

House of Commons Scottish Affairs Committee: Inquiry on the ATM Network in Scotland

Written Evidence: Scottish Grocers' Federation and Association of Convenience Stores

1. The Scottish Grocers' Federation (SGF) is a trade association for the Scottish Convenience store sector. There are 5,286 convenience stores in Scotland, which includes all the major symbol groups, co-ops and convenience multiples in Scotland. SGF promotes responsible community retailing and works with key stakeholders to encourage a greater understanding of the contribution convenience retailers make to Scotland's communities. In total, convenience stores provide over 41,000 jobs in Scotland.
2. ACS (the Association of Convenience Stores) represents 33,500 local shops and forecourt sites across Britain including Co-op, McColls, BP and thousands of independent retailers, many of which trade under brands such as Spar, Nisa and Londis.
3. Convenience stores trade across all locations in Scotland, providing a core grocery offer and expanding range of services in response to changing consumer demands close to where people live. The valued services provided by local shops include bill payment services (51%), recycling services (42%), parcel services (29%) and branches of the Post Office network (21%)¹.
4. The provision of ATMs is another important service provided by local shops for consumers to access their cash to spend on local high streets and shopping parades. Consumers have an expectation that they will be able to access their cash free of charge apart from in very isolated or inconvenient locations. 61% of local shops provide ATMs for local people, with 52% hosting a free-to-use (FTU) ATM and 9% a fee charging ATM².
5. 76% of convenience store customers pay by cash as the total value of cash spending has remained relatively stable³. ATM withdrawal statistics show the aggregate value of withdrawals has also stayed relatively stable with an average of £192 billion being withdrawn each year over the past decade⁴.
6. ACS and SGF do not support the LINK decision to reduce interchange fees from 25p to 20p per transaction over a four-year period. Convenience retailers are concerned that the increasing cost of hosting ATMs, from business rates bills and changes to LINK interchange fees, could make them unsustainable in some local shops.

Executive Summary

- 61% of convenience stores in Scotland have an ATM, with 52% hosting a FTU ATM and 9% a fee charging ATM. Convenience retailers are playing an increasing role in providing access to cash as bank branches close alongside their associated ATM infrastructure.

¹ Scottish Local Shop Report 2017

² Scottish Local Shop Report 2017

³ Scottish Local Shop Report 2017

⁴ [Insights into the future of cash](#) Bank of England. 13 June 2017

- 76% of in-store transactions are paid for by cash. Retailers are responding to demand for other payment methods, offering contactless payments (71%) and mobile payments (46%), but cash remains the most valued payment method for local shop consumers.
- ATMs should be viewed as 'high street enablers' by providing consumers access to their cash and facilitating economic spend on local high streets and shopping parades.
- Convenience retailers are concerned that the increasing cost of hosting ATMs, from business rates bills and changes to LINK interchange fees, could force retailers to either move more ATMs onto a charging model or remove ATMs altogether.
- The Payment Systems Regulator must be prepared to intervene to protect national coverage of the ATM network and work closely with LINK on its monitoring of ATM numbers and implementation of changes to its Financial Inclusion Programme.
- The LINK Access to Cash Committee should consult widely to secure long-term access to cash. Cashback services are not a sustainable alternative to provide access to cash and would increase processing costs, security concerns and insurance premiums for retailers.

Convenience Stores and ATMs

7. 61% of convenience stores in Scotland host an ATM, with 52% hosting a free-to-use (FTU) ATM and 9% a fee charging ATM⁵. Retailers are concerned that a reduction in interchange fees to ATM operators will undermine the commercial viability of hosting an ATM and providing consumers with local access to cash. For some retailers, a small change in terms could make it unprofitable to host the ATM.
8. Higher business rates bills and cuts in interchange fee income will make convenience retailers review their ATM services, including considering whether to move from a FTU ATM to a fee paying ATM or remove their ATM service completely. ATMs in local shops have become increasingly valuable due to bank branch closures, but convenience retailers must consider the commercial viability of the service as with all other services provided, such as Post Offices, National Lottery and bill payment services.
9. ATM providers will have no choice but to review the economic viability of every ATM on their respective networks and to assess the immediate and longer-term impact following the proposed interchange rate reduction. In most instances this will involve changing their existing ATM contracts with convenience retailers to reduce their commission payments.

Business Model

10. Every time a consumer uses an ATM an interchange fee is paid from their card issuer (bank or building society) to the operator of the ATM they are using. ATM providers base their business model on the income from interchange fees and direct customer charges for the minority of ATMs. Card issuers pay these fees to ATM providers to allow their customers to access their cash and other banking services away from branch.

⁵ Scottish Local Shop Report 2017

11. The business model for convenience retailers is based on receiving a proportion of these interchange fee payments and customer charges from the ATM provider. The contract a retailer has with an ATM provider to host an ATM will determine the share of this revenue after servicing costs, communications, cash replenishment, business rates and other costs are subtracted. Retailers typically enter a 5-year contract with ATM providers and ultimately the commercial model is based on the number of transactions going through the machine.

Business Rates

12. Through the wall ATMs have been liable for business rates since 2013 after a VOA decision that an ATM built into the front of a shop should be issued with a separate, extra rates bill. Business rates bills are sent to ATM providers, but the contract between a retailer and ATM provider often directly passes on the cost of ATM rates bills to retailers.
13. The legal rationale for why ATMs should be rated separately to a store is that the VOA deems the ATM provider to be the occupier of the ATM hereditament, not the retailer. This means there is different occupation between the ATM and the corresponding convenience store, meaning the two hereditaments require distinct treatment. ATMs hosted within a store are not liable for rates bills.
14. This business rates burden actively disincentivises convenience retailers from hosting ATMs to provide access to cash for consumers. As ATM rates bills are based on a turnover methodology, bills can be higher for free-to-use machines, meaning there is an extra disincentive to provide FTU ATMs. Rating agents CVS have suggested that on average a retailer pays £2,800 in business rates to operate a ATM machine⁶.

LINK Decision

15. LINK, the body that coordinates most of the ATM network and sets rules for ATM providers, has confirmed changes to interchange fees following a 4-week internal consultation with its bank and ATM provider members.
16. LINK will reduce interchange fees by 20% over a four-year period from 25 pence to 20 pence per transaction. The first 5% reduction from 25 pence to 23.75 pence will take place on 1st July 2018. Interchange fees will then reduce another 5% on 1st January 2019. Further 5% reductions in interchange fees are expected in January 2020 and 2021.
17. We believe that LINK's decision to reduce the interchange fee is partly motivated by banks attempting to shift the costs for their customers accessing cash to other business operators.

Impact on consumers and high streets

18. Reductions in interchange fees from July will impact retailers despite them filling the cash access gap left by banks as they reduce their presence on the high street. Bank closure programmes and the associated reduction in the size of bank ATM networks has increased the role that convenience stores play in providing consumers access to cash to facilitate spending. Figures on the closure on bank branches are disputed

⁶ [Free cash machines at stores under threat after rates ruling](#) The Times. 21 April 2017

but evidence from Which? suggests that 16% of the banking network closed between 2015 and 2017⁷.

19. Convenience stores in Scotland trade in all locations, including main high streets (14%), larger shopping parades (8%) and small shopping parades with up to 5 neighbouring retail or service businesses (36%)⁸. The provision of ATMs in local shops is an important service for consumers to access their cash to spend on local high streets and shopping parades.
20. A Localis survey of 100 key local government stakeholders demonstrates the value of cash to high streets, finding that 80% believe cash is important or very important to the economic vitality of their local area and three-quarters believe local economic growth would suffer if access to cash was reduced⁹. Over a quarter said that local businesses had raised concerns about lack of access to cash locally with them¹⁰.
21. Most businesses trading on Scottish high streets are cash-led and 76% of convenience store customers pay by cash¹¹. High streets are particularly reliant on cash access and using an ATM is the most common method for consumers to make cash withdrawals¹².
22. The LINK decision will impact ATM provisions and cash availability for consumers, despite the total value of cash spending remaining relatively stable over the past decade. ATM withdrawal statistics show the aggregate value of withdrawals has also stayed relatively stable with an average of £192 billion being withdrawn each year over the past decade¹³.
23. Cash is valued as a budgeting tool and is a resilient payment method because it is relied upon by 2.7 million people, spread relatively evenly across age groups¹⁴. Cash is also universally accepted and supports financial inclusion. Consumers attribute a clear value to local cash access for these reasons and a reduction in the ATM network should not discourage consumer spending.

LINK Financial Inclusion Programme

24. The LINK Financial Inclusion Programme seeks to retain ATMs in the most deprived areas by providing a 10p premium on interchange fees. Following the closure of its short consultation process, LINK announced it will change the Inclusion Programme to ensure all low-income areas have access to a free-to-use ATM within a kilometre distance and increase the interchange fee subsidy in these areas to 30p.
25. The Inclusion Programme has failed to guarantee nationwide free access to cash for consumers. LINK has identified 2,651 deprived areas in the UK that are eligible for a free-to-use ATM subsidy, but 824 (31%) of these do not have free access to cash within a kilometre radius, 10 years after the introduction of the Programme¹⁵.

⁷ [Mapped: the 482 bank branches closing in 2017](#) Which? 7 April 2017

⁸ Scottish Local Shop Report 2017

⁹ Localis? [Is Cash King? Examining the Importance of Cash for Local Communities](#). 23 May 2016

¹⁰ Localis? [Is Cash King? Examining the Importance of Cash for Local Communities](#). 23 May 2016

¹¹ Scottish Local Shop Report 2017

¹² Localis? [Is Cash King? Examining the Importance of Cash for Local Communities](#). 23 May 2016

¹³ [Insights into the future of cash](#) Bank of England. 13 June 2017

¹⁴ [Insights into the future of cash](#) Bank of England. 13 June 2017

¹⁵ [LINK Financial Inclusion Programme: 10 Year Anniversary](#) p.4

26. LINK's proposals to extend the Inclusion Programme will therefore not guarantee free access to cash for all UK consumers. Requiring a 2-kilometre round trip to access a free to use ATM will cause difficulties for vulnerable consumers, particularly the elderly and less mobile, who are more often reliant on cash as a payment method and for budgeting. Consumers and businesses retain a legitimate expectation that they should be able to access cash apart from in very isolated or inconvenient locations.
27. The Europe Economics ATM Impact Study commissioned by the Payment Systems Regulator finds that *'rural ATMs are more likely to be at risk and geographically isolated than their share of the national network would imply'*¹⁶. The LINK decision is also likely to effect ATM provision at rural convenience stores most, with 38% trading in rural areas and 42% of trading as an isolated store with no other retail or service businesses close by¹⁷.

Payment Systems Regulator

28. The Payment Systems Regulator has powers to impose requirements regarding payment system rules, set standards and amend agreements relating to payment systems, including the LINK ATM network and interchange fees.
29. The Regulator must be prepared to intervene to protect national coverage of the ATM network considering its statutory objectives to *'ensure that payment systems are operated and developed in a way that considers and promotes the interests of all the businesses and consumers that use them'* and *'promote the development of and innovation in payment systems, in particular the infrastructure used to operate those systems'*¹⁸.
30. The Regulator should engage closely with LINK on its 'hard review' in 2019 of the interchange fee cuts set for July 2018 and January 2019. This review should satisfy the Regulator that medium-term cash access is secure before reductions for 2020 and 2021 are set. The Scottish Affairs Committee should consider the following for the Regulator.

Monthly reporting

31. LINK will report monthly to the Regulator on the impact of changes to interchange fees and how it has addressed any unexpected negative impacts on the ATM network. This monthly reporting should form the basis of clear and proactive action from LINK to retain free ATM access. The Regulator must ensure that LINK's monthly reporting is transparent and comprehensive.
32. The data reported must demonstrate the impact of reduced interchange fees on the ATM network at a hyperlocal level to show where the 1 kilometre threshold for the Financial Inclusion Programme has not been met. Reporting overall ATM figures at constituency level, as currently available on the LINK website, is not detailed enough to show changes to the ATM network that will practically restrict local access to cash for consumers.

¹⁶ [ATM Impact Study](#) Europe Economics. January 2018

¹⁷ Scottish Local Shop Report 2017

¹⁸ <https://www.psr.org.uk/about-psr/psr-purpose>

Financial Inclusion Programme

33. We welcome LINK's intention to expand its Financial Inclusion Programme by increasing the interchange fee subsidy from 10 pence to 30 pence and changing its existing 1 kilometre criterion to identify eligible ATMs to receive the subsidy to reflect travel distance rather than 'as the crow flies'. More detail is now required on how these changes will be implemented.
34. LINK has failed to communicate how it will calculate travel distance to deliver this change to the criterion. LINK has also not given details about how it will address problems with specific vulnerable communities where the one kilometre distance is too far. These calculations must be established in time for the first decline in interchange fees in July and used to identify new ATMs which are eligible for the Financial Inclusion Programme.

Access to Cash Committee

35. LINK committed through its consultation response to establish an independently-chaired Access to Cash Committee in 2018 to report in early 2019 on how to secure long-term access to cash. We would welcome more information on this Committee and its consultation processes considering its short timeframes to report. The terms of reference for this Inquiry must be agreed between LINK and the Regulator.
36. LINK did not deliver a thorough consultation process before announcing its interchange fee decision. It consulted internally with its members for a short 4-week period and was not transparent with responses received to its consultation. The LINK Access to Cash Committee must be more openly consultative to instill faith in its legitimacy.
37. LINK has previously suggested that retailers could fill in future gaps in the ATM network through cashback services. The Access to Cash Committee should accept that this would not be a sustainable approach and presents further challenges and costs for retailers by increasing threats of robberies from holding more cash on the premises and increasing insurance premiums.
38. Moving to reliance on cashback services would also switch the associated costs with supplying cash access onto retailers from banks, despite retailers being limited in when they can charge for cashback services and paying for supplying cashback through their merchant service charge fee covering the costs of processing card payments.

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