



INTRODUCTION TO THE LINK SCHEME

2017

The LINK Scheme is a network which connects the UK's cash machines and provides consumers with universal access to their cash.

Link Scheme Ltd "LINK" is the operator of the LINK system as set out in the Financial Services (Banking Reform) Act 2013. It works with the Payments Systems Regulator "PSR" to achieve its core objectives of promoting innovation and competition in LINK and furthering the interests of people and businesses that use LINK.

LINK is Recognised as an inter-bank payment system under section 184 of the Banking Act 2009, bringing LINK into the scope of the Bank of England's supervisory regime. This is because of the crucial role that LINK plays in the UK economy as the main facilitator of free-to-use cash withdrawals.

Link Scheme Ltd Registered Office: RSM, 2 Whitehall Quay, Leeds, LS1 4HG. Registered in England and Wales. Company Number 08774124.

Access to cash and cash machines is vital for the UK economy:

- Cash is still the most significant payment method in the UK in terms of volume. There were 17.2 billion cash payments in 2015, accounting for 50% of all consumer payments¹ and 57% of spontaneous payments.
- Consumers make around 2.1bn LINK cash withdrawals in 2016 amounting to £129bn and ATMs account for 88% of all cash withdrawals². 89% of consumers withdrew cash from ATMs at least once a month³.
- Low income groups and older consumers rely strongly on cash for their payments. 40% of consumers who rely on cash have a total household income of less than £10,000 and almost 62% of those aged 65+ rely on cash for day-to-day payments.

The LINK Scheme provides the operational service and contractual certainty which connect card issuers and cash machine operators together to enable card holders to access their cash:

- LINK membership consists of all the UK's main debit and cash machine card issuers (predominantly banks and building societies) and also all the main cash machine operators (banks, building societies and independent ATM deployers or IADs).
- Effectively all of the UK's 70,000+ cash machines are LINK-enabled and over 53,000 of these ATMs are free-to-use⁴. There are over 100 million UK issued LINK-enabled cards in circulation.

¹ Source: PaymentsUK – Cash and Cash Machines 2016.

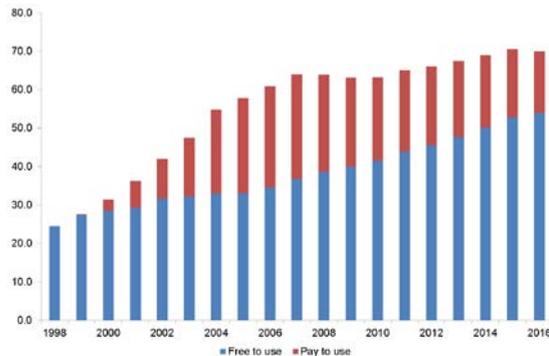
² Others include cashback and over the counter

³ Ibid.

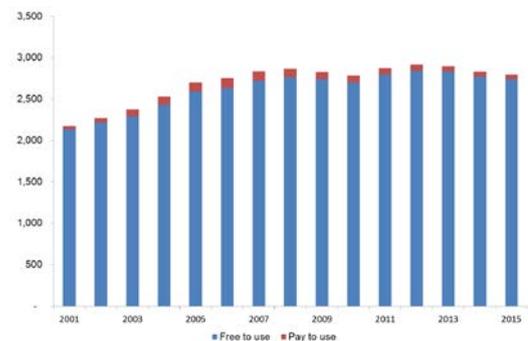
⁴ Source: LINK Scheme - www.link.co.uk.



ATM numbers (thousands)



Free-to-use and pay-to-use withdrawals (millions)



- LINK is not involved with cash machine withdrawal made by a card holder at their own bank or building society. These now account for around 25% of total consumer cash withdrawals, a percentage which is falling as card issuers reduce their ATM networks and IADs increase theirs.

LINK’s objective is to provide universal access to cash for consumers and financial inclusion is a key common objective for all of LINK’s Members:

- LINK’s Members compete vigorously to identify and secure new ATM locations. There is no central organisation or plan for ATM locations, rather competition to meet consumer demand. This has proved very effective and UK consumers enjoy excellent access to free-to-use cash machines.
- LINK and its Members are committed to defending and improving access to cash and LINK has operated a Financial Inclusion Programme to support this since 2006. This Programme contains over 1,000 ATMs in deprived areas which previously had limited access to cash and is funded voluntarily by the industry at an investment of approximately £1 million per annum⁵.
- LINK has an independent Chairman to support governance, consumer focus, and Member participation.
- LINK has an independent LINK Consumer Council to provide advice on relevant consumer issues and to represent consumers in the governance and development of the network. The Consumer Council brings together delegates from consumer organisations such as Toynbee Hall, Citizens Advice Bureau and Consumer Council Northern Ireland, independent members including Teresa Pearce MP, Lady Margaret Bloom, plus card issuing banks, and independent operators. It gives advice to the Scheme’s governing body for consideration and can independently publish its views as it wishes. Its independent Chair is Tracey Graham who is also an Independent Non-Executive Director of Link Scheme Ltd and LINK Scheme Holdings Ltd.

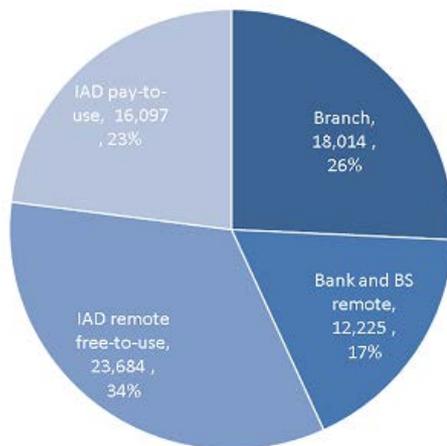
⁵ Source: LINK.



Innovation is important to LINK remaining more attractive than the other schemes that it competes with:

- LINK membership is voluntary with low barriers to entry and any Member can leave and join a competitor, indeed many ATMs are already connected to other schemes such as VISA, and MasterCard to facilitate overseas ATM transactions. LINK's ability to support innovation is an important feature over competing schemes.
- LINK has innovated to enable its Members to collectively support their financial inclusion plans in an effective and efficient manner by providing industry-subsidised enhanced pricing for the provision of ATMs in deprived areas through its Financial Inclusion Programme.
- LINK's focus on consumer access to cash means it has supported new business models which have improved cash access:
 - The growth of the substantial Independent ATM Deployer (IAD) sector, was enabled by LINK rule changes. These companies now operate over half of all UK cash machines.

Ownership, numbers and location of LINK ATMs end 2016



- The merchant refill model which has extended the cash machine network.
- Charging cash machines which have provided additional reach alongside the extensive free-to-use ATM network.
- The Bank of England has noted the effectiveness of the £5 note programme at ATMs.
- Charity Giving at ATMs went live in 2012.
- Innovation in fraud and crime control.
- LINK is working closely with the Bank of England and the whole industry on the introduction of Polymer banknotes, £5 notes were issued in September 2016 with £10 notes to follow in 2017.



The LINK network is a safe and secure payments system that makes and receives real-time payments at high volume across the UK:

- LINK's transactions are processed by VocaLink, (which also processes for the BACS and Faster Payments schemes) in a contractual relationship.
- The ATM infrastructure is capable of dealing with very high transaction volumes, peaking at almost 14 million a day⁶.
- VocaLink is a commercial organisation, owned by MasterCard, and also offers a range of commercial ATM and other products and services.
- Switching and Settlement fees are paid to VocaLink.
- Risk management is key to LINK and, as with the other Recognised schemes
- LINK Scheme membership fees are paid to Link Scheme Ltd.
- LINK Scheme fees are set to recover costs and these were approximately £2.5 million in 2016
- The settlement between Members for the cash dispensed through the ATMs is made the following working day through a net settlement mechanism at the Bank of England. All Members must have access to a Real Time Gross Settlement Account (known as an RTGS account) at the Bank of England, whether directly or through another LINK Member.

Link Scheme Ltd operates the LINK payment system. It is regulated by both the Payment Systems Regulator and the Bank of England

- In March 2017, following the Independent Governance Review, LINK Members agreed to the abolition of the LINK Network Members Council (NMC), effective from 1st May 2017. Decision-making authority then passed to the majority-independent Board of Link Scheme Holdings Ltd. All Members are obliged to become guarantors of Link Scheme Holdings Ltd and the guarantors are required to approve a number of reserved matters including changes to rules, fees, and interchange.

Membership is open to all on equal terms – existing Members have no say over who joins:

- LINK currently has 38 Members consisting of banks, building societies, schemes, and independent operators:

⁶ Source: LINK Member Stats December 2016.



AIB Group	Cumberland Building Society	Raphaels Bank
Airdrie Savings Bank (served notice Feb 2016)	DC Payments	Santander
American Express	G4S	Sainsbury's Bank
Bank of Ireland	Halifax	Tesco Bank
Bank of Scotland	Handelsbanken	Triodos Bank
Barclays Bank	HSBC	TSB
Cardtronics	Lloyds Bank	Travelex
Change Group	Metro Bank	Virgin Money (served notice June 2015)
Citibank Savings	Moneycorp	Yorkshire Building Society
Clydesdale Bank	Nationwide Building Society	YourCash
Cooperative Bank	Nat West	
Coventry Building Society	Northern Bank	
Creation Financial Services	Note Machine	
Credit Mutuel Arkea	PayPoint	

- LINK Members have no control over potential members joining the Scheme. This process is controlled by the LINK management team and, whilst there are criteria around solvency and security requirements, no potential Member has ever had an application refused.

Cash machine operators cover the cost of free-to-use ATMs through a per-transaction ATM interchange fee paid to them by the card issuing banks and building societies:

- Card issuers pay operators of free cash machines an ATM interchange fee. ATM interchange is unrelated to the interchange charged by card issuers through schemes such as VISA and MasterCard to retailers for point-of-sale transactions. LINK sets the ATM interchange fee under a formula approved by the OFT in 2001.
- ATM interchange is cost-based and recalculated on an annual basis before being approved by the membership. The cost process is simple in concept; the total cost of running the UK's free-to-use ATM estate (over £900 million per annum) is divided by the number of transactions to give an average cost per transaction⁷.

The LINK rules also support pay-to-use cash machines as they supplement the strong free-to-use network with additional machines to improve consumer access:

- These cash machines do not receive ATM interchange for their charging transactions. They account for a very low proportion of the total number of cash withdrawals, less than 3% and around 23% of all ATMs, approximately 16,000. All decisions about charging are made by the ATM operator in agreement with the owner of the premises where the ATM is located and not by LINK itself. The majority of pay-to-use ATMs are in low transacting locations and Government and Parliament have recognised that

⁷ Source: LINK.



charging as well as free machines can help to improve the public's access to cash and benefit local businesses.

- LINK requires all cash machine owners and card issuers which use the LINK network to follow rules on charging and the signage and transparency of charging.
- Currently, all charging ATMs are provided by IADs with all bank and building society cash machines being free-to-use. IADs now provide over half of the free-to-use machines in the UK.