

Consultation Response

Which? response to Payment Systems Regulator Call for Views: Specific Direction 8

Summary:

- Which? welcomes the opportunity to respond to the PSR's call for views of Specific Direction 8.
- Specific Direction 8 should remain in place at least until legislation to protect access to cash has been passed and a regulatory framework has been introduced.
- The PSR should review how Specific Direction 8 fits into a wider regulatory framework once legislation has passed. In the interim, Specific Direction 8 should be maintained to protect the widespread geographic footprint of ATMs.
- We disagree with the argument that Specific Direction 8 should not remain in place because of the introduction of other initiatives in the cash space. It would be particularly unwise to remove Specific Direction 8 based on the promise of schemes such as cashback without purchase, which are yet to be introduced and tested.
- We are concerned by the continued closure of protected ATMs, including the temporary closure of 48 protected ATMs due to the pandemic. LINK and the PSR should work closely on identifying improvements to the Protected ATM scheme to prevent further closures.

Introduction

Which? welcomes the opportunity to respond to the PSR's call for views on Specific Direction 8. Our Freedom to Pay campaign has been highlighting the need to protect access to cash since 2017.

Cash remains a vital way to pay for millions of people. Our recent research found that there are 2.5 million consumers in the UK who are completely reliant on cash to pay for essential products and services. The ATM network plays a central role in ensuring that these cash-reliant consumers can access the cash they rely on. 91% of cash withdrawals took place via an ATM in 2019, demonstrating the popularity of ATMs for accessing cash¹.

Which? has raised questions before about the effectiveness of LINK's programmes for ensuring that access to cash is maintained. We believe that LINK should continue to improve its programmes, to ensure that they are responsive to changes in the market and remain fit-for-purpose. However, it is vital given the context of the pandemic and the absence of proven viable alternatives that Specific Direction 8 remains in place.

Specific Direction 8 should remain in place

The pandemic has hugely exacerbated the fragility of the cash system, including the ATM network. The repeated lockdowns over the last year have been accompanied by substantial drops in the number of ATM withdrawals². While withdrawal volumes partially recovered over the course of the year, the most recent round of lockdown measures has been accompanied by another drop in withdrawals. According to

¹ HM Treasury (2020) Call for Evidence: Access to Cash. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/926666/Call_for_Evidence_-_Access_to_Cash_15.10.2020.pdf

² LINK (2021) Consumer Council Report. Available at: https://www.link.co.uk/media/1703/01126_link_consumer-report-2020-online.pdf



LINK data, withdrawal rates in January 2021 dropped to 98.5 million, compared to 185.1 million in January 2020³.

The reduction in withdrawals coupled with fixed infrastructure costs will threaten the viability of parts of the ATM network. We are concerned that the cash system may fail before legislation is introduced. We know from the experiences of other countries such as Sweden that once key infrastructure is gone, it will be almost impossible to bring it back.

We have called on the Government to introduce legislation as soon as possible to protect access to cash. However, given the severity of the current situation, it is more important than ever that current measures to protect access to cash are maintained until viable longer-term solutions can be introduced. Even if improvements are needed to LINK's protected ATM scheme, the principles of it should not be removed. The ATM network could suffer from even more closures and worse outcomes if it is removed before longer-term solutions are in place.

We disagree with the argument that Specific Direction 8 should not remain in place because other recent initiatives for enabling access to cash have been introduced. These new initiatives fulfil a fundamentally different role to the LINK protected ATM scheme. LINK's other initiatives, such as its "request an ATM" scheme, are focused on filling in gaps in existing ATM provision, rather than maintaining a widespread footprint of ATMs.

Similarly, the Community Access to Cash Pilots is a useful scheme for innovating ways of providing cash access and filling in access gaps in the nine communities the scheme is working with. However, the scheme is limited to a small number of locations and is not aimed at protecting widespread cash access in the same way LINK's protected ATM scheme is. Furthermore, the Community Access to Cash Pilots is still at an early stage and has largely been paused due to the coronavirus pandemic. This means the effectiveness of the solution being piloted is still unclear. Given that these are far from being proven viable alternatives at this stage, they should not be used as a reason to remove Specific Direction 8.

Given the current fragility of the cash network, it would be particularly unwise to remove Specific Direction 8 because of the potential introduction of initiatives like cashback without purchase and shared banking hubs. Given these schemes are yet to be implemented in the UK, it is difficult to determine what their impact on cash access will be. Furthermore, it would be unwise to remove Specific Direction 8 while there is no clear roadmap for the introduction of these schemes.

Therefore, our view is that **Specific Direction 8 should remain in place until legislation is introduced and a regulatory framework to protect access to cash has been implemented.** While it will be sensible to review how Specific Direction 8 fits into a wider regulatory framework once legislation has passed, it is important that Specific Direction 8 is maintained to protect the geographic footprint of ATMs until that point.

Improvements could be made to LINKs protected ATM schemes

In response to previous reviews of Specific Direction 8, we have stressed the importance of ensuring that the protected ATM scheme remains fit for purpose and can adapt to ongoing changes in the market. This is particularly relevant given the changes we have seen in the ATM market over the course of the pandemic.

Our view is that there are improvements that can be made to LINK's protected ATM scheme. In particular, there have been more closures of protected ATMs than would have been expected, given the obligations under the scheme. In our response to the last review of Specific Direction 8, we raised concerns that

³ LINK (2021) Statistics and Trends. Available at: <https://www.link.co.uk/about/statistics-and-trends/>



more than 200 protected ATMs had closed or converted to pay-to-use since February 2018. A year later, that number now stands at 328⁴. The continued closure of protected ATMs is concerning, given the importance of cash access to the communities these ATMs serve. LINK should work with the PSR to identify improvements to its protected ATM scheme to prevent closures.

We have also been concerned by the temporary closure of protected ATMs due to the pandemic. According to LINK's most recent figures, 43 protected ATMs are currently closed as a result of the pandemic⁵. LINK should work closely with the PSR to establish the impact of these temporary closures on cash-reliant consumers and identify solutions to mitigate these impacts wherever possible. This is particularly important given the possibility of continued lockdowns over the coming months.

Which? acknowledges that Specific Direction 8 has led to clearer and transparent reporting, with the monthly ATM footprint reports containing valuable information about the changes to the number of protected ATMs. However, we have previously raised that this reporting could be improved further. In particular:

- LINK should publish information on how quickly machines targeted for replacement are reintroduced to local communities. This information would establish how long communities are being left without access so that any flaws in the replacement process can be addressed.
- LINK should publish more detailed information at the machine level about the reason used to determine whether a machine was targeted for replacement. While LINK's current data identifies where machines have been closed due to a security issue⁶, it is not specified what the reason is for the other machines not targeted for replacement (e.g. because they are not accessible to the public, are near to a Post Office etc.). This information would allow for stakeholders to better understand the decision to not replace a machine and to challenge these decisions where necessary.

About Which?

Which? is the UK's consumer champion. As an organisation we're not for profit - a powerful force for good, here to make life simpler, fairer and safer for everyone. We're the independent consumer voice that provides impartial advice, investigates, holds businesses to account and works with policymakers to make change happen. We fund our work mainly through member subscriptions, we're not influenced by third parties and we buy all the products that we test.

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February 2021

⁴ LINK (2021) LINK Scheme ATM footprint report. Available at: <https://www.link.co.uk/media/1709/atm-footprint-report-december-2020.pdf>

⁵ LINK (2021) LINK Scheme ATM footprint report. Available at: <https://www.link.co.uk/media/1709/atm-footprint-report-december-2020.pdf>

⁶ LINK (2021) Closed ATMs data. Available at: <https://www.link.co.uk/media/1707/328-closed-atms-accompanying-december-2020-footprint-report.pdf>