replacement⁴ ATM if it has been closed.

SD8 places a requirement on LINK to report to us every month on:

- any developments in LINK's interchange strategy
- the size and changes of the ATM estate, including the number of:
 - FTU ATMs (in bank branches and remote)
 - PTU ATMs
- how the changes to the ATM estate compare with LINK's own expectations at the beginning of 2018

LINK also publishes a monthly footprint report on its website on changes in the Protected ATM estate.

As a result of our intervention in 2018, and ongoing monitoring its work in this area, LINK has taken a number of important additional steps to help meet its commitments. These include LINK:

- introducing a new 'super-premium' of up to £2.75 per transaction - increasing the interchange revenue from withdrawals for the majority of Protected ATMs
- starting to commission replacement ATMs directly, where the offer of an additional interchange fee fails to replace a Protected ATM which has closed
- raising additional funds from its issuing members to support its Protected ATM policies

Since LINK introduced the super-premium on 1 April 2019, the operators of around 1,800 Protected ATMs have become eligible for additional payments. LINK's stated aim is to prolong the viability and ongoing availability of low-volume Protected ATMs, to avoid closures and the need for replacement activities (which incur costs and cause an interim service gap for ATM users, potentially of many months).

³ <https://www.psr.org.uk/psr-specific-direction-8>

⁴ Note that LINK is not an ATM operator itself, but is the operator of the LINK network that connects ATMs to the banks / financial institutions that hold ATM users' accounts.

We continue to monitor LINK, including whether its policies, procedures and mitigation strategies are fit for purpose to preserve the broad geographic coverage of FTU ATMs.

Digital Inclusion and other methods

As noted above, our remit does not extend into wider banking or financial services. However, access to payments is an important part of this overall picture, and we work with the FCA in this regard.

Many people are happily using new, electronic ways of paying for things. However, for some consumers and some transactions cash remains the main, if not only, viable option. And in areas where there remain connectivity issues – including some remoter rural areas – digital alternatives may be less practical.

There are an increasing number of ways to pay for goods and services, which are proving popular alternatives to cash. Debit card payments became the most frequently used payment method in 2017. Other ways of paying with cards, such as contactless payments (including using mobile phones) have also developed and are increasingly being relied on by those making payments. Contactless payments comprised more than a third of total UK card transactions in 2018, a 27.5% increase from the previous year.⁵ Transactions which were traditionally dominated by cash are increasingly being made by other methods. This, however, raises issues around whether everyone is able to use these alternative payment methods.

There are also alternative ways of accessing and depositing cash, both developed and developing, including: ‘smart’ ATMs (which can, among other things, take cash and cheque deposits); different ways of providing cashback; generic bank branches; in-business ‘smart’ safes; and the provision by the Post Offices of personal and business banking services.

It is important to understand whether these developments will, in fact, address the challenges presented by the declining use of cash. With this in mind, we have commissioned research into small business and customer preferences between cash and other payment methods; and how people and small businesses access and deposit cash. Our research will build on the evidence presented in the Access to Cash Review.

Looking further ahead, the development of Open Banking and the implementation of the second Payment Services Directive (PSD2) also have the potential to lead to more varied and competitive ways of making digital payments.

While it is appropriate to promote innovation in a way which makes digital alternatives more inclusive (an area where the PSR’s and FCA’s remits overlap), we consider it likely that certain transactions and certain groups of consumers⁶ will remain reliant on cash for many years to come. Cash therefore remains an important part of the overall payments landscape.

⁵ Source: UK Finance.

⁶ Under s149 of the Equality Act 2010 the PSR must have due regard to the impact its decision making will have in relation to those with ‘protected characteristics’, being: age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation.

How branch closures and access to free ATMs can affect local communities

Banking services

The FCA has recently conducted its Strategic Review of Retail Banking Business Models, the final report of which was published in December 2018⁷.

The review found that the trend in decreasing bank branch numbers at the national level is apparent in all regions of the UK. In 2012 UK regions had between 18 and 25 branches per 100k inhabitants, whereas in 2017 this had decreased to between 13 and 18 branches per 100k inhabitants.

The number of bank branches in Wales declined by 20.3% between 2012 and 2017 (from 729 to 581). The number of branches per 100,000 inhabitants fell from 23.7 to 18.6 over the same period (a fall of 21.6%). Notwithstanding this, Wales still has the highest coverage per capita of all UK regions (including Scotland). However, as the FCA notes, coverage on a per capita basis is only a proxy for access to branches, as travel distances to branch will play an important role too.

Financial inclusion - ATMs

LINK's original Financial Inclusion Programme was set up in 2006 and focused on providing incentives to ATM operators to provide FTU ATMs in areas of social deprivation. The social deprivation criteria LINK uses were reviewed in 2015 by Toynbee Hall, and changes were made, bringing another 957 areas across the UK into the programme.

Around 8,500 of the UK areas of social deprivation identified by LINK already had FTU ATM so did not need this additional subsidy. Of the 2,800 areas that did not have an FTU ATM, 1,900 areas have so far been resolved (i.e. have access to a FTU ATM) under LINK's programme, and around 900 have not yet been resolved. We understand that in some instances, the ability for an ATM operator to find a suitable physical site for placing an ATM has been an issue.

Remote areas

As set out above, LINK's newly developed Protected ATM policies are specifically aimed at preserving the ongoing availability of FTU ATMs that do not have another FTU ATM within 1km. The baseline for this policy is the spread of FTU ATMs as at 1 February 2018. It does not aim to install new ATMs in areas where no ATM existed prior to that date.

In areas that currently have multiple FTU ATMs (e.g. several on the same high street), we might expect to see some reduction in the number of FTU ATMs, as cash use declines. However, where the closure or conversion of an FTU ATM results in there now being a distance of more than 1km to the next FTU ATM, this may trigger the remaining FTU ATM to obtain LINK's protected status. 137 FTU ATMs (22 in Wales) have attained

⁷ <https://www.fca.org.uk/publications/multi-firm-reviews/strategic-review-retail-banking-business-models>

protected status in this way between July 2018 and March 2019⁸, bringing the total UK number of Protected ATMs to 2,502 (183 in Wales).

We will continue to monitor LINK's policies, and expect that its 'super premium' will provide greater financial incentives on ATM providers to limit further closures of Protected ATMs.

As of LINK's (latest) March 2019 Footprint report, 15 of the 183 Protected ATMs in Wales have closed. Of those 15, 11 have a Post Office branch nearby.⁹ Of the remaining four closed Protected ATMs in Wales, one is not available to the general public.¹⁰ LINK's policy is that it will not seek to replace ATMs in these circumstances.

LINK is targeting the remaining three closed Protected ATMs in Wales for replacement. For one of these, LINK will offer additional interchange to replace the closed Protected ATM. For the other two, LINK is directly commissioning replacement FTU ATMs.

Separately, free access to cash has been restored in two protected locations that were previously targeted for replacement in Wales, through the reinstallation of FTU ATMs.

⁸ This is based on LINK's March Footprint report, which was published on 13 May 2019.

⁹ LINK's policy considers a Post Office branch to be a sufficient substitute to an ATM, provided it is open at least five days per week. LINK does not seek to replace a closed ATM in this scenario.

¹⁰ This closed Protected ATM is located in a workplace.