HOUSE OF COMMONS

Scottish Affairs Committee

Oral evidence: ATM Network in Scotland, HC 925

Tuesday 15 May 2018

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Watch the meeting

Members present: Pete Wishart (Chair); Deidre Brock; David Duguid; Hugh Gaffney; Christine Jardine; Ged Killen; John Lamont; Paul Masterton; Danielle Rowley; Tommy Sheppard; Ross Thomson.

Questions 1 -103

Witnesses

I: Stuart Mackinnon, External Affairs Manager – Scotland, Federation of Small Businesses; and Richard Piggin, Head of External Affairs, Which?.

II: Ron Delnevo, Executive Director Europe, ATMIA; Duncan Faithfull, Director of Corporate Affairs, Cardtronics; John Howells, CEO, LINK; and Eric Leenders, Managing Director – Personal Finance, UK Finance.

III: Hannah Nixon, Managing Director, Payment Systems Regulator.

Written evidence from witnesses:

- Federation of Small Businesses
- Which?
- ATMIA
- Cardtronics
- LINK
- Payment Systems Regulator

Examination of witnesses

Witnesses: Stuart Mackinnon and Richard Piggin.

Q1 **Chair:** Can I welcome you both to the first of our one-off sessions into the ATM network in Scotland? Just for the record, can you say who you are, who you represent and anything by way of a short statement, with the emphasis being on short, given the limited time we have today? We will start with you, Mr Piggin.

Richard Piggin: Good morning, and thank you for inviting me here today. My name is Richard Piggin. I am the Head of External Affairs at Which? Which? is the largest consumer organisation in the UK. We have spoken to and listened to our members and supporters, we have conducted research with consumers in Scotland and we are concerned about LINK's proposed changes to the ATM interchange fee and the impact it might have on consumers in Scotland. Our research shows that nine in 10 say that free cash machines are important to their daily lives; over half say that they are essential for their daily living; and 62% use free-to-use cash machines at least once a week. It is critical that consumers are able to maintain easy access to their cash.

We are concerned that these changes might hinder that, especially for those consumers or specific groups of consumers who rely on cash, who do not just prefer to pay cash, but use cash as their only payment method. These might be elderly consumers or consumers on low incomes who use cash for budgeting purposes. Although we have not done a full assessment of exactly how many ATMs might be closed or might be under threat, we have heard that it is very likely that the impact will be most keenly felt in remote areas or in urban deprived areas, which is precisely where there is currently poor coverage of ATMs and currently where those groups of consumers who rely on cash live.

Stuart Mackinnon: Hello, my name is Stuart Mackinnon. I am the External Affairs Manager for the Federation of Small Businesses in Scotland. The FSB is a small business campaign group, representing thousands of businesses in Scotland and hundreds of thousands across the UK.

Cash machines have been a vital part of UK high streets for over 40 years, and therefore we were concerned about LINK's plans to reduce the interchange fee, which might reduce the number of ATMs in our local communities. To state the obvious, having a cash machine located near your business helps with footfall, and having a working cash machine in your local community helps with cash flow around that community. The research that we have conducted on this issue suggests that the majority of independent retailers say that losing access to the free-to-use cash machines would hurt revenues. Around one in three state that losing a local cash machine would impact on their ability to retain customers, and one in 10 small businesses say they would lose over £50 a day in revenues from not having access to a local cash machine.

Q2 **Chair:** Grateful. Just to help us out, first of all, this is all down to this interchange fee reduction that has been proposed by LINK. Can you just explain to us how this works and how, in your view, this will lead to some of the situations and circumstances that you have described? Could you help us with that, Mr Piggin?

Richard Piggin: Yes. The proposed change is to reduce the level of the interchange fee. It is currently around 25 pence. It is a phased reduction: the first phase comes in on 1 July, at 5%—roughly a penny. What we have heard from ATM independent operators is that this could make a large number of their cash machines—their free-to-use cash machines—financially unviable. They model how efficient—how profitable in some cases—those cash machines are in certain locations, based on the number of transactions et cetera and the costs that they have to provide to the network. They said that as a result of this fairly blanket reduction across the board—aside from a small proportion, which we might talk about later, covered by LINK's financial programme—many of their machines, or some of their machines, will become financially unviable, which means that they will remove them from their location.

Q3 **Chair:** You said you did not know how many would be closed. Do you have an impression of how many?

Richard Piggin: It is very difficult to estimate exactly how many and exactly which ones might be at risk. The estimations that we have heard vary; they vary depending on who has done them. That is part of the issue here—that no one quite understands what the true impact is going to be. There have been warnings that this will directly impact consumers, communities and small businesses, but we are not quite sure.

That is why we have been very clear that the body that could do this impact assessment, and could understand what is happening, is the Payment Systems Regulator. We have been very clear that we think the regulator needs to step up now, take a wider assessment around how consumers access cash and how businesses use cash—not just ATMs, but the role of the post office network and the role of bank branch closures. It is very difficult just to assess this in isolation. We need to look at it in the round.

Many of those communities that we talked about earlier will have been those that have been impacted by swathes of bank branch closures. I know this Committee has looked at bank branch closures, and it is important that we look at this in the round. LINK has not been in a position to look at it in the round; it has made proposals just based on the ATM interchange fee. What the regulator can do is look at this issue not in isolation, but in the context of bank branch closures, of the services that the Post Office can provide, and of, potentially, other alternative sources that consumers can use to access their cash free of charge—potentially cash-back from retailers. It has not done that yet. We are calling on it to do that wider market review before these changes come into effect.

Q4 **Chair:** What LINK has told us is that there is very little financial data that has been provided to substantiate these claims—the claims that a large number of ATM machines will close. Have you any response to LINK's particular claim—that they are saying nothing is going to change?

Stuart Mackinnon: LINK's own analyst, KPMG, suggested between 8% and 18% of ATMs could close over time. I can't speak to those figures, but in a Scottish context, that might mean between 500 and 1,000 ATMs close over time. Just to reiterate what my colleague from Which? is saying, it would be absolutely appropriate for the regulator to look at the impact of these changes.

In a Scottish context, what we are worried about is that, absolutely, the impact of these changes could be compounded by bank branch closures. We know that bank branches are closing faster in Scotland. We know that Scotland has a lower population density, and thus any changes could be worse in Scotland for Scottish consumers. Lastly, this Committee has also looked at digital connectivity, and we know that, for instance, 4G data coverage is worse north of the border than it is in other UK nations.

Q5 **Chair:** Grateful. Just lastly, on what you said, I think, Mr Mackinnon, about the impact on your members in the FSB, what evidence do you have to support the fact that this could have a detrimental impact on a number of businesses?

Stuart Mackinnon: We did some survey work with our members looking at this, and while some businesses in some sectors—B to B businesses—are largely unaffected, it is retailers and other cash-based businesses that are dependent on a free-to-use ATM network. We have had anecdotes from members, let's say on the North Coast 500, that when the one ATM in that neighbourhood breaks down, that has a direct impact on the amount of money tourists have to spend in that local area. Combined with our survey work detailed in our written evidence, we show that one in 10 independent businesses fear that they would lose £50 or more per day.

Q6 **Ged Killen:** To go back to the point about LINK saying there is a lack of financial evidence to support the claims that ATMs could close, given that as these changes come in LINK is probably going to be relying quite heavily on the ATM operators to feed back what the situation currently is, are you concerned that this is a bad way for it to begin, if you like? We are already seeing LINK disputing the evidence that is available. Do you it think bodes badly for the future if we are expecting them to kind of react to challenges that ATM operators are facing?

Richard Piggin: I would like to make three points about LINK's consultation process so far to get to where we are. First of all, it was not a comprehensive public consultation on its proposals. It did not consult directly with consumers. The consumer consultation side of it came through LINK's own consumer council. You can look at the representatives on that council: it is made up of an independent chair, with nine members, three of which are from consumer organisations, four of which are representatives from the payments or the banking industry. That is the consumer voice that has been fed in officially through the consultation route.

The second point is that the scope was very narrow. As I said before, it only looked at ATMs; it did not consider other aspects in the wider context around access to cash. The third point that we are concerned about with LINK's consultation is that we fear that it has not been driven by consumer need and consumer demand; we fear that it is has been driven by commercial pressures. In its consultation, LINK explicitly states that doing nothing was not an option, because that could cause some card issuers to leave LINK for schemes such as Visa and Mastercard, who have cut their ATM interchange fee. The concern from LINK that some of its members might leave its scheme is a competition issue. This is another reason why the regulator really needs to intervene and take a wider look at the consequences of this.

From LINK's position, we are concerned that it might not be able to guarantee what we want to see, which is that consumers can maintain access, freely and easily, to their cash. They should not have to go to unreasonable lengths, such as travel a long distance, to access their money free of charge. That is what we want to see maintained, and we are not convinced that the proposals, as they stand, will do that.

Q7 **Ged Killen:** I think we are going to come on to talk about the consultation a bit later, but on the interchange rates, what impact do you think it will have on the groups that you both represent? I am thinking in particular whether there is a disproportionate impact on disabled people and on people on low incomes—you know yourself from Which? that we were hoping to hear from the rural communities of Scotland—because that has also been a concern. Which groups do you think are most at risk from the change in the interchange fee?

Richard Piggin: We have heard from consumers, as I said before, who rely on cash—who use cash as their sole payment method. They might use cash to pay their bills. They go down to the baker, the butcher, the paper shop, and they use cash. They do not want to use cards. Some of them have told us that they do not use cards because they have trouble using cards in terms of keeping track of their spending. We have also heard from consumers where, in their local village or in their local town, the shops do not accept card payments, and the butcher does not accept cards—they are cash-only businesses, or they might have a minimum transaction spend.

These consumers are worried about their ability to access the services that they want to in their community. Equally, we have heard from those whose bank branches have closed in their village or town, and what they are saying is, "If my cash machine now closed, that would mean I would have to pay for a bus service, pay for petrol, and pay for parking to travel to the nearest town to access the cash, which is what I want to use to make my payment". If the changes were being driven and being led by changing consumer behaviour and changing consumer needs, then that would be more appropriate.

We are concerned the changes might drive consumer behaviour, change consumer behaviour, so where we see consumers who want to pay by cash—who want to utilise cash and use cash for various reasons—they are going to be forced into not being able to use cash and into using card payments when they do not want to. That could become a very dangerous self-fulfilling prophecy, because if ATMs close and consumers are paying by card more than cash, it could leave an open door for LINK to make swifter, deeper cuts to the interchange fee and make more closures of ATMs in the future that could go unchallenged. We do not want to see it drive consumer behaviour. We want to see these changes respond to consumer behaviour and meet consumer needs.

Stuart Mackinnon: Could I just make a couple of points about small businesses and ATMs? When the banks recently announced swathes of bank closures, one of the things they were keen to highlight was the options for people that would be disadvantaged. One of the options they highlighted was people could use ATMs, but now we are hearing of these parallel moves to reduce the ATM network. One of the things that certainly the big banks in Scotland were talking about was the rollout of smart ATMs, which simply has not materialised.

Another key point I would like to highlight is that a number of people were disadvantaged in the last couple of weeks when a big bank's mobile app went down, and lots of people who perhaps were not regular ATM users were toddling off to lift some cash or to check their balance, because they simply had no other option. What we are hearing is that the key word there is options—people want options. If you look at LINK's correspondence to the Treasury Committee, they are quite clear that they are talking about managing the decline in the ATM network over time. I think it is absolutely fair to suggest, if that is what is happening, that the wider population needs to be consulted on that move.

Q8 **Paul Masterton:** In terms of the correlation between bank closures and then the closures of the ATMs, are there data, in terms of when a bank closes, about how long the external ATM linked to that branch tends to survive? Is there a link between the internal branch closing and the external hole in the wall that was operating linked to that branch—

Stuart Mackinnon: There is no data that we could put our hands on. Perhaps the Committee could write to the banks—that is one of our recommendations—on how many ATMs are being retained when the branch closes. Anecdotally, almost always the ATM is going when the branch goes. In the last two years, 250 branches in Scotland have closed or were scheduled to close. I guess at least the majority of the ATMs have also gone with the branch. Obviously that leads to fewer options, and that sort of change needs to be considered when they are looking at the interchange fee.

Richard Piggin: The only thing I would add, Paul, is that, obviously, when a bank closes its branch, it has to consider all the alternatives. We did some research into this to see what consumers would like, and 41% said that their preferred alternative—most popular alternative—would be an ATM; 35% said post office. So consumers are concerned that they are seeing the bank branch close, and now they are also seeing that the ATM might close as well.

Q9 **Chair:** Do you think there is some sort of perfidious rationale behind all of this that we are observing? Is this the move towards the cashless society? Is that what you fear you are observing as you see these ATM closures? Obviously we have heard from RBS as part of our inquiry, and their commitment was that an ATM would not close if there was not an alternative within one kilometre. Are we being pushed into the end of the cash society? Is this what this is about?

Richard Piggin: Visa, for example, has a publicly stated war on cash. We have heard a lot of headlines around, "We are moving towards a cashless society". The truth is that we are very far away from a cashless society, and there are still millions of consumers who do rely on cash in their day-to-day lives. That is a really important point that needs to be considered. It has really come to the point that we are trying to make, which is why the regulator needs to step in and take a look at this. It needs to conduct a wider review into cash—into access to cash—to understand the reasons behind some of these proposals, and whether there are competition issues among LINK, Visa, and Mastercard.

We need to look at exactly how consumers are accessing cash, and want to use cash and other payment methods, and at the trends that we might be seeing, and to understand how the payment infrastructure best meets those consumer needs. What we do not have at the moment is that understanding, so it is very difficult for these changes to be allowed to go through without that scrutiny—without that understanding.

Stuart Mackinnon: "Perfidious" is quite an interesting word. I think certainly we are all being nudged—if it is not a nudge, it might be a push—towards cashlessness. I think what we know though is that even though we have seen the rise of contactless, we only saw a 2% increase in the amount of cash withdrawals between 2017 and 2016, but the amount withdrawn stayed broadly the same, suggesting that people are travelling further to take out more.

Q10 **Ross Thomson:** In particular, I wanted to ask Stuart what impact you assess these changes will have on local communities and local economies that are dependent on ATMs.

Stuart Mackinnon: Principally retailers will be affected by this change. I am keen to point out that cash remains the nation's favourite payment method, so I think very few businesses will refuse to take a £10 note if you give it to them. I think that businesses want to be able to continue to take the option of taking money from people. We know that if you have a cash machine in your local high street, the businesses closest to that cash machine get a little bit of the benefit of that footfall. My hometown is sunny Cupar in Fife. If I am walking down Fife high street and need to take out £20, and I need to buy a pint of milk and a newspaper, I am going into the closest shop next to that ATM to buy that pint of milk and that newspaper, so naturally that business owner who gets my £20 note can then go and spend that £20 at the butcher, the baker or the candlestick maker.

We also know that, anecdotally, cash is still important to the tourism industry—that when busloads of tourists arrive in the high street, many want to lift cash and spend it. Anecdotally, when we hear that a cash machine is broken in, say, Fort William, that has a direct impact on the spending power of the visitors in that local place. We would also make the case that businesses are reliant on ATMs for banking services as well. One of the things you could do in more advanced machines is deposit cash, and that is a valuable service that people might use if they cannot get access to a local branch.

Q11 **Ross Thomson:** You mentioned in your opening remarks that you had done some research and made some assessments. I do not know if that is something that can be shared with the Committee, Chair. It would be really interesting to see what kind of assessments you have made. Also, I would be interested in what representations have been made to you by your members on this—just how many, and whether it is a spread of rural and urban. The reason I say that is I know there is always a focus on rural communities, but I do represent an urban seat, and I know in parts of my seat, at Cults and Bieldside, which are slightly outwith the city centre, to lose the ATM would absolutely have an impact on the local cafés and shops and everything that operates there, so it is not just something that is solely felt by rural communities.

Stuart Mackinnon: We did some survey work with our members on a UK-wide basis, and 9%, or about one in 10 businesses, say they would lose over £50 a day in revenue from not having access to a local cash machine. Yes, it is very easy to characterise this as a rural issue, but I think it may be fairer to characterise it as a high street issue, and say that, in urban areas, if a local ATM was to go, that would have a direct impact on the shops around that ATM. If the ATM is not working on the High Street, and people have to travel to Main Street to lift their cash, then that is going to benefit the businesses on Main Street and not the High Street.

Q12 **David Duguid:** I am interested to hear more about what you said earlier about how this decision is driving behaviour rather than responding to behaviour. I am not sure if I would use the word "perfidious", but it certainly does sound a little bit sinister that this decision may be aimed at driving behaviour rather than responding to behaviour. As you mentioned yourself, we have talked to banks that are closing branches, and at least they are claiming that that is a response to customer behaviour. Can you say a bit more about this driving behaviour that you are concerned about?

Richard Piggin: I think the figures show there are 2.7 million consumers across the UK who rely on cash. What we need to ensure, in terms of the payment infrastructure and the ability for consumers to choose how they make payments—whether that is through cash or through card, as Stuart said—is that there are options and that the infrastructure reflects the needs, the desires and the actual behaviour that is going on. It is quite obvious, I think, that if you take away one form of payment method, you are driving consumers to use an alternative form of payment method, so if you are taking away the ability for consumers to use cash because they cannot access cash in their local area—because there is no ATM or because the post office hours do not meet the needs of that consumer—you are forcing them to use an alternative form of payment, which might be card.

I think that is something that the regulator needs to take a look at. It needs to take a look at the drivers behind card payments, the costs associated to businesses, the costs associated to card issuers, how that works and how that impacts on consumers, who ultimately will pay for it in one form or another. What we would like to see is, where there is demand for consumers to withdraw their cash free of charge, that demand is met. We are not sure whether LINK can guarantee that, even with its financial inclusion programme.

Q13 **David Duguid:** Even through the consultation—this is the main question I was going to ask, about the consultation—were Which? or any other consumer groups consulted by LINK ahead of their decision to reduce the interchange rate?

Richard Piggin: We were not part of the formal consultation, because the formal consultation was just with LINK members, as I said earlier, but we have engaged with LINK. We have met with LINK several times, and we have talked to them, during the consultation process and after the consultation process, about our concerns, our thoughts and our views on what the financial inclusion programme might need to look like—some more clarity that we would like to see from that financial inclusion programme, some more consistency potentially, and transparency over how the subsidies that might be allowed are calculated. We are engaged, but we were not part of the formal consultation process.

Q14 **David Duguid:** Generally, how effectively do you think LINK consulted with groups outside the financial services industry either before or after the decision?

Richard Piggin: It is an interesting question. I think you have LINK up later. I am sure that they will—

Q15 **David Duguid:** I am sure they will say they did a great job.

Richard Piggin: I think it is fair to say that they have been open and willing to talk to us. As I say, we have met with them a couple of times, and we will maintain that engagement. What we are not convinced about is that the proposals have been seemingly waived through by the regulator. The regulator could, in its role—in its capacity—step in and say, "We have taken a look as well at LINK's proposals, and we are not convinced. We think we need to do a wider review, have a deeper understanding of access to cash more generally". They have not done that.

They set out three requirements—which I am sure they will talk to you about later—that they think should negate any detriment to consumers. We are not sure, and we do not think a wait and see approach is appropriate in this case—when we are not sure of the impact, and when there have been clear warnings of the impact. "Let's monitor and see what happens. If there are any negative impacts, let's see if we can act after the fact"—we do not think that approach of acting after the fact is appropriate.

Q16 **David Duguid:** Yes. That is not going to be good for consumers or retailers.

Richard Piggin: It would be cold comfort to consumers who have their ATM machine closed and taken away in their community for LINK to act after that has happened.

Q17 **Chair:** I am just looking at some of the correspondence that you mentioned from the Chair of the Treasury Select Committee, and it is quite powerful stuff. I also note the former Chair of the Treasury Select Committee, Lord McFall, describes the consultation process as, "dominated by a magic circle of banks and building societies excluding the public and other consumer groups not represented on the LINK consumer council". It is not a great endorsement of what they are doing in terms of consultation. What do they need to do in order to ensure that we do have a proper consultation about what is happening here?

Stuart Mackinnon: I suppose whether it is LINK or whether it is the regulator, we do need to have a proper debate about the role of cash in society. LINK's correspondence seems to suggest that they are all about managing the decline of the ATM network, as if it is an obvious conclusion to reach that we need fewer ATMs. I think that it is perfectly fair to ask for distributional analysis of any changes, because at the moment you could not point to an ATM in your constituency and ask LINK or the regulator whether that particular ATM would close or even if ATMs similar to that one could close. I think that we would prefer to see an open and far-reaching consultation about both this move, if it represents a larger policy change, and the particular impact that this move could have on communities across the UK and, in particular, in Scotland.

Q18 **Deidre Brock:** Following on from that point, then, if you are saying that they do not really have any analysis—or cannot offer any at the moment—of how individual ATMs are doing, what criteria do they use to close the different ATMs? Do you know? Cardtronics and NoteMachine, the two largest IADs, have suggested that in my own constituency, and other folks' constituencies as well, up to 10 to 16 ATMs could be closed, but what criteria are they using? I have areas of significant deprivation, and I have more comfortably off areas. How will they choose which of those ATMs they will close? Do you know what criteria they might use?

Richard Piggin: I presume that will be a decision for the independent operators, and they will have the data that will influence that decision.

Q19 **Deidre Brock:** It would all be to do with use of and size of withdrawals or—

Stuart Mackinnon: Yes, or the independent operators, or the other operators that exist, will decide whether an ATM is profitable or worth running. They could run an ATM at a loss if they fancied; they are unlikely to do that. Basically, the market decides, once the criteria of the fees are considered. Would that be a fair—

Q20 **Deidre Brock:** So the market will decide?

Richard Piggin: I think there is a challenge, simply because of the potential subsidy from the financial inclusion programme, which could allow, in certain cases, an increased interchange fee or a subsidy on the interchange fee to ensure that that cash machine remains open. It is unclear how that subsidy will be calculated. There is no transparency or specifics around what that will look like and how it will be applied. It would perhaps be applied on a case-by-case basis, which does not provide certainty for the operators to then be able to model how financially viable that machine is or is not.

Q21 **Deidre Brock:** Yes, I was going to ask you about that. The Chair mentioned LINK saying that ATMs one kilometre or more away from the nearest free-to-use ATM won't be subject to the reduced interchange fee and will be eligible for premiums that could help incentivise—well, this is what they are saying—the growth of free-to-use ATMs. What are your thoughts on that? I know Which? has already argued that the entire network route needs to be financially viable. You cannot have standalone ATMs that might be profitable or not without looking at the entire route as a whole. Can you elaborate a little bit more on that, Mr Piggin?

Richard Piggin: Yes. We will be looking at the whole of the network, because I imagine that is how operators will look at the cost of the network and of serving that network and providing cash to each of those machines. It might be that the most remote—the one that is more than one kilometre away from another free-to-use machine—might have a subsidy. If all the other machines on that network have their interchange fee cut, and become less financially viable, it will have an impact on the cost of that overall network, which might mean that it is still not enough to save that machine.

What the one kilometre rule also doesn't consider, which I imagine is an issue for many towns and villages in some of your constituencies, is those towns and villages that have perhaps two ATMs that would not be covered by the financial inclusion programme and the one kilometre rule. We have heard from consumers in villages and towns in Scotland, and those cash machines, even where there are two, run out of cash. If there is one, it is more likely to run out of cash. That is not considered as part of the proposals either.

Q22 **Deidre Brock:** There are a lot of unanswered questions there about that proposal. A financial inclusion programme sounds good, but when you look at the detail there is still a lot more that we need to know before we can say that it is going to make much of a difference.

Stuart Mackinnon: Yes. There are 250-odd ATMs that are covered by the financial inclusion programme in Scotland at the moment, among 5,000 ATMs, so only about 5%. The KPMG analysis suggests that on a UK-wide basis only 2,000 ATMs would be covered under the programme, given the changes. I have not seen any modelling that would show how many more ATMs in Scotland might be eligible for the programme, given the changes. Even though some ATMs may be safeguarded, it is difficult to look at the wider distributional analysis. The example of the second ATM in town is a pretty good one. Also, there is the issue of whether the financial inclusion programme considers the fact that a local community might have lost a bank branch, for example, or has poor mobile coverage, or has other factors beyond just having another ATM close by.

Deidre Brock: Yes. Thanks.

Q23 **Ged Killen:** It has been suggested to me that, where there is an ATM machine that is at risk in a community, representations could be made to LINK to step in and include that within its financial inclusion programme, but in practice I have heard stories of local authorities that have struggled to have that happen, and I am not convinced it is well understood that that is an option. What is your experience of it in practice? How easy is it for an ATM machine to be included in the programme? Do you have experience of that?

Stuart Mackinnon: I think the ATM operators are up later, and they can be a little bit more clearly on this particular front. The point I would make is that, often, our members report on Tuesday an ATM is there and on Thursday it is not, and local communities are not necessarily as involved as they might like to be in terms of the distribution of ATMs. We talked about bank branch closures earlier. At times, some of our members have thought the ATM was staying, but the bank might be closing, and they have been sorely disappointed when the ATM has gone as well.

Richard Piggin: We would welcome an indication of notifications around ATMs that might be under threat, and if there are opportunities for consumers—for communities—to make representations to LINK to keep their cashpoint, or even to have a further cashpoint, then that would be very welcome.

The challenge will be that, again, it is a very piecemeal approach, and there are no criteria for understanding where a cash machine should be saved or where it should be. That is very difficult to take on a case-by-case basis, because you could quite clearly have a scenario where you have two or three communities in your constituency, another three or four in another constituency, all applying to LINK to say, "We need our cashpoint". On what criteria are they going to make a decision on a case-by-case basis to say yes or no? That is not clear at the moment.

Q24 **Ged Killen:** Do you think that there is a risk that we might see more currently free-to-use ATMs turning to pay-to-use ATMs, so that the card operators can balance their model?

Richard Piggin: I think there is a risk, definitely. A paid-for ATM would still be better than a no-ATM scenario, but we have been very clear that we think that all consumers should have the ability to access their money free of charge using a free-to-use ATM where the demand is there.

It might be that, in scenarios that we have seen in communities where there is a paid-for cash machine, there should be a free-to-use option available to consumers.

Q25 **Hugh Gaffney:** Just on the same kind of theme, in Coatbridge they will be losing three ATMs. It is going down that way, 7% to 8%, and Coatbridge, Chryston and Bellshill is a wide area. We are losing three banks. But what annoys me is, I go to some of the villages, I go to a local shop, and there is a standalone ATM, but to get £10, they want a £1.80 charge off me. Is that £1.80 charge for them to have a standalone machine inside the shop? Where is that money going? Is that a rental charge? In certain shops, you may have it. I think my question is: does it include the shop, and who gets that £1.80 charge? I don't know if you will know the answer or not. Maybe it is a question for later.

Stuart Mackinnon: I understand that, while there are different operators and they have different models, if you have an ATM in your shop, or there is a pay-to-use ATM located on your premises, whether you are a shopper or otherwise, the shop will get a share of the charges accrued. But obviously, for the FSB, the priority is to keep as many free-to-use ATMs open and working as possible.

There was a discussion earlier about the direction of travel and the various nudges that could be put in place to move towards a cashless society. Could we see the banks and others try to make the case for more people to have to pay to have cash? It is entirely possible.

Q26 **John Lamont:** Good morning. It has been suggested that the post offices might be able to provide alternative access to cash where the ATM is closing. Do you both think that is a viable option or a viable proposal?

Stuart Mackinnon: The Post Office network provides a valuable service for small businesses. As your examination of the impact of recent branch closures shows, it has its limitation as well. Business owners do not want to be standing for a long time in a queue with large cash sums; there are also issues regarding opening hours and busyness. The key thing is having options. Yes, the Post Office network provides a valuable service, but people want ATMs. They want the post office, and they want local branches. That is the point I would make on that front.

Richard Piggin: Yes. I would reiterate that ATMs offer 24-hour access to cash, so the biggest challenge for the Post Office as an alternative—and it is an alternative—is the opening hours, and then to consider the other impact on additional Post Office services. We already know from research, although this is general, that most consumers' experience with the Post Office is good. There are concerns around long queues and waiting times. If consumers are not able to access their cash through an ATM and are being forced to use a Post Office, what would be the consequential impact on the other services—waiting times and so on—of the Post Office providing additional banking services?

Q27 **John Lamont:** In terms of alternatives to accessing cash, like cash back from shops, have you looked at options like that as being suitable alternatives to ATMs?

Stuart Mackinnon: Yes. Many of our members will offer customers cash back, principally because it is much easier to give that back to your customers than to go and try to deposit it if you don't have a local bank branch, for example. There are options out there for people looking to get cash, but ATMs are still a hugely important part of our financial infrastructure that extends into every community in the country.

Q28 **John Lamont:** I want to return to a point we discussed earlier about ATMs, particularly in rural constituencies like my own. There appears to be quite a disagreement in terms of LINK's position that these changes are going to protect rural ATMs, and the assertions that you guys are putting forward. Can you give us a bit more detail about how you challenge the assertion from LINK that their changes are going to protect the rural ATM network and about why you think that is wrong?

Richard Piggin: From Which?'s perspective it comes back to the consultation, which consulted on one proposed change, which was a blanket cut of the interchange fee across all ATMs aside from a small number—it is as yet undecided how many will be covered by the one kilometre rule in the financial inclusion programme.

What it did not consider was alternative changes to the interchange fee that might have seen, for example, a larger cut in urban areas that LINK has said could be over-served by ATMs, and not a reduction in rural areas or a graduated approach. The consultation did not cover that. I think they have looked at alternative changes, but that is something that the PSR could come back to and look at—are there other ways of doing this that might not negatively impact just on those remote areas?

Stuart Mackinnon: The cut to the interchange fee is a fairly blanket measure. While there are some safeguards in the financial inclusion programme, it is very difficult, as a third party, to understand the distributional impact of these changes, but it is fair to say that it is likely that ATMs in rural areas, where there is another ATM nearby, are likely to closed if they are not frequently used.

Q29 **Danielle Rowley:** I want to come back to look at post offices, cash-back—alternative methods of getting money out—and really dig into the hurdles that people might face, both consumers and businesses. We mentioned opening hours as a hurdle. For example, when we looked at alternative means of banking and at the Post Office, we said consumers might not be aware of the full range of services offered. Do you think that awareness is a hurdle, and is there anything else that you can highlight to us?

Stuart Mackinnon: Anecdotally, there is a job to do to make more businesses aware of the services that the Post Office network can offer them, especially if they have just lost a local bank branch. It is not a perfect solution, but it is an option. If we are slowly being nudged towards a cashless society, we are going to continually come up against these snags, where businesses or consumers have been operating in such and such a way for a long time and are not going to be able to operate as they have done in the past. I suppose that every time there is one of these changes— one of these nudges—it is hugely important that the powers that be get the views of wider society, including businesses and consumers.

Richard Piggin: We did some research into awareness of the Post Office and its ability to provide banking services. This was back in 2016, and 41% said that they did not know that they could use the Post Office for general banking services, so there is a hurdle there. There is work being done by the Post Office and by UK Finance to raise awareness, but there is still a long way to go, so there is a barrier there.

Chair: Thank you. It is spot on almost 10.30 am. We have concluded, so I am grateful for your answering of questions. If there is anything else that you have observed about what we are inquiring about, please get in touch with the Committee—I think there was one piece of documentation we asked if we could be provided with later. Thank you very much for coming along this morning.

Examination of witnesses

Witnesses: Ron Delnevo, Duncan Faithfull, John Howells and Eric Leenders.

Q30 **Chair:** Welcome. Thank you for helping us out with our one-off inquiry into the ATM network in Scotland. Just for the record, can you tell us who you are, who you represent and anything by way of a short introduction, with the emphasis being on short, given that we have four of you for this session? Can we start with you, Mr Leenders?

Eric Leenders: Thank you, Mr Chairman, and thank you for allowing us to provide a little evidence for your Committee this morning. My name is Eric Leenders. I am the Managing Director responsible for Personal Finance at UK Finance.

By way of introductory remarks, it might be useful to expand a little on UK Finance. It is the coming together of six trade associations in July last year. That would be the Asset Based Finance Association, the British Bankers Association, the Council of Mortgage Lenders, Financial Fraud Action UK, elements of Payments UK and the UK Cards Association.

Personally, I am a career banker. I have spent 30-plus years in the industry, as a branch manager and as a business manager as well, and perhaps some of those insights will be helpful in the context of the conversation this morning.

Chair: Grateful. Mr Faithfull.

Duncan Faithfull: Good morning. Thank you very much for inviting me to give evidence to this Committee. My name is Duncan Faithfull. I wear two hats at Cardtronics. I am the Corporate Affairs Director, so I am responsible for the discussions we are having with LINK at the moment, and I also look after the relationships that we have with the banks in terms of how we work together. Cardtronics is the largest deployer of ATMs globally. We also deploy the largest number of ATMs in the UK, so we run approximately 21,000 of the 65,000—approximate number—of ATMs in the UK. In Scotland we run 1,600 ATMs across the length and breadth of the country. I am fairly unique in terms of the people you have on this panel today, in that I am part of an organisation that runs ATMs, so some of the questions you were asking the previous panel I may be able to help you.

One of the key things that I think is important to mention is that for the last x number of years LINK has done a fantastic job in ensuring free-to-use access for cash, but where we are currently is Cardtronics has very little option but to act in terms of protecting itself in the face of a fairly arbitrary 20% cut in interchange. For your information, these cuts start in July and, as of that point, we will be making it very known about what our actions will be. I am happy to touch on those as we go through the order of today, so you will be able to understand what the largest deployer of ATMs will have to do as a result of these cuts.

Chair: Grateful. Mr Delnevo?

Ron Delnevo: Yes, good morning. Thank you for the invite this morning. As you can tell, I am a countryman of yours from Edinburgh. I have several hats on today. I am the Executive Director Europe for the ATM

Industry Association. We represent worldwide about 700 organisations: banks, independent operators, like Cardtronics. Visa and Mastercard are also members of the ATM Industry Association. I am also the Chair of a company that runs a not-for-profit website called Cash is Cool, which for the last decade has been supporting payments choice and the rights of people to use cash and other payment methods—not to be forced down a route of using payment methods because of vested interests wanting them to.

In terms of the LINK proposals, ATM Industry Association's objections are that they are arbitrary. They are unnecessary because they are a method of making cash less accessible, when cash is still very popular in the UK. I will give you a couple of stats to start with before we move on. In the year October 2016 to October 2017, the five big banks in this country took out 1,900 ATMs. That would have depressed LINK transactions by over 100 million transactions a year, and then they tell us they are surprised because LINK transactions go down. Also, in the same year, on 23 December 2016, £730 million was taken out of ATMs in that one day—the busiest day in history by over £100 million—and yet they are telling us cash is dying as a payment method. Cash is not dying. They want to kill cash as a payment method because it suits the profits of vested interests. I will elaborate later.

Q31 **Chair:** That was some opening statement. Thank you for that. Lastly, Mr Howells?

John Howells: Good morning. My name is John Howells. I am the Chief Executive of the LINK scheme, which is the regulated not-for-profit independent entity tasked with maintaining universal access to cash for free for UK and Scottish consumers.

We agree with pretty much everything that Which? says. We have a need to maintain free access to cash for consumers across the UK for decades to come. Regardless of the fact that cash usage is dropping, that is required. There is a group of consumers and businesses in there who completely rely on it, so our objective is to maintain free access to cash.

I would probably go further than Richard and say that paid ATM access is not an acceptable alternative. It needs to be free for decades to come. We have made a number of changes. I can explain why we felt we would need to make those changes now to defend the network. We have cut interchange in busy city centres where we think there is a growing proliferation of free ATMs. We have increased interchange in remote and rural areas, and also in the areas you mention, Ross, which are the vulnerable areas in the doughnuts around city centres. We believe those three changes—of cutting interchange where there are too many ATMs going in and increasing interchange in rural areas and in vulnerable areas—will protect the free ATM network, which we need to have in place in this country for decades to come.

Q32 **Chair:** I think, first of all, it is best to say there is a mixed response to this reduction in the interchange. I think you heard some of that in the previous session. What we want to try to do is to better understand the reasons why this has been undertaken and why LINK is pursuing this, but first I just want to ask this so we can maybe establish this: what is the average profit resulting from an independently operated AT THE MOMENT, and how will the interchange reduction impact on this? Maybe you could help us on this, Mr Delnevo.

Ron Delnevo: The average profit is a very difficult question to answer. If you wanted to look at Cardtronics' figures for its 230,000 ATM network, in 2016 it made an operating profit of around £500 per ATM in that network of 230,000 ATMs, but of course that was across the world. To arrive at a figure for individual ATMs in Scotland, or elsewhere in the UK, is beyond my ability as an ATM industry representative.

I will say this, though, that the profit margin is not 20%, so in cutting interchange by 20%, they will actually wipe out the profitability of every free ATM in the country unless the retailers—often small retailers who accommodate those machines—are prepared to accept no rental for their ATMs. Those retailers who were paying insurance because they have ATMs—extra insurance—and paying business rates on through-the-wall ATMs, would have to accept no rental to accommodate that 20% cut, and that isn't fair. It could destroy small businesses. Apart from losing their ATMs, it could destroy the profitability entirely.

Q33 **Chair:** I see you shaking your head enthusiastically, Mr Faithfull, which suggests that you are concurring with that.

Duncan Faithfull: Yes. Just to back that point up, throughout this process there are 4% or 5% reductions in interchange at different times over the next three years. Cardtronics as an organisation—this is really important to say—run one third of the devices, the ATMs, across the UK. We will cease to be viable as an organisation two thirds down the path of these cuts. There is not 20% for us to play with in order for us to remain viable in the UK.

So in terms of the only action available to us in order to own our own destiny, we are looking to do two things. First of all, we are in the process of proposing to link into the PSR an alternate method of calculating interchange across urban and rural areas, so that operators like ourselves can maintain free-to-use access across every area, urban or rural. That is the first thing we are going to try to do, but if we fail in that pursuit, the only option we have available to us is to move a significant portion of our estate of ATMs to a pay-to-use basis.

It is important to say the 1,600 ATMs in Scotland are in retailers, so we position our ATMs in retailers.

Q34 **Chair:** What percentage is that of the total?

Duncan Faithfull: Of the UK's?

Chair: In Scotland.

Duncan Faithfull: I believe there are about 6,000 ATMs in Scotland, so it is significant.

Q35 **Chair:** A significant amount?

Duncan Faithfull: Yes. We support retailers, independent retailers often, with rental payments for us to site our ATMs, be it pay-to-use or free-to-use. Therefore we are a really important lifeline to those retailers, and studies show—studies can show all sorts of things, can't they?—that approximately 40% of cash that is taken out of a retailer-based ATM will be spent immediately in that store and, in rural locations across Scotland, up to 80% of retail payments are still made in cash. So it is critical.

What I wanted to get across to you all today was we will be left with no option but to either remove a lot of ATMs—and I know there has been a lot of speak of removal of ATMs—or move ATMs to a pay-to-use basis, which will be the only way to make them viable. What we are asking of the PSR is to say, "Just hold off". The first 5% cut is in July this year. The second one is in January next year. What we are saying is, "We are going to propose a new way of looking at interchange that caters for free-to-use across the country, and let's give ourselves some time to do that before it is too late".

Q36 **Chair:** This is going to lead to the closure of lots and lots of ATMs, Mr Howells?

John Howells: That is not the case. Scottish consumers have nothing to fear. There are 38 members of LINK. They have discussed interchange and have been unsuccessful in reaching their conclusion for the last three years, so it is not just two or three organisations. There are 38. You are hearing from two. It is a competitive market. I am told by the deployers I speak to that if LINK commits to putting up interchange in the areas such as the one kilometre protected area and the doughnuts around the busy city centres, and an operator who has existing machines feels unable to keep them open, they will be happy to go in at the subsidies we are proposing and—

Chair: We will leave it. I can see Mr Faithfull wanting to come back. We will leave it just now. I am sure these are issues we will want to return to, but I will put it across to my colleague Mr Killen.

Ged Killen: Are we going back to question 8, or are we going forward?

Chair: You do whatever you want.

Q37 **Ged Killen:** Perhaps, Mr Howells—if we could go back a step—you could briefly explain how the LINK scheme actually works and what its key features are.

John Howells: Yes. We are a not-for-profit entity. We have an independent board. Our objective is to maintain access to cash for UK consumers for as long as UK consumers want it, so we are not there to promote cash. We are certainly not there to nudge people away from cash, and the job is to make sure that cash access is there on a safe, reliable, secure and free basis for as long as necessary.

Our rules and the law require us to support pay-to-use ATMs, so you will find that, of the ATMs connected to LINK—and there are about 70,000—we have the 55,000 free ATMs and we also have the pay ones. But our objective is to have a broad free network, so our position is we will only tolerate the pay-to-use ATMs where you have a free alternative. So in your example where there is one round the corner from a free one, we are okay with that. Good luck to the retailer who gets—I actually thought it was—all the money, but I will stand corrected. We will not tolerate a reduction in the free-to-use network.

The concern that has led us to make the change that we have quickly—we have done it quickly—is that we think the price is too high in city centres. Our evidence for that is the proliferation of ATMs in every city centre. That is causing the banks that pay for it to consider leaving LINK. If they leave LINK, which they can do—they can go to Visa or Mastercard—we will collapse, and that will not be a good result.

We are also worried that the price we are paying for rural, remote and more vulnerable areas is not high enough, and it is leading to moves for those machines, typically, not to be closed but to be surcharging. We think that that toxic combination of too many machines in city centres pushing up the price and causing the banks to consider leaving—and we have had a small one leave only in the last couple of months, so this is really focusing our mind—but also the price being too low in those remote rural areas where it is more expensive and the volumes are lower, has led us to run a very fast consultation and to make the changes we have done. We have made commitments, we believe, such as doing whatever it takes to protect certain categories of ATMs.

What that means in practice is we will take whatever money is necessary from the banks, without their permission, to make sure that those ATMs will stay. We won't make a commitment to an individual operator and say, "You, Fred, can have as much as you want for that ATM" because otherwise we will be held to ransom potentially. But what we will do is say, "For that Scottish island, if that machine gets closed because the operator decides they cannot do it, for whatever reason, we will spend whatever money is necessary, and without limit, to make sure there is a free ATM reinstalled there for as long as consumers need it", which I am assuming is decades into the future.

Ron Delnevo: Can I comment a little on that? John Mentions there are 38 members of LINK. There are only a handful of members of LINK still installing ATMs. I already gave you the figure for the banks. The five major banks took over 1,900 ATMs out in the UK in that year to October 2017, so the reality is John is relying on a handful of independent operators, like Cardtronics, to install ATMs in that emergency situation. It is not going to happen if they are driven out of business by the general change. That is the first thing to say.

In terms of ATMs in city centres, the banks have chosen to stuff their bank branches in city centres full of ATMs. You often find bank branches with four or five ATMs outside, and four or five inside. If the banks want to cut the number of ATMs in city centres, it is very easy. Take some of their own ones out. Don't damage the LINK network.

As for the subsidy, well, the first thing to say is there is as much chance of the subsidy working as, say, Neil Lennon becoming manager of Rangers, quite frankly, and even if it did work, one ATM is not enough. It is an electrical mechanical device. If it goes down—and it does go down—or it runs out of cash, you cannot get cash from it. On average they will be down two or three days a month. That means that in a village with only one ATM, or a small town, two or three days a month there will be no access to cash, so people will be forced to use cards or payment apps if they have those available. They will be driven to use cash and that is—it is not John's intention, and I believe John, working for LINK, has good intentions as far as he can—what the banks want because it makes profits for them if people move to other payment methods, and that is reality. All of your constituencies have places at risk. I just went through at random—

Chair: Maybe just leave that aside. Let's come back to that.

Ron Delnevo: Yes. Basically, you have a risk in town centres; in housing estates, in Pilton, Drylaw, Newhouse and Edinburgh, not one ATM qualified for this rate—not one. We put in ATMs when I was running bank machines to service those communities—free ATMs. They weren't being serviced. People were told, "You can go to Davidson's Mains to get your cash". So that is the kind of problem. We could go through in detail, but it is about the detail, isn't it? It is not about mass statistics. It is about the detail and how it will affect people around Scotland—and it will affect a lot of people around Scotland.

Q38 **Ged Killen:** Can I just come back to Mr Howells briefly because I know LINK does expect ATMs to close as a result of this decision? It was just to see if you can estimate how many will close in Scotland.

John Howells: We have estimated 1% to 9%, which obviously has the effect of about 50 to 100 in Scotland. The PSR has done its own estimate and, I believe, came up with 50. In busy city centres where you have 30, 40, 50 free ATMs within a two-minute walk of each other—they are not all bank machines, but approximately one third to two thirds independent machines, and there is nothing wrong with that if that is where they are making money—that is too many.

That growth has been continuing for the last—goodness me—10 years, while usage by consumers of cash for payments has been dropping. That growth is unsustainable, and we will not allow the network to fall apart for the profit benefit of any single member, be it a bank or a deployer. The only thing we care about is free access to cash for consumers.

Q39 **Ged Killen:** Fifty to 100—how does that compare to other estimates from other members of the panel?

Duncan Faithfull: Cardtronics has removed 2,200, not in Scotland, but across the UK since the consultation process, and we haven't installed the 1,300 that we were due to install this year, because there is no reason for us to do that.

I echo the sentiment on this in that the proliferation of ATMs in urban areas maybe did get too much, but I think we have to look at the banks largely for that. However, the desired effect has happened, in that Cardtronics—I cannot speak for other deployers—is no longer siting ATMs.

The bigger question for Scotland is: what is the impact of running a business like ours where we do not know the rules of the game? Where there is lack of clarity, we have to make an assumption about capital investment, and we have invested £300 million over the last five years in security or, ironically, acquiring some of the banks' remote ATM estates. We have invested heavily in this, and we cannot run our business on the fact that we are going to look at individual ATMs and whether they get a subsidy of an unknown amount.

Again, it comes back to: what are we asking for from this process? It is that the PSR has a look at these proposals and says, "Hold on, before we understand what the outcome will be—unintended or intended—we need to understand this further", It is not just about interchange. This is about a wider cash discussion. If you are a business in a small town in Scotland where your ATM has disappeared, what do you do with your cash? There are more intelligent ways we could run innovation around our devices that cater for deposit functionality and all of this, and actually we are just not talking about that, so the PSR should hold off until we get to a point where industry can understand exactly what the rules of the game are so we can plan our businesses effectively.

Q40 **Ged Killen:** If it goes ahead, what does that mean for your business model in terms of expansion or—

Duncan Faithfull: What we will have to do if the 20% carries on and we can get no absolute clarity over the financial inclusion programme is that we will clearly not be installing any ATMs. We will have to move approximately 6,000 of our 21,000 to a pay-to-use methodology in order to keep them viable.

In Scotland, just to give you some idea of numbers, of the 1,600 we have we are reviewing 600. We will be writing to the Treasury, to the PSR and to John saying that, unless we can do something about the second 5% reduction—ie change the direction of travel to 20% reduction—then we will have to enact that, and we will be starting up on 2 July after the first—

John Howells: May I respond to that? First of all, I think there is a constructive dialogue underway between LINK and Cardtronics, as the largest deployer. I think LINK's job includes balancing the commercial interests of the 38 members and sitting between, for example, the issuers and the deployers to come up with something that is satisfactory. That is our job, and I think that is what we are doing.

I need to make public commitments to you to make sure that you know that if we run into bumpy commercial ground, consumers will be protected, so I make those commitments. We have powers in place now where I can take unlimited money from the banks—whether they like it or not—to deliver, but I would hope, if LINK is doing its job properly, working with professional, large organisations, of which Cardtronics is one, that we would have that discussion and come up with some—

Ron Delnevo: But if you take unlimited money, that would still leave LINK—

Chair: What we do is we ask the questions and you answer them. That is how it usually works.

Ron Delnevo: Sorry.

Q41 **Hugh Gaffney:** I wonder if we have been hoodwinked by the RBS closures. I was in three banks in my constituency, but they are saying, "We will leave an ATM"—the last ATM in town, let's call it. How do the banks have the power to do that? I will go back to Ged's question earlier: who decides on the location of an ATM? Would the bank be able to have a say on it?

Duncan Faithfull: Ironically, over the last couple of years, Cardtronics and the banks have worked together often where bank closures have happened, so Cardtronics would then install an ATM where there was once a bank branch.

Ironically, one of the unintended consequences of this is we are being disincentivised to do that, because the financial incentive for us to go and buy an ATM, pay a retailer some merchant fees and so on isn't there under this current proposal. I cannot speak for the banks—and Eric may be able to answer this—but the banks can do what they want and there are no legislative powers that say they have to leave an ATM. However, I believe the industry should work together to enable it that, where there was once a bank branch, there are facilities for banking, be it cash withdrawals or deposits, through an intelligent ATM that we can now deploy these days.

Q42 **Chair:** Let's hear from Mr Leenders.

Eric Leenders: Thank you. We have identified that there was a risk that, in areas where bank branches were closed, cash access to counters, which is a preference for a minority of customers, might disappear. So a couple of years ago we established the bank closure protocol. That was reviewed—I think you heard this last week—by Professor Russel Griggs to create the Access to Banking Standard. That would include an impact assessment, Mr Gaffney, and that impact assessment might identify the need to retain an ATM in that particular region.

This is where the work that we have undertaken perhaps crosses with the commitments that John makes through LINK that if there is less than one kilometre for a free-to-use AT THE MOMENT, then certainly that will be an area of interest. John and I talk frequently—fortnightly—to make sure that we have the right communication channels, and we identify potentially where we need to take action.

Q43 **Christine Jardine:** I was interested in what Mr Delnevo had to say, because that was exactly my Sunday morning. I was chasing around looking for a free cash LINK machine. I finally found one in Davidson's Mains.

The issue that I am thinking of—you are talking about the closure of ATMs, and we have heard from the banks about the closure of branches and how hard hit rural areas have been—is whether there is a possibility in these areas of creating some sort of hub where you actually work together to ensure that there is a facility—whether it is the bank, whether it is the ATM. You work together to create a kind of hub in a community so that there is 24-hour access, there is free access to cash and that there is an alternative to any attempt to push people towards using electronic means of payment rather than cash. Would your organisations be interested in meeting, and discussing and pursuing that, with the banks?

Ron Delnevo: I know that Cardtronics is doing some work with some of the banks. As you say, it is vital. You mentioned Davidson's Mains again. I was in South Queensferry, and the only bank branch in South Queensferry closed, with a little sign in the window saying, "Your nearest branch is Davidson's Mains" yet again, which isn't hyper-convenient if you live in South Queensferry.

Q44 **Christine Jardine:** Davidson's Mains, which is also closing.

Ron Delnevo: Yes, exactly. So it can happen, but the problem with these cuts is they are going to destroy innovation. There is a transaction that LINK has—it has been around since 2016—which is the universal cash deposit transaction, where you would be able to deposit cash at any hardware-enabled ATM in the country, but it hasn't been implemented by any issuer, so the big banks that issue all those cards have not implemented it.

I wrote to the Payment Systems Regulator. In fact, I have written about five times to Hannah Nixon, the CEO, saying, "Why are you not insisting that this transaction is implemented?" Because without the ability to deposit cash as well as withdraw cash, businesses—it is not just individuals, although individuals are very important, but businesses as well—have no way of depositing their cash. So we desperately need that. We desperately need these hubs, but we are not going to get them unless we have some ATM innovation, and ATM innovation isn't going to happen with these cuts.

The other point I need to make on these cuts is that the Office of Fair Trading in 2001 approved a transparent way of calculating interchange. The reality is the interchange in the UK for a cash withdrawal is the lowest in Europe. We also have some of the busiest ATMs in Europe still—twice as busy as French ATMs, twice as busy as German ATMs and so on. We need a transparent methodology. What is wrong about these cuts is the fact that they are actually arbitrary. Even if it was just 1%, it opens the gateway to arbitrary cuts.

These are the figures Visa published. You will never see this in public normally, by the way, because these are secret Visa documents. This is what they published to scupper the negotiations that were going on between LINK members, the banks and the independents. They published rates that were lower than LINK's, deliberately, so that the banks could turn round and say, "Oh, you have to match those rates because that is what Visa publishes". Well, Visa is a member of ATMIA, but we condemn its war on cash, and this is part of a war on cash.

Why would Britain have the lowest interchange rates in Europe? Do we have the lowest costs in Europe, do you imagine? I would not think so. The final thing to say in terms of alternative services is that people mention the post offices. Scotland is underserved with ATMs at post offices. Only 12% of Scottish post offices are Bank of Ireland ATMs. The average for the whole country is 22%, so post offices in Scotland are not well served and are also, frankly, not well set up to deal with massive amounts of cash going through for things like cash-back and so on.

The average through-the-wall ATM delivers about £300,000 to £350,000 a month to customers. Shops usually take about £50,000—a decent, busy convenience store. How are they going to find the cash for cash-back when an ATM is distributing £350,000? The bottom line is cash-back is a red herring. It is a sop that has been given to us—"Oh, yes, we can do cash-back". Cash-back can never replace an ATM in the wall.

Finally, when they promise one ATM in a community, they do not tell us what kind of ATM. Is it a 24/7 through-the-wall? Is it an internal ATM, full service? Is it an internal ATM, merchant replenished, that can only do a few hundred transactions a month? None of these questions is being answered.

The truth is we are being asked to take a step into the dark here, and it is the public who will suffer, so we are agreeing with Cardtronics. We want a moratorium on these cuts, and we want a full, independent inquiry, hopefully under the auspices of the PSR, into the workings of LINK and how this can be all made to work for everybody.

Chair: I am conscious that there are four of you here. We are trying to get through as much as we possibly can. Could you try to keep your answers brief? I see all of you are desperate to come back in, in response to whatever has been said. Mr Howell, we will let you back in, but, first of all—

Q45 **Christine Jardine:** From what you have said, would you all agree, in brief if you like, that there is an opportunity and a necessity at the moment to talk with the banks and come up with a strategy where we do create some sort of new out-of-the-box thinking in those communities—not just rural communities, but communities in all our constituencies that are going to be affected.

Chair: Mr Howells, please.

John Howells: I completely agree, other than on the bit about it needs to be with the banks. So LINK's job is to create access to cash. We need to work with the Post Office. It has 10,000 locations across the country, which LINK has never been co-ordinated with before, because it is very difficult. When LINK was run by the banks and by the ATM deployers, talking to the Post Office was commercially not in their interests. It is patently in the interests of consumers for us to be joined up with the Post Office, and since we took over, we are now progressing that with the Post Office. It is a good idea for us to be joined up with retail and convenience stores in local communities as a source of cash.

So I completely agree with the sentiment. Our strategy is Post Office and convenience stores, including through cash-back. I will not respond to Ron's points, but we are entirely comfortable cash-backs are a great thing to develop.

Eric Leenders: One point of clarification regarding the use of cash-back: 41% of Scottish people use cash-back with their debit card actively already, so to suggest it is a red herring probably needs to be explored a little bit further.

Ron Delnevo: Happy to do that.

Eric Leenders: The second point: we are always willing to engage in discussions to the point made about some kind of shared utility. We could perhaps bring our experience to bear. We looked at this particular issue in 2003 or 2004, when internet banking was in its infancy and there was not the concept of mobile banking at all. It was an independent study by Professor Elaine Kempson. While not in Scotland—it was actually in the south-west—it did not identify through a pilot exercise sustained needs.

The second point is that, having reviewed just a couple of years ago the best approach, given the branch closure programmes, to enable customers to still have face-to-face or counter access, we came to the conclusion that it was through the Post Office because—I think the team from Royal Bank of Scotland made these points last week—there is the risk that creating a further utility in a small community compromises the footfall into those post offices.

Duncan Faithfull: Ironic comments, Eric, in that we are working with three banks currently to create a utility concept for 750 transaction hubs in the UK launch in September. That is something we are already doing.

We also have access points to about 16,000 retailers where our current ATMs sit, and we are creating a technology solution that enables immediate value recognition for a deposit being made. We are doing that already.

The issue we have, as Cardtronics, is back to investment and a sustainable business. If our core business is suddenly 20% less profitable, we do not have the money to spend innovation-wise. So, we are already doing that.

Q46 **David Duguid:** Mr Leenders, I do not know if this is going to allow you a chance to get back into what you were about to say, but the question I was going to ask is specifically: how will the reduction in LINK interchange fee affect your members, the banks?

Eric Leenders: First, it is absolutely right that a vibrant market competes and that three, perhaps, entities come together. The solutions we would look to are very much more whole-of-market, consumer-focused, so a broader church necessarily than the three that you mentioned—just to clarify that for the record.

In the context of the specific LINK consultation and the change to the interchange fee. As UK Finance, given that, at its heart, the consultation was a commercial transaction—it was the price point for a number of transactions that can be undertaken through ATMs—we felt it was not our place to contribute to the consultation, and it was closed to LINK members only. Our understanding from our members is that they are broadly comfortable with the consultation and the conclusions that it has reached. I suggest that John might have some more colour on that.

Q47 **David Duguid:** Would it be fair to say that your members—that is the banks—are the main beneficiaries of this change?

Eric Leenders: The point is more, as John made earlier, that the beneficiaries should be the consumer base that wants to use cash, and therefore that it is available broadly consistently across the UK. Flexing the interchange fee is an approach, which has been considered the best approach, based on the consultation.

John Howells: I have examples. When the full 20% is implemented, Barclays will save £8 million a year, Lloyds Bank Group will save £33 million a year, Santander will save £13 million a year, and NatWest will be £1 million worse off because they have a large number of ATMs.

Cardtronics— I am not sure I should answer that—but I think you do about £200 million a year on the interchange, something like that.

Duncan Faithfull: No, less than that.

John Howells: You will be down about £40 million, something like that.

Q48 **David Duguid:** My next question was going to be what the actual savings would be. Are those numbers you can share with the Committee?

John Howells: Those numbers are derivable, so I consider them public. I have checked carefully, but to give you a flavour of the impact, interchange a year is £750 million, so it is a massive number going from the banks to the deployers, which is why it is so controversial. By taking 20% off, you have 20% off 750 savings to the banks, which is a cost to the deployers. If you know what the market shares are, which you do, then those numbers drop straight out. I do not feel I have given away commercial secrets by revealing them. I do not have access to Ron's 30% off, so it is useful to have the data—

Q49 **Chair:** You can reveal as many commercial secrets as you want so long as you supply that information to us at the end of this Committee meeting. I can see Mr Faithfull is bursting to get in here again.

Duncan Faithfull: It is important that the consumer and their requirement to use cash should be at the heart of this; it is their consumer choice to do so. Who benefits from this? The banks save some money. Interestingly, interchange happens between banks as well, so it is not just bank to independent, it is bank to bank. If you use another bank's ATM, you are going to pay them interchange as well.

John rightly points out the figures are broadly correct. However we run those ATMs, and it costs a lot of money to run those ATMs. In Scotland, particularly, where we have one operational depot in Edinburgh and we have to cover the length and breadth of Scotland, the cost to serve those ATMs is high. What has been missing out of this consultation process is an understanding of the operational cost to serve people like ourselves. Again, it backs that moratorium; if you want to do this properly and not impact consumer choice, you cannot do broad-brush, arbitrary cuts at 20%.

Ron Delnevo: The reason interchange payments are so high from banks to independents is quite simple: the banks have chosen not to install enough ATMs to service the needs of their customers. If you have 25% to 30% of the debit cards in this country, and you only have 7% of the ATMs, you are not servicing the needs of your customers. Those cards are going to go elsewhere—both to other banks and independents. That is why there has been an imbalance. Basically you can help yourself here by installing ATMs. Some banks have installed ATMs, but if you do not, you are going to pay more in interchange because your customers still want cash. That is the essence of it. They still want cash.

Q50 **David Duguid:** I wanted to go back to evidence that was given from Which? in the previous panel. Would you agree with the assertion from Which? that this is a move to drive behaviour, rather than a response to behaviour?

Ron Delnevo: Absolutely. The busiest day in history for LINK ATMs was 23 December 2016, and at the same time hundreds of ATMs have been taken out—2,000 in one year—by the banks, so it does not seem like they are reflecting demand for cash. It seems like they are driving the demand for cash.

If cash was really dying out as fast as people say, then these changes would not be necessary, because ATM transactions would be collapsing. The amount that was being paid out would be reducing, but the reality is cash is still very popular with the public—40% of transactions still need using cash. It is not happening fast enough for some people. They see a way of driving the end of cash. To say one ATM in a town is enough is complete nonsense. It is not enough and that will lead, for the reasons I touched on, to the diminution in cash use and drive people to use cards and apps and so on.

Chair: Before we proceed, if some of my colleagues would like to identify which of our panellists they would like to hear a response from, that may help us. I will see if there are grounds or reasons for others to come back in in terms of response to what they have heard. We will start with Mr Masterton with that particular rule.

Q51 **Paul Masterton:** Mr Howells, we have covered quite a few things I wanted to ask about, but I wanted to particularly understand that LINK has said that the interchange rates are currently unsustainably high. I wanted to drill down specifically to understand why you believe a reduction is needed to ensure the long-term viability of the LINK scheme.

John Howells: A reduction and the increases I have talked about, because we have both things going on. Our busiest day was 2012, not 2016.

Ron Delnevo: Not according to the LINK website.

John Howells: We saw volume reductions of 6% over the last year, so it is quite a major, sustained drop. We are worried that, where you have that kind of reduction in usage and you have a growth of ATMs going on—because the ATMs are up about 10% over the last couple of years—are core interchange prices too high? If it is too high for too long, what will happen is that the people who pay that—the banks and building societies—will leave. They have been telling us that it is too high and that they are going to leave for about three years.

We have had a couple of small ones—again, I think I can name them because they are no longer members. Virgin Money and Airdrie Building Society have both left LINK and are now members of Mastercard and VISA respectively. If that trend continues, we will unravel and we will not exist anymore. It is not a theoretical thing. It is a world where I have real reductions by consumers at my ATMs—going down 6% on average—but I have more and more ATMs being deployed. We need to stop that, and we have stopped it by reducing the interchange rate. That is why we have also moved quickly.

When we talk about the consultation, why aren't we taking a year? It is because I did not think we have got a year. We have a very short time based on the very lengthy three-year debate that had been going on. We are not just cutting interchange. We are also putting it up in remote rural and vulnerable areas because if we do not protect it, the entire network will also have failed. That is the overall approach.

I recognise we have a commercial discussion to have with Cardtronics, and with some of the other big deployers, to make sure we get the thing fine-tuned in a way that leaves them able to be successful in the UK. But I would hope that Duncan himself would agree that too many ATMs were going into busy city centres, and somehow that needs to be stopped.

Q52 **Paul Masterton:** The biggest concern that I have had from constituents is that ATMs are linked to bank branches, and when the bank branch closes, their fear is about the corresponding external hole in the wall and the length of time that that ATM will survive. Is it your view that making these changes to the interchange will result in more ATMs—

John Howells: In remote and rural areas and deprived areas, yes, that is the aim of putting the price up. I cannot force the bank, but it is not acceptable, if you take your branch out of the community, to not leave ATM cover. Whether you do it yourself or you pay whatever it takes to a Cardtronics, a NoteMachine, a PayPoint or one of the others, I do not think it is responsible to take a branch out without leaving an ATM behind, but obviously I cannot speak for the banks on that.

Chair: Mr Faithfull wants to reply to that, so we will give him that opportunity.

Duncan Faithfull: First, interchange has to reflect current society and current cash usage. Cardtronics supports that the fact we are looking at interchange to make it relevant for users over the next 10 or 20 years. We support that. To John's point: we have stopped putting ATMs into urban areas. The issue we have is that there is no transparency around how the increase in interchange works in rural locations. Our cost-to-serve goes up dramatically the further you go away from an operational base.

So we are working, hopefully. John is right—we have been very productive in conversations—but we are going to propose a system that enables a zoned response to a lower interchange in urban areas, but with a higher interchange in rural areas, based on the Office of National Statistics statistics, so that it is very transparent and means that no one has to do individual ATM analysis. It is very clear. But it supports people like us to go to rural Scotland to service our ATMs.

To reiterate, Cardtronics has no option, unless there is clarity given on this point, but to go to a pay-to-use methodology, which is not in the consumer's interest. We want to prevent that.

Going back to the PSR, we are requesting a moratorium while we socialise this plan that we have developed. I am sure John will be willing to listen to that.

Q53 **Chair:** I have a question to Mr Howells on the consultation process. We have heard from Which? and other groups that have given us written evidence about the unsatisfactory process, in their view, in the consultation. Why did you choose to do it in this particular way? Why did you not open it up a bit more so that we could hear from a wider range of interested parties?

John Howells: We think we needed to move at speed, and we think that we were clearly not changing the public policy position. Universal access to cash for free is what we are intending to do. It is about how we are delivering it, which we are changing.

Clearly, more consumer input is always good. This is the speed issue: the fact that we felt we had organisations who were either on the brink of leaving LINK or on the brink of turning some of their machines to surcharging in remote rural areas caused us to go the route we did. It was not just members; it was open to everybody and anybody. We did get a handful of responses from MPs and the general public.

Q54 **Chair:** It was not just MPs though; it was the Treasury Committee. You would have seen the correspondence that there was from my colleagues, who expressed a very deep concern about the consultation. I will not repeat what Lord McFall, the former Treasury Committee Chair, said about this, but there has been unhappiness from right across this House about how you went about this. Would you be looking to seek to address some of these issues? What are you doing now to try to meet some of the concerns?

John Howells: It is an excellent point. We think we have a settlement that will work for the next four years. We do not think that gets rid of the problem. Four years will evaporate very quickly. We think cash is diminishing in use going forward for 10, 20 years, and we need to have an infrastructure that delivers cash for 10, 20, 30 years. We are having to run another consultation. We are calling it a review. We are launching an independent review next month—funded by LINK, but independent from LINK—which is to look at what happens past the four-year period. We think when you look at the very serious cash volume reductions, the infrastructure will fall apart. It is not just the ATMs, but the vans and lorries moving stuff around the place and the bulk cash centres.

Q55 **Chair:** We will be hearing from the payment systems regulator once we have finished with you three gentlemen. There have been lots of suggestions that a proper inquiry should be held about what is happening. Would you have any problem with that?

John Howells: We do exactly what our regulator said, but we will not wait. We have announced the launch of an independent review next—

Q56 **Chair:** Would it not be a good idea if there was to be such an inquiry possibly to wait to find out about all the unhappiness we are hearing about today?

John Howells: LINK's job is to deliver universal access to cash, not to wait for what might happen. So we are going to get on with our independent review.

Q57 **Deidre Brock:** On the back of something Mr Masterton was talking about, Mr Delnevo, you touched on the fact that the interchange rates in the UK are lower than anywhere else in Europe.

Ron Delnevo: Yes, that is it.

Q58 **Deidre Brock:** Is that your understanding, Mr Howells, and if so, can you explain it please?

John Howells: It depends on which facts you pick. Yes, the unit rates are lower, but the UK is a unique market—nowhere else have consumers got access to every ATM. You have a fragmented approach in many countries around Europe, where you have some interchange operating, but as a consumer, you cannot go to any machine. You can get 10 different experiences, and there you will have interchange rates of £1, £2, but it is a completely different model. I am not sure it is comparable.

Q59 **Deidre Brock:** Looking at some of the figures we have been provided with, there are many more banks per head of population in places like Germany and France, so perhaps more options there as well. Is that your understanding, Mr Delnevo? Is there anything you would like to add to that?

Ron Delnevo: First, many other countries have very good access to ATMs along the lines of LINK's access to ATMs. Secondly, Britain already has fewer bank branches per head of population than any other country in Europe, so they have taken away our bank branches and now there is a move to reduce ATM access. The reality of it is we heard figures earlier that, for one bank, I think the maximum saving will be £30 million a year. Another said £20 million. Another said £8 million. Compared to the profits of the banks, I do not understand this massive urgency. Why is there massive urgency for a maximum saving of £30 million a year?

It strikes me that we are being given a kind of bum's rush here. You have to rush, you have to rush, and therefore we cannot have an inquiry before we introduce the cuts. The British public deserves a full independent inquiry before the cuts. If the cuts are rational, they might be delayed six months or a year, but given the figures that John gave, that is not going to be a disaster for any of the banks involved. Those are low figures compared to total bank profitability.

Q60 **John Lamont:** I am going to move on to the effectiveness of the financial inclusion programme. My question is to Mr Howells. How are you ensuring that this change will not lead to more communities, particularly in rural areas, being financially excluded?

John Howells: We have committed that no community will lose their ATM and that we will do whatever it takes to maintain that free ATM one-kilometre boundary around an ATM. We can deliver that not by talking to an individual operator. To pick on Duncan just for illustrative purposes, because our conversations are more constructive, if Duncan comes up and says, "I am going to close Barra unless you give me 50p interchange" what I am not going to do is just say, "Yes". What I am going to do is go to one of his competitors and say, "I have somebody who needs to withdraw their ATM. If I give you 30p, will you help?" The reason there is a commercial dialogue that needs to go on is because that is the reality of how the market operates.

What I have committed to publicly is that we will do whatever it takes financially to ensure that somebody puts an ATM there. You need to be comfortable that there are enough ATM deployers willing to go out and put machines out there and that I have the power to take whatever money it takes off the banks. On the latter I have; I can take whatever it takes. Never mind the 30p—if necessary, I can go to 3 million p and beyond.

And it is a competitive market. We are hearing a lot about two particular deployers, but there are other deployers out there. Organisations like YourCash have 2,000 ATMs, and PayPoint has 3,000 ATMs. You have a number of banks in the country. Bank of Ireland has 2,500 to 3,000 ATMs, I believe. You have a competitive market out there. I would expect, with constructive conversations, to come to a settlement with Cardtronics. But I have the tools to be able to make sure the consumers get a free ATM one way or another.

Q61 **John Lamont:** Can I ask you about the one-kilometre limit and how that figure was picked? In my own constituency, the financial inclusion programme is going to help take six ATMs out of a total 73. I can think of six further locations where if the ATM was to go there is going to be an adverse effect on residents and businesses. Six more are going to be lost when RBS shuts their branches in the next few weeks. Can you explain why 1 kilometre was picked as being the limit, as opposed to 500 metres or some other, lower limit?

John Howells: The one kilometre for rural areas has been in place since the last Treasury Select Committee hearing in 2006. It is because there is an existing established approach, which has been running for well over a decade, which came through some scrutiny beforehand. We have two programmes running in there. One is the rural one kilometre, but the other is deprived areas, which are the lower quartile of SOAs in the country. We have two things going on, and subsidies will be applied to both of those.

Q62 **Ged Killen:** The 70,000 ATMs across the UK: how many people will LINK have proactively monitoring this network when the change comes in, to make sure that those machines that need to be included in the financial inclusion programme will be?

John Howells: We are committed, from 1 July, to publish stats on the location of those sensitive ATMs. We are going to be paying an external firm to do that, so rather than having a team of people internally, we are currently finalising a contract with a specialist location organisation so that we can have an independent name on the stats. With 70,000 bits of data, there is a lot of IT and stuff that is being developed. It is about the independence of that organisation, and about the fact this goes up on our website for full scrutiny, which I am expecting you will require, and PSR will require, and that is the tool that the PSR and you will have to make sure we are delivering. You can see deserts opening up. I fully expect that if deserts do open up and we do not close them, the PSR will intervene. That is what she said she is going to do, and I expect she will do that.

Q63 **Ged Killen:** What sort of timeframe is involved here? If there is an ATM machine at risk of closure, and you cannot get another operator to come in, once it has gone, it has gone, surely. It is going to cost thousands of pounds for another operator to put a new machine in, so doing it after the fact is a risk, and if closure happens, you cannot do anything about it?

John Howells: I am expecting to have constructive conversations. If I do not have constructive conversations that lead to machines staying in, then I am expecting to be given three months' notice of a machine coming out so I can get another deployer to put one in.

Q64 **Ged Killen:** How many do you have to have these conversations?

John Howells: That is voluntary. If they turn out not to be met, then I will change the rules to require that notification. In terms of other organisations that we are contracting with to be able to put in ATMs, I cannot think of an example, but we could put one in. I have two banks that I have an agreement with.

Q65 **Chair:** I know Mr Faithfull is desperate to come in, so I will allow him to answer this question in response to what Mr Howells said about vulnerable communities, and also the points that Mr Lamont's made. I have been contacted by my colleague, the member for Na h-Eileanan an Iar, who is also the Chair of the International Trade Committee, about this situation, and about Isle of Harris, where there is one ATM in Tarbert, which only opens three days per week. There is no other alternative at all on the island. When it breaks down and there is no cash available, there is a shortage of engineers to get there. Is this not an example of how, even in the current situations and conditions, we are letting customers down?

Duncan Faithfull: I am having regular contact with Mr MacNeil, the MP for the area, and the situation in the islands is a good example. Cardtronics acquired that ATM from Lloyds Bank when Lloyds pulled away from the bank branch in that location. It is a massively high cost to fill up with cash and to engineer when it breaks down.

To give John credit here, we are having sensible conversations about how those individual ATMs can be catered for. The problem is when there are thousands and thousands of individual ATMS that need to be catered for and you have to have each of these individual conversations. We are about planning a business based upon high capital investment, and we need more clarity than that. What we are proposing to link is a zonal methodology, which we published in our response to the consultation, which protects rural locations—whether in a financial inclusion area or not—but also reduces interchange fee in urban areas, which should disincentivise companies like us from putting ATMs where there are too many.

John Howells: Just to pick up on the question Ged asked, we have agreed constructively a 30p premium, and hopefully we will get that sorted in Harris. But there is a post office 20 feet down the road who say that if we cannot get that sorted, they would be delighted to have an ATM, and they have been asking for one for two years. I think, using that micro-example, that that is what we would expect to do over Scotland. We have the tools we need to make sure consumers are not affected.

Chair: The next question is directed towards you, Mr Delnevo, so you get your opportunity.

Q66 **Deidre Brock:** What changes would you like to see made to the financial inclusion programme suggested by LINK? You have suggested one there, Mr Faithfull, but is there anything else you would like to say, Mr Delnevo?

Ron Delnevo: The example Pete gave just then shows one ATM is not enough. Even if they do a deal and more interchange is paid, that ATM will still go down because of mechanical faults, it will still go cash-out occasionally, and what alternatives do the public have? This idea of one ATM being protected is nonsense. When I was listening to Mr Lamont, I was looking at his constituency—at Coldstream and Lauder, with two independent ATMs. If only one ATM was in either of those towns, it would be disaster for those towns, because if they go down—no access to cash.

What I am looking for is not a review of the financial inclusion package. I am looking for a review of the entire LINK interchange scheme, because we do not benefit much from that financial inclusion package at the moment. About 300 ATMs get a benefit from that at the moment. It is nothing compared to the total network.

What we need is a full review of interchange and how it is working, and a transparent solution. We cannot rely on deals done between companies and LINK. That is not the right and proper way. You just said, John, that the post office have wanted an ATM for two years. The reason they do not have an ATM is because the Bank of Ireland, who have a contract with the post office, will not put one in. Who is going to force them to put the ATM in? Nobody. That is the reality of the situation. There are complex contractual arrangements here, but the public will be best served by a full inquiry.

Deidre Brock: Mr Faithfull, you wanted to add something to that?

Duncan Faithfull: Yes, it is dangerous for us to go down a path of looking at individual locations, because otherwise you disappear into detail that is not helpful. The point we should be guided by here is that for everyone involved in the LINK scheme to have this administratively simple is really important, rather than going with each individual ATM that comes up as an argument. John is right: there has been a lot of discussion around this for a long time, but Cardtronics, the largest deployer—so a third of all the ATMs—is saying we have a proposal that we think will work and that caters for all of this, but, just to be clear, once the first 5% happens, and if there is no change of direction, we have no option but to protect our business. The only other way is pay to use, which is bad for consumers. Surely it is back to the PSR. Let's take breath; we will work with the banks, with LINK, with PSR, with the Treasury and come up with a solution that works.

John Howells: I think we do need to look at individual consumer situations. Harris is fundamentally different from Glasgow. The answer to the question if the ATM goes down in Harris is that there is a post office where every single consumer can go and get cash out. The problem there is that they have never been told because LINK hasn't joined up with the post office, which is something we are going to fix. That location-by-location provision is what is required, because every community is different.

Q67 **Deidre Brock:** Picking up on what Mr Delnevo said, if, say, the Bank of Ireland doesn't want to put the ATM into that particular post office, what powers do you have to force them?

***John Howells*:** It is down to the post office if they want an ATM in there. If the post office in Harris wants to have an ATM, then it is just a question of agreeing a price for the deployer. There is nothing to stop every retailer in the country having a free ATM if they want it and provided they pay.

***Ron Delnevo*:** That is not true with the post office, John. You know there's a contract with the Post Office that gives the Bank of Ireland first refusal and it is up to them whether they agree that another party can put an ATM in.

Chair: We will leave it at that. Thank you. David Duguid.

Q68 **David Duguid:** This is a question for Mr Howells, but going back to something Mr Delnevo said—that, on average, every ATM is inoperable for up to three days each month. That would suggest that some ATMs are inoperable for a lot more than three days a month.

***John Howells*:** What was that stat again? Two to three days a month?

Q69 **David Duguid:** Every ATM is inoperable on average for up to three days each month—that is according to ATMIA. My question was going to be, do you recognise and acknowledge that figure, which, going by the shaking of your head—

***John Howells*:** We have a figure of 97% operability. While it is great to have the trade association here pushing ATMs, I think it is down to the members and LINK to provide cash access for UK consumers.

Eric Leenders: Mr Chair, I did suggest at the start of the session some of my personal experience might be brought to bear. In this particular instance, as a manager of a bank branch, I had responsibility for replenishing the cassettes, or my team have responsibility for replenishing the cassettes, for balancing the till, and for doing the routine maintenance that a non-specialised operative would require, and that, 20 years ago, took about 15 to 20 minutes a week, so I have to say, with due respect to Mr Delnevo, that the fact that all ATMs would be out of action for two to three days per month in aggregate is not a number that I would recognise. I would be very happy to continue that conversation offline, and perhaps LINK could provide more detail on that.

***Ron Delnevo*:** If I can just respond, we are not talking about bank branch ATMs, because we are talking about bank branches not existing. We are talking about independent off-branch ATMs, and on average they would be down a couple of days a month—two to three days a month—because of mechanical problems or cash-outs.

I remember hearing two bankers discussing at a LINK meeting what percentage they should put for uptime for ATMs for this contract they were entering into, and they agreed that 92% was a good uptime, notwithstanding your 97% figure. The reality is, whether it is one day a month or two days a month, there is one ATM where cash will not be available 24/7 throughout the period of the year, and that is what will drive people to these other payment methods.

Q70 **David Duguid:** There seems to be some debate on what the stats actually are. Maybe we could ask for a bit more information on where those stats come from?

***Ron Delnevo*:** I operated an ATM estate for 15 years, and I filled the ATMs myself when necessary, so I am an expert on uptime at ATMs, and I can tell you they are certainly not up for 97% of the time.

Q71 **David Duguid:** That falls into my next question for Mr Howells. In terms of achieving that 97% uptime performance standard—I guess we would call it—what does LINK do to make that happen and ensure that the communities do have as much constant access to their cash as possible?

***John Howells*:** It is what the deployers do. We have very high levels of rules that our members sign up to, but those are meaningless unless we have large professional organisations like Cardtronics. I think I will let Duncan answer that because he is the one that runs the ATMs.

Duncan Faithfull: We run our estate at circa 97% as per the LINK requirements, albeit there are occasions where that is very difficult, and Tarbert is a great example, because if the ferry is not running because of bad weather, we cannot get the cash there. There are issues depending on local areas. Again, it is dangerous to get too dragged into these points, but we look to run our estate at the higher availability. I can't speak for other deployers, but we are a third of the UK's ATMs, and it is important that we hit that mark.

Q72 **Christine Jardine:** You may have covered some of this already, but let me return to the issue of ATMs in post offices and the Bank of Ireland, which is a LINK scheme member. All of the ATMs, as I understand it, are owned by the Bank of Ireland, so if there are decisions to close post offices, they would happen independently of LINK. Will you commit to ensuring that any associated ATMs will remain available or that you will somehow work with the others to ensure that there is a facility there?

***John Howells*:** The latter, yes. I can't do anything about post offices closing; if a post office closes, I can't force the Bank of Ireland to go and put an ATM somewhere, but what I can do is for, that village, I can make whatever amount of money is necessary available to the rest of the marketplace until I get an ATM free and operating in that village.

Q73 **Christine Jardine:** Thank you. One of the things that shocked me from the written submissions was that Age Scotland have talked about their concerns about the impact specifically on older consumers and on communities, where there is a high demographic of older people. In the event, if you like, that a rural community—or any community for that matter—is losing the LINK machine in the post office because of a closure, you would look to work with someone else?

***John Howells*:** Yes.

Christine Jardine: Thank you.

Q74 **Chair:** Thank you. We are just about done. One last question for you, Mr Howells, if that is all right. I think you said that the first two years of the phased reduction is fixed but you would be willing to be flexible in further reductions if there is evidence that the first two phases put the network at risk. How will you judge whether a change is needed and what evidence would this decision be based on?

***John Howells*:** There would be two pieces of evidence. It is not about being flexible; it is about being evidenced about whether there is an adverse impact on consumers and, if there is, changing it. That is what we are going to do—

Q75 **Chair:** How will you assess that?

***John Howells*:** We have two bits of evidence we will use. One is we will get an independent review of the costs of every single bank and deployer so that we can make sure that nobody is either suffering or making too much money, because both things would need to be dealt with. The second thing is we will look at the coverage and the volume going through from a consumer perspective. If gaps open up, we have to put the price back up again. If not enough machines close in city centres and gaps do not open up, then we will reduce interchange further.

Chair: Thank you. We are concluded. Sorry, Mr Faithfull, we didn't get back to you, but we have run over time. It was a fascinating session. Most of you managed to behave yourselves most of the time, and we managed to get through that session quite flawlessly. Thank you for your evidence. I think there were several bits of information that we have requested, and you will get a note from our Clerk just to see if we can secure them. But thank you very much for your evidence this morning. Can we have our next witness, please?

Examination of witness

Witness: Hannah Nixon.

Q76 **Chair:** Ms Nixon, welcome to the Scottish Affairs Committee and our one-off inquiry into the ATM network in Scotland. Just for the record, can you tell us who you are, who you represent and anything by way of a short introductory statement?

***Hannah Nixon*:** Yes, good morning. Hannah Nixon, managing director of the Payment Systems Regulator. Thank you for the invitation today. I am really pleased we are engaging in what is such an important issue for Scottish consumers.

Q77 **Chair:** Grateful. That was very short. To start things off, could you outline and describe to the Committee what your responsibilities and powers are when it comes to issues such as ATM closures?

***Hannah Nixon*:** Yes. We regulate LINK as the main ATM network in the UK. Our role is to promote competition and innovation in the market to make sure that we have payment systems, including an ATM payment system, that serves the needs of the UK consumer, obviously including Scotland.

Q78 **Chair:** What particular powers do you have? Say you are observing this closure programme and you have made up your mind that there is something that you do not like about what is happening, what can you do?

***Hannah Nixon*:** We have the power to direct LINK, and indeed have put in place directions on LINK with respect to the issue we are discussing today. Those can be around stopping doing something, or putting additional measures in place. We can appoint people to take action on behalf of LINK and we can fine LINK.

Q79 **Chair:** I do not know if you caught much of the earlier sessions, but there is also talk about a possible inquiry into what is happening throughout the whole range of issues associated with ATMs. Would that be something that would be the responsibility of your organisation, or is it something that you feel you would want to venture into?

***Hannah Nixon*:** Yes, it could be. We have been monitoring the situation extremely closely because access to free-to-use ATMs, and a broad spread of access to free-to-use ATMs, across Scotland is really important—we recognise that. That is why over the last year we have been in contact with the big retail banks in the UK to understand their commitment to serving their consumers with free-to-use ATMs. That is why we have done our own analysis on competition in the market and also the impact of any interchange fee on the market. That is why we have directed LINK to report to us to make sure we can hold it to account for the commitments it has made on preserving that free-to-use network.

Q80 **Ged Killen:** Which? criticised the PSR for not sufficiently scrutinising, and for wrongly endorsing, LINK's approach of making incremental changes to the interchange rate? What is your response that?

***Hannah Nixon*:** We share Which?'s concerns around preserving the free-to-use ATM network across Scotland and the rest of the UK—we absolutely share that concern. When we saw LINK's consultation at the back end of last year, we were concerned that LINK had not done enough to really understand the impact its proposals would have on the consumer. That is why we stepped in and said it had to go back and do that work—it had to understand the impact. That is why we set out the expectations that we did of LINK on doing whatever it takes to maintain that broad spread of free-to-use ATMs. That is why we have said any cut has to be incremental and there has to be a clear review and understanding of the impact before further cuts are made. And that is why we wanted to see more money on the table to fill the remaining gaps in the network. We share Which?'s concerns, but that is why we have done the work we have to make sure we can protect that access to cash.

Q81 **Ged Killen:** You said just there that you wanted them to go back to understand the impact on consumers. How have they done that?

***Hannah Nixon*:** When we saw the consultation—I think this has been expressed this morning—we were concerned that they just had not done enough to engage with consumers and understand what would be the impact on the free-to-use network of their proposed changes. The work we did suggested that, actually, it was likely to be the remote ATMs that would most quickly come under pressure on the back of any interchange cut, which is why we have set out to protect those ATMs. We have pushed LINK to engage with a wider range of stakeholders to understand that.

I think it has done that, and we now feel that we have a solution that will put the LINK network in a more sustainable position, at least for the short and medium term.

Q82 **Deidre Brock:** You have said that you will require LINK to actively monitor and keep reporting on the impact of its decision. How did you decide on the reporting requirements for them?

Hannah Nixon**:** Our main concern is making sure that we maintain this broad geographic spread of free-to-use ATMs across Scotland and the rest of the UK. Those are the ones that we want to make sure stay in place so that all communities continue to have easy access to a free-to-use ATM. That is where our monitoring is focused, and that is where the reporting requirement is focused on LINK so that we understand exactly what the impact is on those ATMs.

Q83 **Deidre Brock:** How will you judge whether they have met those requirements?

Hannah Nixon**:** LINK at the moment is mapping the ATMs that will be protected under that regime. There will be clarity on exactly which ATMs fall into the requirement. In Scotland I am expecting it to be in the region of about 250, and they will report to us monthly on the impact on those ATMs of any change in the interchange fee.

Q84 **Deidre Brock:** In terms of some of the issues that we heard about the Barra ATM, for example, how would you address that?

Hannah Nixon**:** Sorry, I did not hear the specific example.

Q85 **Deidre Brock:** I don't know if you were in here for that, but when we were talking about the only Barra ATM, which is only available three days in a week—*[Interruption.]* Oh, Harris, was it? Sorry. I just wondered how you would address a situation like that, say, that started coming up more and more frequently in rural communities. What would you force them to do?

Hannah Nixon**:** We absolutely expect LINK to be working with local communities to understand where there are gaps in the network. That gap might be that there isn't an ATM and the community would value one, or it might be that there is an ATM but it is not sufficiently available. We expect LINK to be working with deployers and with the community to identify those areas and fill those gaps.

We heard this morning about some of the discussions that are going on between LINK and the deployers to find solutions to filling those gaps. That is what we would expect to happen.

Q86 **Deidre Brock:** If they don't, what will you do?

***Hannah Nixon*:** Our powers mean that we can direct LINK to put in place an interchange fee and other arrangements that incentivise deployers to put ATMs in place. We cannot go further, though, than that. This is a commercial market, and we cannot force an ATM deployer, a bank or LINK to physically put the cash machine in place. What we can do is make sure that the conditions are right. Where there is demand for an ATM, it should be attractive for a deployer to put that ATM there.

Q87 **Chair:** Do you have any say at all in the setting of the interchange rate?

***Hannah Nixon*:** We can intervene on the interchange, and we stood ready to do so—and will continue to stand ready to do so—if we are concerned that the cut in interchange fee will cut across our objectives. Specifically what I mean by that is that if we felt that the cut in interchange is going to jeopardise that broad geographic spread of free-to-use ATMs, we would step in. Indeed, we have, because if the blanket cut that LINK was originally proposing went through, we were concerned that we would start losing some of those remote ATMs. That is why we have put in place the measures to protect them.

Q88 **Chair:** Are you now satisfied with what LINK is proposing with the interchange rate? Is that your final say in the matter?

***Hannah Nixon*:** We are going to be carrying on monitoring this closely. It is a dynamic market, and there are lots of uncertainties. We have been clear with LINK they can only put through incremental cuts, which is why they have this phased approach. We have been clear that they need to monitor the impact of those cuts and that none of them are fixed in our view, so if we saw that the first 5% cut was having that adverse impact, then we would step in. That is why we will be engaging with consumers across the UK, including in Scotland over the next six months, before the second cut is in place, to make sure that everybody understands that.

Q89 **Chair:** The first cut is in place. That is fixed, though, isn't it?

***Hannah Nixon*:** We have seen no evidence to suggest that the first cut is going to present a problem. What it does is direct bank money to those ATMs that are most vulnerable of closure. It reduces the amount that has been provided particularly to the urban-area ATMs.

Q90 **Deidre Brock:** Just quickly, you mentioned you could fine LINK if it failed to comply with your regulations. What kind of fines have they been given in the past, or have they?

***Hannah Nixon*:** We haven't fined LINK. Our fining power is unlimited.

Q91 **Deidre Brock:** Unlimited?

***Hannah Nixon*:** Yes.

Deidre Brock: Really? Okay, thank you.

Q92 **Ged Killen:** LINK will be bringing this change in and then monitoring the network as it goes along. You will then be monitoring LINK. Do you not think this is back to front? Is it not the role of the PSR to step in now and respond to calls from Which? and others and conduct a full review to establish what the situation is and what impact this is likely to have before the change comes in, rather than trying to act after the fact?

***Hannah Nixon*:** We have stepped in. We did do our own work last year to understand the impacts on the spread of ATMs of any change in interchange fee. We have done work on understanding the progressive dynamics in the ATM market. We have stepped in, to be clear, on the ATMs that LINK needs to protect, so we are absolutely being proactive in making sure that the consumer can have confidence that they will continue to have good access to free-to-use ATMs.

This is a dynamic market. We need to keep monitoring the situation, which is why I say we will be engaging with consumers across the UK to understand the impact, and we will step in again if we see that commitment or that objective of maintaining the free-to-use ATMs coming into jeopardy.

Q93 **Ged Killen:** In terms of a full market review, which is I think what Which? has called for, that is not something that you are planning to do or that you have done?

***Hannah Nixon*:** What we have at the moment is a situation where we can be confident that we have the processes to maintain access to cash across Scotland and the rest of the UK. We have the ability to step in again if we need to. There is obviously a much longer-term debate that we are looking at with Government and consumers about what happens in the longer term, because we know that people's payment use is changing. We know that cash will remain an important part of the payment mix for the foreseeable future, and there is a question about what we need to put in place, as the UK, to make sure there is that continued good access to free-to-use ATMs. We will be working with Government to understand if there is anything further. If that is what Which? means by the market review, then we will be doing that work, but then that will need to take place over the next several years.

Q94 **Chair:** In terms of this wider debate that we are hearing this morning about the move to the cashless society—the "war on cash" was the most dramatic term that was used to try to describe this—are you engaged in that debate, and have you any particular views about what you are observing and what is currently going on?

***Hannah Nixon*:** Our role is to make sure that people have choice in how they pay, and we know that cash is an important part of that mix. We know that there are some people who rely very heavily on cash. We know that there are lots of rural parts of Scotland that rely particularly heavily on cash, and their local economies lie heavily on cash. That is likely to remain the case over decades to come. We want to make sure that that choice is maintained, so in that sense we are neither pro nor anti-cash.

We are neutral on that, and we need to make sure we have in place the mechanisms that encourage that.

I have heard some of the concerns that have been raised about whether there are companies that are perhaps trying nudge people away from cash. That is why in February last year I wrote to all of the chief executives of the retail banks in the UK to understand their position. All of them came back and said they recognised the importance of continuing to maintain that free-to-use ATM network for their consumers.

Q95 **David Duguid:** One instance where you have said you would intervene, or the PSR would intervene, is if you believed that the current geographical spread of free-to-use ATMs was threatened. How are you going to monitor that?

***Hannah Nixon*:** We put a direction on LINK to report to us monthly so we will have very timely and clear data on that. The metric we use obviously aligns closely or precisely with the one-kilometre metric that came out of Lord McFall's TSC review back in 2006-2007. It has been reaffirmed by the TSC since and has become the accepted standard for coverage of ATMs.

Q96 **David Duguid:** What would trigger you to intervene on the grounds of reduced geographic coverage?

***Hannah Nixon*:** If we saw any of those protected ATMs come under threat, that is when we would be intervening. We would want to be understanding exactly what had happened. We expect LINK to have early-warning signals as to whether an ATM is coming under threat. We expect them to be renegotiating those contracts. We expect them to be putting somebody new in place if that incumbent supplier is no longer able to supply the ATM. If we saw that was not happening, then that is when we would be stepping in.

Q97 **David Duguid:** In what way would you step in? What kind of power do you have to? I think you have already suggested that your powers are limited.

***Hannah Nixon*:** We can direct LINK. We have said to LINK, and LINK has committed to doing everything it takes, to maintain those remote free-to-use ATMs. We expect it to be doing that. What we can do is to direct LINK to change the interchange fee on those ATMs and change the commercial conditions on those ATMs to put them back in. Where our powers stop is we are not able to force a commercial ATM provider to provide an ATM against its will.

Q98 **Christine Jardine:** I was going to ask about that. In those circumstances, where you talked about triggering intervention, what sort of things do you take into account? I am thinking again about Age Scotland. I have talked about the high demographics of the elderly, communities and so on. Is that the sort of thing you will be taking into account as well?

***Hannah Nixon*:** We want to make sure that local communities who have access to free-to-use ATM at the moment continue to have that access. The ATMs that are protected are those ones that are currently a kilometre or more away from the nearest free-to-use ATM. We have also been clear with LINK we expect the banks to put more money on the table, which they have done for the financial inclusion programme, and that can help find the areas in the network that need an additional or new ATM. The issues of particular populations who perhaps need additional access to ATMs would be covered by that.

Q99 **Christine Jardine:** Both Which? and the FSB, and other groups, have called for the PSR to review the implications of the interchange and the effectiveness of LINK's financial inclusions. Will you be conducting a review along those lines?

***Hannah Nixon*:** We have reviewed them on an ongoing basis, and we will get the information. So we will understand what is happening in this market, and it is not just about reviewing what LINK is doing; we are doing our own proactive engagement with communities, including in Scotland, to really understand the consumer need.

We held a workshop in Edinburgh last year that was very well attended. It was very productive from my own point of view to try to understand community views. We are well aware that Edinburgh is not necessarily representative of the whole of Scotland, which is why we will be engaging specifically with the north of Scotland later this year.

Q100 **Chair:** Just lastly, you did hear some of the evidence that was presented earlier? There did seem to be a big impetus and push for you to have this inquiry. I am hearing from you that you are not feeling inclined to conduct such an inquiry. Would that be the right conclusion to take from this?

***Hannah Nixon*:** We engage with Which?, the FSB and a lot of other organisations on a regular basis. If there is something that they feel we haven't taken into account, then I am definitely open to understanding that and looking at that in detail. We have done, over the last year, a lot of work to understand the impact on ATMs of any change in interchange. We have done a lot to understand the competitive dynamics in the market, and we do now think we have in place a regime that will act to protect that geographic spread and enable us to step in if it comes under threat. If there is something that Which? or anybody else thinks we have missed then I am happy to engage with them on that.

Q101 **Chair:** You would be open to further looking at an inquiry if a case emerged—

***Hannah Nixon*:** Absolutely. This is a very dynamic market. There are lots of things changing. We are going to have to carry on looking at it.

Q102 **Chair:** There will be a parliamentary debate led by Mr Killen tomorrow, and we will build in, obviously, the response to this from Government. If there was something that was compelling about why we needed to review this, you would be happy to do that?

***Hannah Nixon*:** Absolutely.

Q103 **Chair:** Who wins out of all of this? We heard some curious evidence there about the banks—what the banks would be saving. Is this just a cash-saving exercise for some of the larger banks in the UK by cutting this interchange rate?

***Hannah Nixon*:** Our focus is on making sure it is about the consumer, because that is what matters to us. We have been clear that we want to make sure that everybody in Scotland and the rest of the UK continues to have easy access to a free-to-use ATM. That is where we put our focus. That is why we are interested in maintaining the spread; that is why we said that LINK has to do whatever it takes on interchange to keep that spread there. Regardless of what everybody else's motive is, that is what we are going to be holding LINK to account on.

Chair: Grateful for that. Thank you very much for your evidence. We have everything that we require from you, unless anybody has any last questions? Thank you very much for joining us this morning and helping us out.