

Cash machines closing at a record rate

November 2018

Summary of key points

- New data reveals the **shocking pace of cash machine closures**, with some constituencies losing over a quarter of their free-to-use cash machines in just six months.
- These closures are **primarily a result of the cuts to the interchange fee paid by banks** for cash machine transactions, which took effect earlier this year.
- In order to prevent widespread cash machine closures, **the Payment Systems Regulator must intervene to stop these cuts.**

What's happening to the UK's cash machine network?

New data released last month showed that free-to-use cash machines have been closing at a record rate of **more than 250 per month**.¹ The six months between December and July 2018 saw a **reduction in the network of 1300 machines**.²

The accompanying spreadsheet shows the change in the number of cash machines in each parliamentary constituency over the first half of 2018. Some areas of the country have experienced an acute concentration of cash machine closures. Sheffield Hallam, Bradford East, Rother Valley and Oldham West and Royton have lost more than a quarter of their machines since the end of 2017.

Why is access to cash important?

- Despite speculation regarding cash's demise, **cash remains the second-most frequently-used payment method in the UK**³. The **total value of cash in circulation is at record levels**⁴ and 2.2 million people rely almost exclusively on cash for their day-to-day shopping.⁵

¹ <https://www.bbc.co.uk/news/business-45483637>

² Ibid

³ <https://www.ukfinance.org.uk/convenience-of-debit-card-payments-puts-cash-in-second-place/>

⁴ <https://www.bankofengland.co.uk/statistics/banknote>

⁵ <https://www.ukfinance.org.uk/convenience-of-debit-card-payments-puts-cash-in-second-place/>

- The ability to access cash is valued highly by most people in Britain. A YouGov poll commissioned by Positive Money recently found that **77% of people consider access to a free-to-use cash machine either fairly or very essential.**⁶
- Cash is also the **cheapest payment method for retailers**, with the average cash payment costing just an average of 1.46p to process, vs 5.55p for a debit card and 16p for a credit card⁷.
- A majority of people **choose to use cash regularly**⁸, despite many of them having access to alternative forms of payment.

Why are cash machines closing?

Cash machines are funded by an ‘interchange’ fee, paid by banks and building societies to the company that operates the machine. A growing number of cash machines are operated by independent companies, including many free-to-use machines, which make up the majority of the network. Almost all cash machines are connected via the Link scheme, which sets the fees banks have to pay.

Some banks have pushed Link for a reduction in the interchange fee. They have been able to do this because of the threat that they will leave Link for alternative schemes operated by Visa and Mastercard, which are reported to set interchange rates up to 30% lower than Link, well below the true cost of facilitating the transaction.⁹ The cuts were planned to be introduced incrementally and have been partially postponed and cancelled, but the first cut in 2018 still coincided with a record rate of free-to-use cash machine closures.¹⁰

It is the cuts to the interchange fee, not a decline in the number of cash withdrawals, that is the primary driver of these closures. An independent study commissioned by Link found that the viability of individual cash machines is affected more by the reduction in interchange than by an equivalent percentage fall in withdrawal volumes.¹¹

⁶ Press Association, 20 March 2018, ‘Free-to-use cash machines ‘essential for majority’’: <http://www.dailymail.co.uk/wires/pa/article-5520697/Free-use-cash-machines-essential-majority.html>

⁷ https://brc.org.uk/media/179489/payment-survey-2016_final.pdf

⁸ <https://www.ukfinance.org.uk/convenience-of-debit-card-payments-puts-cash-in-second-place/>

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<https://www.parliament.uk/documents/commons-committees/treasury/Correspondence/Letter-from-Managing%20Director-Payment-Systems-Regulator-Link-Scheme-20-02-17.pdf>

¹⁰ <https://www.bbc.co.uk/news/business-45483637>

¹¹

<https://www.psr.org.uk/sites/default/files/media/PDF/EE-ATM-Impact-Study-Standalone-Executive-Summary-15012018.pdf>

The PSR's response

Link is regulated by the Payment Systems Regulator (PSR), which has the goal of ensuring that payment systems are operated in a way that promotes the interests of the consumers that use them.

Now that the unprecedented rate of cash machine closures has been revealed, an intervention by the PSR is urgently necessary. **The regulator must insist on a moratorium on the reduction in Link's interchange fees, and require that any future changes are subject to PSR approval.**

The PSR is currently consulting on a 'Specific Direction' which would require Link to report on its measures to protect any free-to-use machine which is further than 1km from an existing free-to-use machine. This is a timely intervention, given that dozens of 'protected' machines closed in the first six months of 2018.¹² But **the financial inclusion programme is too limited in scope**. Only a fraction of the overall number of cash machines is included¹³, meaning that **there could be a dramatic hollowing out of the network without Link or the PSR taking further action.**

Even if the arrangements are successful at protecting isolated machines, many communities may be left to rely on a just a single cash machine which would fail, on average, nearly two days each month.¹⁴

Suggested questions to the PSR

- Do you believe that the ongoing cuts to Link's interchange fee are justified, even in the face of rapid closures?
- The PSR's planned intervention applies to less than 5 percent of the cash machine network. Can we assume that the regulator has no objection to the closure of the remaining 95% of machines?
- With the average cash machine inoperable an average of nearly two days each month, is it sufficient for communities to be reliant on just one machine?

For more information or to arrange a meeting to discuss the issues in this briefing, please contact:

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¹² <https://www.bbc.co.uk/news/business-45483637>

¹³ 2,365 out of 53,200: <https://www.link.co.uk/initiatives/financial-inclusion-monthly-report/>

¹⁴ <https://www.paymentsuk.org.uk/file/2529/download?token=7ZkWTfjG>