

From: Edwin Latter, LINK ATM Scheme Director

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Dear Peter

NATIONAL PAYMENTS PLAN

LINK SCHEME RESPONSE

Thank you for the opportunity for the LINK Scheme to offer feedback on the National Payments Plan. We have been able to discuss the Plan in LINK Scheme's Network Members Council Review Group and also in the LINK Consumer Committee which includes a mix of Network Members and independent representatives.

Demand for cash

Scheme members and the LINK Consumer Committee consider that the continuing increase in the amount of cash withdrawn from ATMs reflects the continued public popularity of cash. The Payments Plan consultation paper recognises that cash is also the most efficient payment mechanism for many low-value payments. The Scheme agrees with Question 8 - that the Plan should be developed on the assumption that cash will remain a major payment method for the foreseeable future.

Indeed, the Payments Council will be aware of the importance that parliament, government and consumer groups have attached to ensuring access to cash across the nation. The financially disadvantaged tend to be disproportionately reliant on cash, and it is widely accepted that there is relatively lower plastic card ownership and card acceptance in lower-income communities. LINK Scheme members are therefore pleased that the consultation paper recognises the work that has been done by LINK member banks and cash machine operators to expand access to cash through extending the ATM network into as many lower-income communities as possible. The Scheme is pleased to report that it is on target to expand the network into the target areas agreed in the

Parliamentary Cash Machine Working Group in December 2006, with well over one million people now set to have a new free-to-use cash machine within easy reach.

Importance of the ATM network

The consultation paper recognises that the UK ATM network is already the channel for distribution of two thirds of the nation's cash. It notes that the ATM network is predicted to be the mechanism for distribution of more than £80 out of every £100 by 2016.

In this context it is perhaps important to remember that not all countries across Europe have a national ATM network (i.e. one that allows holders of LINK-enabled cards to use any ATM in the country). Indeed most UK consumers will recall that the UK did not have a national ATM network until relatively recently, with consumers obliged to find an ATM belonging to their own bank or one of its partners. The Plan might like to recognise the investment made in this national network, the value of having this national network, and the value of retaining it.

Efficiency

A fundamental purpose of the LINK Scheme has been to put in place incentive structures which encourage efficient operation of cash machines, thereby bringing down the cost to banks and to society as a whole of cash distribution. The multilateral interchange fee arrangements at the heart of the LINK Scheme contain powerful efficiency incentives while also making it economically viable to run cash machines wherever there is reasonable demand. These interchange arrangements have helped lead to a significant decline in the real cost of each cash withdrawal since the beginning of the decade as well as a significant expansion of the ATM network.

Using the ATM network for non-cash transactions: innovation

Question 16 in the consultation paper asks about using the ATM network to support non-cash transactions, and also refers to the success of Mobile Phone Top Up at LINK ATMs.

LINK Scheme Members continue to consider whether there might be sufficiently strong consumer demand to support other non-cash transaction types at ATMs. The Scheme has, for instance, discussed whether ATMs might offer a convenient way of paying congestion charges, or topping up Oyster cards or other pre-paid cards.

As well as reducing the cost of cash provision through the ATM network (by spreading the costs of maintaining the network across more transaction types), support through the ATM network for some non-cash transaction types could be complementary to other objectives in the Payments Plan such as making it easier to use and top up pre-paid or contactless cards. The Scheme recently agreed changes to the messages sent between ATMs and card issuing banks and building societies when a card is used at a cash machine. These changes could help to enable more such non-cash transactions. Introducing new transaction types at ATMs would still, however, require considerable

co-ordination across ATM-operating Scheme members. The LINK Scheme will be pleased to play a role in co-ordinating the technical work necessary to support a wider range of non-cash transactions at ATMs should this be desired. Support from the Payments Council could also help to secure the necessary co-ordination between banks and ATM operators.

Summary

Current LINK Scheme work to enable efficient distribution of cash, to support financial inclusion and to encourage innovative use of cash machines appears to fit well with the ambitions in the Payments Plan consultation paper.

The LINK Scheme has put in place interchange arrangements that allow a national ATM network to exist in the UK, that help to extend this network into as many corners of the nation as possible and, at the same time, to encourage efficiency. Support for non-cash transactions at ATMs could, at the margin, help further to reduce costs of cash supply. The support of the Payments Council for innovation at Scheme level could in turn help to turn innovative ideas into reality if firm consumer demand for this innovation is established.