

Call for written evidence: Financial Services and Markets Bill

Wednesday 21st September 2022

NoteMachine, the UK's second largest ATM provider, welcomes the opportunity submit evidence to the Public Bill Committee for the Financial Services and Markets Bill. Philip Bowcock, CEO of NoteMachine would also be very happy to give oral evidence. Should this be of interest, please get in touch using the contact details below to make the necessary arrangements.

Executive Summary

Cash remains an important form of payment for millions across the UK, particularly during times of economic hardship. Over 5 million adults in the UK rely on cash¹, and 10 million would struggle in a cashless society².

It has also become increasingly important to large numbers of people as the cost-of-living crisis soars, with people increasingly turning to cash as a way to budget more effectively. The Post Office showed in a single week in mid-August its customers withdrew £183m in cash – 18% higher than the previous year³. Meanwhile NoteMachine have found that almost 40% of people are more likely to use cash during the cost-of-living crisis as it is a helpful budgeting tool.

At the heart of the UK's cash infrastructure is the free to use ATM network. Located on highstreets, in local towns and cities, and at the heart of communities across the country, these provide a vital network of free to access cash to UK customers.

However, the vast majority of free cash machines are under threat due to successive cuts to the funding that supports them. Following the Second Reading of the Financial Services and Markets Bill, it is clear that there is a cross party consensus that much more needs to be done to safeguard the future of cash and to protect payment and banking choice

To protect free access to cash this legislation must:

- Ensure the funding model is clear and transparent and reflects the real time costs of running cash machines.
- Reconsider the definition of 'access' and more closely reflect the need of an area by considering the age, population demographics and economic deprivation of an area.

This will ensure cash can continue to be freely available in the areas that need it the most without changing the underlying funding model and at zero cost to the taxpayer.

¹ Bank of England <https://www.bankofengland.co.uk/paper/2021/update-on-the-future-of-wholesale-cash-distribution-in-the-uk>

² The RSA <https://www.thersa.org/reports/the-cash-census>

³ Post Office <https://corporate.postoffice.co.uk/en/cash-tracker/what-is-the-post-office-cash-tracker/our-latest-tracker/>

NoteMachine have been campaigning on access to cash since 2017 and while we welcome the Government's commitment to protect cash in the Financial Services and Markets Bill, it is clear that now is the time to act and ensure that people can continue to use and access their money for free.

Background

The UK already has a robust cash infrastructure, with 52,969 cash machines across the country in February 2022, 77% of which were free to use. However, this has faced significant challenges in the last few years, with 14,000 free to use ATMs being removed since 2018⁴. This is primarily due to a funding model that is no longer fit for purpose.

Alongside the rapid decline of bank branches which has seen more than half of all branches close their doors since 2015 our cash infrastructure is becoming more fragile. In April this year Which? reported that 4,685 bank branches had disappeared from highstreets, with a further 226 scheduled to close by the end of 2022.

This continued decline in cash services is compounding the problem for millions of people who rely on cash, particularly for those in more economically deprived communities who are increasingly using it to help with budgeting at a time of financial hardship.

Whilst there is a broad consensus that this FTU ATM network should be maintained, in the immediate term there is a need to ensure that the funding for independent ATMs is set at a sustainable level. Without action, the number of free-to-use independent ATMs will continue to decline as the operating model becomes less commercially viable.

How the network is funded

The ATM network is funded by an interchange fee which is operated and set by LINK. This is the fee paid by banks to ATM operators for each withdrawal made. This means ATMs in the areas of high footfall are more viable to run, which often does not reflect the real need of an area. In 2018, LINK announced plans to reduce the interchange fee by 20% in four 5% reductions. The first two reductions took place in July 2018 and January 2019 respectively. The third and final planned cuts were cancelled following extensive campaigning by ATM operators and consumer protection groups.

However, over recent months LINK announced that they will not be increasing the funding for the majority of the ATM network to account for raising operating costs following the Bank of England's base rate rises. This represents real terms cut to funding and puts almost 70% of the free to use ATMs at risk of closure or converting to pay to use across the country.

The current interchange fee is set 26.5p for most machines, but 29.3p for those given protected status. Currently the only cash machines that will receive funding to cover rising interest rates is those that have been given protected status. However, this covers 3,300 free-to-use machines, the equivalent of to 6.3% of LINK's network.

⁴ LINK: <https://www.link.co.uk/initiatives/bank-branch-closures/>

The successive real terms cuts to funding for FTU ATMs has put significant pressure on the economic viability of the network and has forced providers to either remove a service altogether or introduce a charge. This shifts the cost from industry, directly on to the consumer and risks undermining the Government's commitment to protect cash if this funding is not addressed in this legislation.

What is needed to protect the future of cash

People's ability to access their cash for free is becoming increasingly difficult at a time when they need more than ever. The Financial Services and Markets Bill must therefore address these issues if the Government is to deliver on its ambition to protect access to cash for the millions who rely on it.

In its current form the Bill only enables the Treasury to develop policy and empower the FCA to monitor cash need and take steps if they deem necessary. However much more detail is needed around these requirements if this Bill is to address the current challenges.

Crucially, the Bill fails to require the Treasury to assess how the ATM network is funded which will guarantee that cash is freely available in areas that need it most. The Bill also does not provide clarity over when the Treasury should deliver policy by and gives too much power to the FCA to make its own judgement on how 'reasonable cash' need is defined.

To turn things around two simple changes, need to be made and at zero cost to the taxpayer or the Government.

1. A sustainable funding model

To safeguard the long-term future of the FTU ATM network the legislation must address how the network is funded and provide greater clarity on how this will be decided in the future.

- An amendment is required to ensure that the funding for independent ATMs reflects the real time cost of running free to use cash machines.
- Legislation must also ensure that the responsibility for the funding model lies with the regulator and that they mandate a transparent and economically viable fee mechanism for the industry.

2. Consideration of access needs

There is a significant regional disparity in the cash need across the UK, and cash provision. The current funding model is based on withdrawal levels, meaning areas with high footfall are the best places for ATMs to operate. But this does not reflect where cash is needed.

- An amendment is needed to ensure the Bill considers how reasonable access to cash is defined, and by which metrics.
- The funding model that supports the ATM network should better reflect:
 - Age demographics
 - Population demographics
 - Economic deprivation

These socioeconomic considerations help to ensure that the cash infrastructure meets the requirements of communities and protects the most vulnerable in society.

For further information please contact:

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