Evidence for the Financial Services and Markets Bill

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Table of Contents

Executive Summary

NCR welcomes the Government's approach to Financial Services and specifically the proposed legislation relating to the protection of access to cash across the UK. There has been a significant hollowing out of the cash access infrastructure in recent years, which has led to consumers and small businesses struggling to withdraw and deposit cash. This will continue to worsen in the years ahead as more access points are lost and can only be halted through the implementation of effective legislation and action from the government and regulator.

NCR welcomes many of the proposals put forward by government, including introducing a requirement on designated firms, establishing the FCA as the lead regulator on access to cash and outlining how access points must provide a reasonable level of access. However, to protect free access to cash for consumers and businesses, legislation and regulation will need to be further strengthened to meet the requirements of communities across the UK.

The only way to guarantee widespread free access to cash is through the ATM network. It is the only national infrastructure that can provide 24/7 access, meet security needs and is accessible to all, including disabled and vulnerable people. It is important that the free-to-use ATM network is recognised as the cornerstone of the government's geographic requirement, and that it is protected through the regulator's enforcement. To ensure the ATM network can meet consumer free access to cash needs, NCR believes access to cash would be best protected by the new legislation if it were to include the following:

1. A requirement on designated firms to be members of the LINK scheme. Giving LINK a more stable and independent foundation would enable the scheme to take a more consumer-oriented approach and would further support the bill's objectives in support of consumer needs.
2. Reintroduction of the requirement for an independent cost study to be the determining factor in the setting of the LINK interchange fee for ATM withdrawals. This will ensure the costs to operate the ATM network are distributed fairly amongst the banks and is set at a fair rate for ATM providers. The independent cost study was a tried and trusted method for setting interchange over many years, reintroducing the requirement to abide by its findings will correct the distortion currently impacting the market and ensure that ATM deployers will be able to continue to deliver free cash access for all.
3. A transparent and accountable process for increasing access to basic banking services in communities based on people's lived experiences and maintaining reasonable access in an efficient, cost-effective manner.
4. Support for independent deposit taking ATMs through a requirement for the regulator to facilitate their introduction rather than the current approach which raises barriers to entry.
5. A mandate for the regulator to ensure that the evolution of the cash access infrastructure does not leave communities behind and does not negatively impact investment and innovation in favour of reducing the costs incurred by designated firms.
6. A requirement for retail outlets to accept cash in payment. This would prevent the current decline in cash acceptance and support local communities with the choice of how to pay.

These actions will put the UK's cash access infrastructure on a strong footing to meet the needs of consumers and objectives of the government.

Introduction

The UK has one of the lowest rates of bank branches per head in Europe, and this is set to decline still further as banks continue to execute branch closure strategies in response to changing consumer demand. Access to cash for UK consumers and businesses is at its lowest point and the infrastructure which was once world-leading has been hollowed out, leaving behind whole communities with no access to basic banking services. The national media carries stories almost every day reporting on the closure of the "last bank branch in town". These branch closures increasing the pressure on retailers to go cashless because of the increasingly long journeys required to bank their cash takings. A recent report by the University of Bristol[1] states that nationally, 800 banking branches closed between April 2021 and March 2022 with over 400 additional branches due to close by the end of this year.

To date, the Post Office has provided a single source solution for cash withdrawal and deposit, however the service is expensive for the banks, slow for customers and, worryingly, struggling to manage the increasing volume of over-the-counter cash deposits and withdrawals. The University of Bristol found that 10% of Post Offices have had a bank closure within 1km, this results in a 27% rise in demand for cash deposit services for the local Post Office. Even Post Offices unaffected by the closure of a local bank saw an increase of eight per cent in demand for cash services over the period of the study. The Post Office is a vital part of the UK cash infrastructure, but it is struggling to cope with the ever-increasing volume and is becoming a single point of failure for the UK cash economy. This has been recognised by the banks but solutions such as shared branches and cashback without purchase are simply insufficient to support the long-term needs of cash users up and down the country.

The Financial Services Bill is an ideal opportunity to set out a regulatory framework that encourages competition in this sector which ensures access to cash will be protected for UK citizens.

NCR, through its acquisition of Cardtronics, has a network of approximately 16,000 cash machines with the broadest geographic spread of any provider in the market. This network is capable of delivering access to much needed banking services countrywide including accessing and depositing cash and cheques that would ease the pressure on the Post Office and fulfil the government's ambition to secure the cash ecosystem for the foreseeable future.

[1] http://www.bristol.ac.uk/geography/research/pfrc/themes/financial-exclusion-poverty/cashing-in/

LINK Scheme Membership

The decline in ATM numbers in communities has been accelerated by commercial decisions by the banks and is not wholly as a result of changes in consumer preferences for payment. To address this, the new legislation should enable the regulator to intervene to ensure reasonable access to cash for every community across the UK, and that commercial factors such as the setting of interchange fees – the root cause of today's declining cash infrastructure - are not undermining access for consumers.

In the current market, banks have significant influence over the critical cash infrastructure support schemes, such as LINK, to the detriment of consumers. The pressure to maintain a viable scheme has been a significant contributor to the Scheme's decision to introduce cuts to interchange which in turn is the primary factor on the availability of free-to-use cash machines.

In recent months LINK has exacerbated this problem by refusing to increase interchange to reflect the rise in base-rates. Interest payments are a major contributor to the costs of operating an ATM, and historically interchange has moved in line with changes in interest rates.

The legislation should seek to protect membership of the LINK scheme for a considerable period (for example 10 years) thereby supporting the scheme to make changes to interchange and scheme rules without the existential threat of members leaving.

This simple legislative approach would protect cash and position LINK as part of the critical national infrastructure whose only remit is to safeguard free access to cash through common withdrawal and deposit facilities that are available to every bank's customers and enabled by mandatory bank membership of the LINK scheme.

Independent Interchange Calculation

The current status of access to cash facilities is not adequate to support the needs of UK citizens. This is evidenced by the number of requests for an ATM submitted to LINK through their "request an ATM" process. However, the new legislation could rebalance the cash infrastructure to ensure facilities are located in the right places to respond to consumer and business needs by ensuring that the interchange fee for withdrawals is set at a level that allows independent providers to operate free-to-use machines for an economically sustainable revenue. The mechanism for such a process is well known and understood: an independent cost study. The cost study collects data from all market participants on the cost to operate an ATM and calculates, based on projected volumes, what fee the banks should pay per transaction. LINK have historically used this methodology to set interchange and in fact they continue to require their members to submit costs for the annual study, but the decision whether to adopt the calculated rate is then taken by the Scheme. By mandating the adoption of the appropriate interchange rate as recommended by the cost study, the legislation would have a direct and positive impact on the availability of free-to-use ATMs across the country and it would bring LINK's interchange setting process back into line with the OFT's original decision on how interchange is to be determined each year.

It is worth noting that LINK have failed to adhere to the independent cost study method of setting interchange since 2018 and the difference between the standard interchange fee calculated by the 2022 cost study and the current rate is c20% - the 2022 cost study calculated the correct value to be 31.6p per transaction on a standard ATM but LINK have chosen to keep the actual rate down at 26.5p. It is also worth noting that the current cost study was completed in April when the Bank of England base rate was 0.75%, since then it has risen to 2.25% - this change increases the costs to operate an ATM significantly, however LINK have decided not to make the necessary adjustments to interchange to reflect the market conditions.

The current LINK interchange fee no longer reflects the cost of providing free-to-use ATMs. The impact of this can clearly be seen across the country where lower volume machines, often those in remote, rural, or deprived areas are either being removed from service or switched from being free-to-use to pay-to-use. It should also be noted that banks pay no interchange when their customers withdraw cash from a pay-to-use ATM and as such are essentially passing the cost of the provision of this service on to their customers.

Lived Experience as the Determining Factor

There is clearly an over-supply of ATMs in many city centres, and it is widely acknowledged that a redistribution of facilities is required to ensure the continuation of ubiquitous access to cash. However, the current measure of 1km for the journey to the nearest cash access point is too simplistic. NCR believes that any measure for access to cash must reflect consumers' lived experiences, recognising that the experience of a journey of 1km to access cash facilities varies considerably in different areas of the country and for different consumers. For example, travelling to an ATM currently identified as being within 1km may require consumers to cross busy roads with limited crossing points which forces them to take indirect routes thereby significantly increasing the overall length of the journey. Consider also, consumers living in deprived communities where there is a greater reliance on cash as highlighted in research by Bristol University[2]. Citizens on low incomes tend to make more frequent, lower value cash withdrawals requiring multiple journeys to cash access points throughout the week. Where consumers have a regular need for cash withdrawal and deposit facilities, a repeated 1km journey could prove a major barrier to access. Further, in rural communities, where there is no ATM in the immediate vicinity, the closest machine is likely to be miles away and inevitably requires the use of public transport, increasing the cost and burden on those already struggling to make ends meet.

The redistribution of access points would provide a cost-effective approach to meeting the needs of consumers' lived experiences by re-siting existing surplus infrastructure from urban areas.

The legislation should also aim to improve provision of deposit-taking facilities. The statistics published by the Post Office clearly demonstrate the demand for depositing cash. As such, the reasonable access requirements for deposit-taking facilities should be increased. This would help individual citizens and support businesses thereby meeting the increased demand created by bank branch closures. Encouraging the establishment of independent deposit taking ATMs would lead to a considerable expansion in deposit taking services to address gaps left by branch closures. It would also extend the sustainability of the network by introducing a new revenue stream for ATM deployers – a multifunction ATM capable of withdrawal and deposit has a better revenue profile than a dispense only machine and can therefore be placed in areas where volumes of cash withdrawal are lower. Should there be appropriate commercial and legal structures in place requiring participation by the banks for an economically sustainable fee, NCR and other independent deployers would be able to deploy deposit taking ATMs in communities thereby extending access to basic cash services for all.

[2] Bristol University, where to Withdraw? Mapping access to cash across the UK, November 2020.

Deposit Taking ATMs

The new legislation should require the provision of deposit-taking facilities for both consumers and business customers. Today, cash deposits can be made over the counter at a Post Office or at a bank branch. This infrastructure is not capable of supporting the current demand for deposit taking and there is anecdotal evidence of small business customers being refused access to cash deposit services at Post Offices because they are unable to handle the volume of cash being deposited.

If the legislation were to facilitate the introduction of independent deposit taking ATMs, this would have multiple benefits. First and foremost, it would enable the provision of deposit services outside of Post Office opening hours. It would also provide a valuable revenue stream for ATM deployers that would enable free-to-use ATMs to be operated in a wider range of locations. The introduction of independent deposit ATMs would also alleviate the strain on the Post Office network allowing for a better customer experience for citizens who need the in-person assistance with their banking provided over-the-counter. Finally, it would enable banks to compete for customers more effectively and encourage competition to consumer benefit by enabling small, local building societies and neo-banks to offer accounts wherever you are in the UK.

The legislative requirement for this is relatively simple. It requires the accreditation of chip and PIN as a valid and appropriate methodology for ID and Verification purposes, something that is accepted today for cash withdrawal. It would also be helpful to create an exemption that would enable ATM deployers to accept cash in their machines for remitting to the cardholder's account without the need for a banking license in a similar manner to the exemption for cash withdrawal services in place today. This legislative change would create a simple but effective way of sustaining the cash ecosystem.

The Role of the Regulator

NCR agrees with the government that the FCA should be the lead regulator for monitoring and enforcing requirements on access to cash and further, that requirements for protecting access to cash be introduced without delay given the pace at which cash access is being hollowed out. An established regulator such as the FCA would be able to enforce requirements to ensure that the UK's cash infrastructure is protected, and communities are not left behind.

The legislation should give the FCA new responsibilities for enforcing reasonable access requirements on designated firms, powers for overseeing LINK and a requirement to deliver a clear strategy developed in consultation with relevant stakeholders to ensure that regulatory aims are clearly and transparently maintained.

In addition, HM Treasury should monitor the strategic direction of the primary regulator on a two-yearly basis, to ensure it does not become a passive actor. For example, the ongoing hollowing out of access to cash must not be accepted by the FCA and it should instead monitor and direct action from banks, schemes, and industry. This should be supported through active monitoring by the regulator of consumer demand to inform future regulation and engagement with industry to ensure equal weight is given to the opinions and experiences of all stakeholders.

HM Treasury should set a clear definition of qualifying cash facilities in order to create a consistent national framework which the FCA can refer to when determining compliance. This definition must be transparent and accessible for consumers, businesses, and industry. It should also clearly reflect consumers' lived experiences and preferences.

Primary access points should be prioritised under new requirements imposed on designated firms. Secondary access points, that do not provide full access by, for example, limiting access availability or withdrawal amounts, should not be counted as qualifying cash facilities under the definition.

It should be a basic freedom for consumers to always have reasonable access to a primary access point. Free-to-use ATMs are the preferred choice of consumers and form the backbone of the UK's cash infrastructure. ATMs are preferred by 80% of consumers for withdrawal, and unlike other alternative cash-access channels, usually provide 24/7 access to cash.

As secondary access points such as cashback and other services are introduced to the network, these facilities should be viewed as a means of further strengthening an existing baseline of reasonable access. Placing emphasis on primary access points is the only way to ensure reasonable access to cash for all consumers, with secondary access points providing additional flexibility and resilience in the overall network.

Against this backdrop of qualifying cash facilities defined by HM Treasury, the FCA should have discretion to apply additional requirements to meet specific consumer and business needs based on their lived experience. For example, some primary access points may be in isolated locations. Therefore, whilst they may meet basic requirements, they may be difficult or unsafe for some consumers to access. Additional requirements the FCA should have discretion over when assessing qualifying facilities should include:

- 24/7 accessibility.
- Safety features such as lighting.
- Weather protection.
- Proximity to transport and other local amenities.
- Wheelchair accessibility, and
- Accessibility for speakers of English as an additional language and the deaf.

Under the current regulatory framework, LINK already has a level of discretion to ensure cash facilities are appropriate and geographic spread is maintained. However, LINK rarely uses these powers. By contrast, the FCA's discretion should be based on responding to needs and reflecting consumers' lived experience to ensure reasonable access is reflected in the overall spread of access points.

The definition of "reasonable access" should include access to deposit-taking facilities. There is significant unmet demand for deposit facilities as bank branches have closed and no new facilities have replaced them.

NCR supports local intervention to ensure that reasonable access is consistent, and consumers are not left behind. However, local interventions should be justified with clear metrics showing the need and expected impact of local discretion. The FCA should also take steps to ensure that administrative burdens which come with the use of various local interventions do not become impractical, as is currently the case with LINK's Financial Inclusion Programme.

The June 2021 'LINK Financial inclusion Programme Monthly Report' clearly shows that LINK's Financial Inclusion Programme has not tackled the needs of deprived communities to access cash free of charge. The report details that 887 deprived communities (8% of the total of communities classified as being deprived) do not have access to a free to use ATM, and that for 579 of these communities the issue remains unresolved by LINK's Financial Inclusion Programme[3]. In turn, despite nearly 4,000 requests for ATMs, only 200 have been assessed and 50 ATMs installed.

The regulator should have the power to develop a sustainable and balanced cash infrastructure, based on testable metrics to determine the cost of cash and consumer and business demand for primary and secondary access points. Part of this should include powers for the regulator to identify where policy challenges are creating new commercial pressures on the delivery of the cash infrastructure, and provisions to address these issues. One example of this is reform of the Note Circulation Scheme (NCS), allowing for cash held within deposit capable ATMs to qualify for NCS relief in order to reduce the fixed cost of cash, making the provision of services more sustainable. Without these powers, commercial challenges will continue to drive the decline of access to cash instead of reflecting consumer demand.

[3] LINK Financial Inclusion Monthly Report, June 2021

Cash Acceptance

Urgent action is required to protect cash acceptance. This is essential for ensuring consumers can actively participate in their local communities by paying in the way they choose. The legislation should therefore include a requirement for all retail businesses to accept cash in payment for goods and services. To support this, the FCA should be required to monitor and assess adherence to this requirement and should be empowered to act to protect reasonable access to payment methods where necessary.

Equally important for cash acceptance is the ability for businesses to both deposit cash and withdraw change. As banks close more branches it will be important that other channels are enabled to fill this void for businesses by being able to offer both cash withdrawal and deposit facilities both over the counter and through ATMs.

About NCR

NCR has consistently been recognised as the number 1 Global Self-Service technology provider for many years. In June 2021, NCR completed its acquisition of Cardtronics, with the resultant integration forming a new NCR business unit called NCR Payments and making it the largest ATM operator in the UK, with a network of approximately 16,000 ATMs. During 2021 the legacy Cardtronics network distributed £30 billion of cash into circulation via our machines across the UK, providing vital access to cash for consumers and small businesses. Globally, NCR supports over 20 million devices and has a wealth of expertise and functional capabilities learned from the operation of nearly 300,000 ATMs across 11 countries.