

Written evidence submitted by NoteMachine

Executive Summary

1. The PSR is the primary regulator responsible for the sector in which we operate and has been critically engaged on the future of access to cash over the past decade. It continues to play an important role in safeguarding the future of the UK cash network, and we welcome the Committee's interest in reviewing its role at this time.
2. Collaboration and transparency between the PSR and industry is essential to ensuring the sector can innovate and evolve in line with Government ambitions. The PSR's Annual Plan for 2022/23 was welcomed by the industry, but there remains a need for greater clarity of objectives, alongside measurable outcomes, and defined timelines.
3. This should include greater clarity on the PSR's future role as it relates to access to cash, which should include a mandate to intervene in the operation of the UK ATM network to address the level of the interchange fee received by ATM providers.
4. To help ATM providers better prepare for the future and to maintain the network where there is most need, the PSR should set out how it regulates the ATM interchange fees across available schemes.

About NoteMachine

NoteMachine is the second largest provider of ATMs in the UK, operating 9,500 machines on a free or pay-to-use basis. There are around 27m monthly transactions on NoteMachine's ATMs every month and we supply £16.5 billion in cash each year.

Alongside operating a network of ATMs across Europe, NoteMachine is committed to shaping the future of cash services through its research and development arm, NoteMachine Technologies.

1.0 The PSR's performance

- The PSR has played a critical role in shaping the UK financial services sector since its establishment.
- In order for industry to innovate and adapt in line with Government ambitions and the evolving regulatory landscape, more frequent and proactive contact between industry and the PSR is required.
- Key to this is establishing a collaborative working relationship based on a culture of openness and transparency, where the PSR is open to seeking expert advice from a broad range of industry voices on difficult and complex issues.
- NoteMachine has met, at its request, with the PSR on two occasions since last summer. Following these meetings, the PSR did not seek feedback, nor was there any proactive outreach from the PSR to better understand the concerns of the industry.
- As it pertains to the ATM network, the PSR has been heavily focused on regulating LINK, rather than the schemes which can compete in the ATM market. This has led to a false price structure which has led to an unprecedented decline in free-to-use ATMs since LINK moved away from a cost-recovery based mechanism.
- A culture of openness to challenge on issues such as this is critical to ensuring UK consumers are able to access the financial services they need, including cash, and would therefore be welcomed by industry.

2.0 The PSR's Annual Plan for 2022/23

- The PSR's Annual Plan for 2022/23 was welcomed by industry for setting ambitious objectives to shape the evolution of the payments landscape. However, in this rapidly changing environment, greater clarity around these objectives is required to achieve these ambitions. For example, the

Annual Plan frequently references 'working with' and 'engaging with' without setting out what this looks like in practice.

- Alongside greater clarity of objectives, ensuring outcomes are measurable and deliverable within a clearly defined timeline would also encourage the transparency and accountability required for successful working relationships with industry.
- On the specific objectives, as they pertain to NoteMachine, Objective 1 (Access and Choice) refers directly to overseeing LINK's work and not the ATM scheme market as a whole. This lack of scheme-wide regulation is what has led to predatory pricing, and the move away from a cost-based recovery equation, which is directly impacting consumers.

3.0 The PSR's approach to promoting competition between payment systems, including cryptoassets and distributed ledger technology

- The payments landscape has shifted dramatically throughout the pandemic, with the move to digital accelerated by rolling lockdowns. The PSR, and Government more broadly, has shown significant interest in promoting innovation and incubation support for emerging payment methods. This has come at the detriment of maintaining traditional payment methods such as cash, with bank branch closures and the removal of local services having a significant impact on access to cash in some areas of the country.
- However, cash remains a fundamental pillar of the UK's payments infrastructure. NoteMachine has made every effort to continue offering access to as many of its ATMs for free as possible. However, in many cases this is at a loss to NoteMachine and successive cuts to the interchange fee and the removal of a fee setting mechanism have made it commercially unavoidable for us to have to convert some ATMs to pay to use.

4.0 The PSR's role in reviewing and regulating card scheme and interchange fees

- Whilst the theoretical role of the PSR is well understood by industry, greater visibility of its work would be welcomed. There is a limited understanding of the work the PSR has done to investigate the interchange fee for ATMs or explore regulating alternative ATM card processing schemes.
- Similarly, the process by which an interchange fee is decided currently lacks clarity, which leaves industry vulnerable to external pricing shocks. A particular concern for ATM operators in the context of the UK's uncertain economic outlook is the nature of the relationship between interest rate rises and the interchange fee. As this falls within the remit of the PSR, greater clarity around the nature of this relationship is needed in order for ATM providers to be able to plan with confidence.
- Whilst recent steps to look at how banks can be regulated in regards to cash are welcome, a more innovative and forward-thinking culture would allow the PSR to better anticipate future challenges surrounding the ATM marketplace.
- In order to halt the continued decline of services for consumers, intervention from the PSR on the interchange fee is required. Without intervention, we risk widespread closures of the free-to-use network and consumers unable to access their own cash for free.

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