



Link Scheme Holdings Ltd

LINK Interchange Report - July 2024

This report is in two sections:

1. LINK's Interchange Fee Strategy – How Interchange Fees are Set.
2. Approach to Interchange Transparency.

In setting Interchange Fees, the Board follows all of the requirements of the Members' Agreement. This report does not seek to amend or vary the Members' Agreement in any way and Network Members should seek their own legal advice in relation to any questions that they may have with regards to the Members' Agreement (or otherwise).

1. LINK's Interchange Strategy – How Interchange Fees are Set

The Members' Agreement between LINK and Network Members sets out how Interchange Fees are set. It reflects the collective strategy of LINK and Network Members in relation to interchange, as approved by Network Members and LINK. In setting Interchange Fees, LINK is careful to follow the Members' Agreement. LINK's decision-making powers in relation to Interchange Fees are limited to what is specified in the Members' Agreement.

Interchange Matters are covered in the Rate Card, which is an appendix to the Members' Agreement. The Rate Card does not contain a prescriptive methodology. Rather, it requires the Board to give careful consideration in the round to a number of factors.

In terms of timing, the Board may review and change interchange at any time. This is set out in paragraph 6.5:

- *At any time following the Annual Interchange Notification in respect of the Interchange Fee for a calendar year, HoldCo¹ may, taking account, inter alia, of the Interchange Matters, revise the Interchange Fees for that calendar year by not less than two (2) months' notice to Network Members (such notice being, the Interim Interchange Notification).*

However, the Board is also required to review and set interchange annually. Paragraph 6.4 sets out the procedure for this annual review as follows:

- *Following the completion of the Cost Study, HoldCo shall, taking account, inter alia, of: (i) the Cost Study, (ii) the Objects, (iii) the Regulatory Framework; (iv) the Board's objective of the maintenance of a satisfactory geographical spread of free-to-use ATMs and Counter Terminals in the UK; and (v) the Access to Cash Objectives (together, the "Interchange Matters"), set the Interchange Fees for the next calendar year. Prior to the end of July of each calendar year and following the decision of HoldCo pursuant to this paragraph, SchemeCo² shall notify (such notice being, the "Annual Interchange Notification") the Network Members of the Interchange Fees for the next calendar year (as determined by Holdco in accordance with this paragraph).*

Described below are each of the factors set out in paragraph 6.4.

LINK currently carries out this review at the July Board meeting each year. At that meeting, the Board gives careful consideration to the factors specified in paragraph 6.4, together with

¹ HoldCo is Link Scheme Holdings Ltd.

² SchemeCo is Link Scheme Ltd.



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any other factors that it considers relevant. LINK will also review interchange as it feels necessary at other times, but there are no specific dates or events that will trigger a review. The Board notes that changes in cost will in due course show up in the Cost Study analysis and that this will provide further data for the Board's consideration when it sets Interchange Fees in July.

Past events have sometimes triggered an interim review. For example, LINK has at times considered the effects of changes to Base Rate at interim reviews. It has done this when the Board considers that the Base Rate change could be significant enough to affect achievement of its objectives, typically at times of heightened economic uncertainty. For example, LINK did not reduce Interchange Fees with falls in Base Rate at the start of the pandemic. LINK has, however, sometimes increased Interchange Rates with rises in Base Rate, both the main Rates and Protected Rates. Given the sustained satisfactory position of the ATM footprint, which is reviewed at each Board meeting, LINK sees no case currently for regular interim reviews.

The Cost Study

This is item (i) in the Rate Card extract above. When the changes to setting interchange were introduced in 2018, it was decided to maintain the Cost Study. This is to give LINK insight into the costs of the network, as there is no other ready source of this sort of cost data. This is valuable for a number of reasons including:

1. It allows LINK to judge the effects of market events on average costs periodically.
2. It allows LINK to assess the commercial viability of deployers, which is important for judging resilience of the payment system.
3. It allows LINK to make judgements on the cost effectiveness of alternative mechanisms to deploy ATMs such as Direct Commissioning.

Data extracts from the Cost Study are set out below.

The Objects

Item (ii) LSHL's Objects are contained in its Articles of Association. While they do not refer to interchange, they broadly support the orderly running of LINK and are set out below for reference:

- *to promote adherence to and compliance with such agreements forming part of the Link Scheme as may be in force from time to time;*
- *to maintain the operation of the LINK Network in the United Kingdom in an efficient, accessible, competitive, innovative and sustainable manner;*
- *to promote continuous improvement and updating of the LINK Network within the United Kingdom;*
- *to put in place and oversee the appropriate infrastructure and other resources to deliver the LINK Scheme and to ensure the resilience of the infrastructure;*
- *to facilitate the operation of a wide range of business models in the provision of access to cash through the LINK Network in the United Kingdom;*
- *to support the stability of the financial system in the United Kingdom with due regard to the CPSS-IOSCO Principles for Financial Market Infrastructures or such equivalents as may be recognised in future;*
- *to carry out detailed research in furtherance of the Objects;*



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- *to promulgate, develop and protect the LINK Scheme brand or such other brands as may in future complement or replace it;*
- *to improve public, government and industry understanding of the role and contribution of the LINK Network within the United Kingdom financial sector and the United Kingdom economy;*
- *to represent the LINK Network in the United Kingdom to government, regulators, policy makers, industry and the public;*
- *to promote innovation and competition in the provision of payment services for the benefit of end-users;*
- *to carry on business as a general commercial company; and*
- *to do all things necessary for and incidental to the advancement of the above Objects, having always due regard to the public interest.*

They allow the Board to consider an extensive range of relevant factors when setting interchange. For example, there are references to maintaining stability, resilience and sustainability that directly support arguments that interchange needs to attract and sustain a broad membership.

The Regulatory Framework

This is item (iii). As well as considering general regulatory requirements, relevant here are LINK's responsibilities under the PSR's Specific Direction 12. This requires LINK to take effective measures to meet its voluntary access to cash commitments. LINK has committed to maintain the geographic footprint of free-to-use ATMs in line with the position as at 1st February 2018 when interchange was reformed (referred to in this report as the "reform changes" or the "reform"). These commitments are set out in the next section of the report. LINK reviews how it is achieving its commitment through its Footprint Review, which is currently part of every Board meeting.

Access to Cash

A very important factor when setting interchange is whether it is helping LINK achieve its access to cash objectives. Items (iv) and (v) build in LINK's access to cash objective into the setting of interchange.

Item (iv) brings in the concept of "geographic spread" (the Board more often uses the term "Footprint"). It also sets out that the Board will consider Counter Terminals as well as ATMs as potentially acceptable sources of cash access. Although LINK does not treat Counter Terminals as an alternative to ATMs at the moment, this wording would support that should it ever be desired.

Item (v) brings in explicitly the "Access to Cash Objectives" concept which are defined in the Members Agreement (in the Definitions section) as:

- *to maintain the broad geographic spread of ATMs as at 1 February 2018 and/or as the Board otherwise considers appropriate to enable free access-to-cash across the Home Territories; and*
- *to maintain and, in some instances, improve free access to cash in the most deprived areas of the Home Territories; and*
- *such other objectives as the Board may consider are in the pursuit of the public interest in relation to access to cash.*



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2. Approach to Interchange Transparency

LINK's Access to Cash Commitments

In terms of access to cash, LINK has chosen to make a number of commitments that form part of the access to cash objectives referenced above. Although LINK may change these commitments at any time, it is committed to full transparency. For example, the material is available on LINK's public website. These commitments are also within the scope of the PSR's Specific Direction 12, which places a number of constraints on their reporting and development. The commitments are as follows³:

- *"In LINK's Final Decision and Impact Assessment on the results of its Interchange Consultation, published on 31st January 2018, the Board of LINK set out its commitment to maintain free access to cash for many years to come through an extensive footprint of ATMs with the same coverage as now.*
- *The date of this commitment started from 1st February 2018. This included a commitment to leave interchange unchanged for all existing free ATMs 1 kilometre or more away from another free ATM, to ensure that LINK's reduction in interchange would not give a reason for closure.*
- *These ATMs are known as Protected ATMs. This also initially included a commitment to apply at LINK's discretion a premium of up to 30 pence to deal with specific problems with free coverage of ATMs caused by loss of a Protected ATM. On 1st April 2019, LINK introduced additional premiums that can significantly increase payments to ATM operators by up to £2.75 per cash withdrawal. Premiums will be made available to all eligible Protected machines; these measures are aimed at safeguarding free-to-use ATMs in remote and rural areas.*
- *Should these premiums not deal with a particular situation, then LINK has the ability to directly commission ATMs to provide free access.*
- *The Board has decided to publish the total number of Protected ATMs and the number where free access has been removed through closure or by being turned into charging ATMs. Reports will be provided on a regular basis.*
- *The reports will set out an analysis of the number of Protected ATMs no longer transacting and, after identifying where there is alternative access to cash provision (such as a Post Office counter providing free cash access), and where there is no public impact (for example, because the site was not accessible to the general public, e.g. it was within a closed company site), it shows the resultant number of sites that will be targeted for replacement with premiums.*
- *Note that where the loss is due to a security reason such as a raid, and there are no willing site owners, LINK will not plan a replacement until the security situation is judged safe again by local site retailers and ATM operators.*
- *In addition to this, LINK also publishes on its website the number of free and charging ATMs by parliamentary constituency."*

The reform changes also set out the need to consider the competitive position of LINK in relation to other schemes, and the need to manage the risk of ATMs becoming concentrated in parts of the country.

³ This text is taken from the "LINK Scheme ATM Footprint Reports" that are published on LINK's website each month and that meet requirements under the PSR's Specific Direction 12.



Each Board meeting currently considers a Footprint Report that is designed to answer the question “*is LINK meeting its commitments*”. A similar report is provided to the PSR each month as a requirement of Specific Direction 12. This is also published on LINK’s website. The position has been satisfactory since LINK’s reforms were introduced in 2018.

This is a historic view, so LINK also looks forward with a forecast that is publicly available in our Strategic Plan. LINK uses the Cash Usage Forecasts published by UK Finance in its UK Payment Markets report to derive its forecast. LINK’s forecast to 2032 estimates that there will be around 14,000 free remote ATMs by this point. LINK also estimates that the lower limit needed to meet its commitments is about 10,000. The aim of this analysis is to assure the Board that overall coverage will not drop below the number of machines necessary to cover the UK satisfactorily and in line with LINK’s commitments. The forecast is not a target, rather an analysis to understand the forward shape of the Footprint and whether it is consistent with LINK’s objectives.

As part of considering Interchange Fees, the Board decides the appropriate levels of interchange for other relevant channels, including the Counter Terminal channel. The Board’s decision is to set the various types of Counter Terminal interchange at the same levels as for ATMs.

The Cost Study

The Cost Study shows average costs. The Board does not have a target for the gap between Interchange Fees and average costs.

However, at the time of the 2018 interchange reforms, LINK’s analysis was that a 20% gap was needed to correct “*that free ATMs will continue unnecessarily to be concentrated in busy urban centres but become less viable in less busy communities, hence reducing geographic access to cash*”. The table below shows differences over the 2020 to 2025 period between actual Interchange Rates and rates from the Cost Study (excluding Protected Interchange, as the Cost Study does not calculate average costs for Protected ATMs given the fewer numbers). These have varied up and down over the period. For example, for the Non-branch cash rate, the difference has varied between a range of -8% (2023) and -34% (2025). At all times the Board has considered that access to cash is satisfactory and is expected to remain so.

Difference between actual Interchange Rates and rates from the Cost Study 2020 - 2025

Category of interchange	2020	2021	2022 Jan - Aug	2022 Aug - Dec	2023	2024	2025
Branch cash	-15%	-24%	-46%	-43%	-45%	-41%	-55%
Branch non-cash	-22%	-32%	-51%	-51%	-53%	-44%	-39%
Non-branch cash	-10%	-11%	-18%	-16%	-8%	-15%	-34%
Non-branch non-cash	-9%	-10%	-18%	-18%	-9%	-5%	-3%

The table shows that actual interchange has been lower than average costs across all of the main categories since reform. This is as expected, as the reduction in interchange against the average cost at the time was one of the building blocks of the reform.

Actual branch interchange rates remain lower than average costs because volumes have fallen significantly but operators’ costs have remained broadly the same. Actual non-branch



Interchange Rates are also lower than average costs, particularly for Non-branch cash as cash-related costs, driven by interest rates, have risen (see breakdown below).

Weighted rates should also be noted as they reflect the overall effect of the various components of Interchange Fees. This is shown in the next table. Weighted rates blend standard interchange with Protected Rates and Premiums on a weighted basis. The data is taken for January each year, as this is when LINK’s annual review of Interchange Fees comes into effect. The estimate for the variation between interchange paid and the Cost Study rate in January 2025 is -28% compared to -34% for the unweighted rate.

Weighted average interchange rates, 2020-2025

	Remote Cash Interchange Rates				
	Standard Interchange pence	Weighted Average Interchange pence	Cost Study pence	Standard Interchange is less than Cost Study by	Weighted Average is less than Cost Study by
January 2020	25.9	26.8	28.7	-10%	-7%
January 2021	25.9	27.6	29.2	-11%	-6%
January 2022	25.9	27.5	31.6	-18%	-13%
January 2023	26.5	28.4	28.8	-8%	-2%
January 2024	26.5	28.6	31.0	-15%	-8%
January 2025 (est)	26.5	28.6	39.9	-34%	-28%

How Specific Cost Categories are Changing

The following tables are taken from the Cost Study, comparing remote cost categories and how they have changed from 2019 to 2024.

Occupancy and rates, including market rent, had the largest drop at 3.9p. LINK’s view at the time of the reform of interchange was that the excessive deployment encouraged by the original approach to focus solely on the Cost Study was driving up market rents for the benefit of retailers rather than IADs. This data is evidence that LINK’s view was correct.

Since 2019, other per-transaction non-cash costs are either flat or have shown modest increases.

Cash purchase, delivery, handling, management, insurance and theft has increased by 2.5p since 2019. The opportunity cost of cash has increased by 9.7p. This is largely due to the effect of higher interest rates. Total cost has increased by 11.2p since 2019. Despite this increase in total cost, as noted above, at all times the Board has considered that access to cash is satisfactory and is expected to remain so.



Interchange figures, Remote ATMs, 2019 and 2024 Cost Studies

Cost per transaction (pence)	Remote ATMs		
	2019	2024	Variance (p)
ATM purchase and installation	2.0	2.1	0.1
Occupancy and rates, including market rent	8.5	4.6	-3.9
Repairs and maintenance	2.6	3.9	1.3
Communication costs	0.4	0.6	0.2
Daily operational support, IT and central support	3.3	4.4	1.1
Cost of capital	1.3	1.3	0.0
Group overhead adjustment	0.2	0.4	0.2
Total non-cash cost	18.4	17.4	-1.0
Cash purchase, delivery, handling, management, insurance and theft	8.8	11.3	2.5
Opportunity cost of cash	1.5	11.2	9.7
Total cost	28.7	39.9	11.2

Interchange Rates

The tables below show the rates (including Protected rates) applied to LINK transactions. The final column of the first table compares the 2025 rates to those in early 2018 when the previous year's Cost Study was still being used. All of the rates have reduced between 3% and 10% since 2018.

However, a number of Protected ATM rates have increased. As well as Protected rates, a number of machines receive volume Premiums of up to £2.75. Although the numbers of machines involved are small (about 3,600 out of 25,750 free-to-use remote ATMs) there is a material increase in weighted average interchange.

Standard interchange rates 2018-2025

Interchange Standard pence	2018 Jan - Jun	2018 July - Oct	2018 Oct-Dec	2019	2020	2021	2022 Jan - Aug	2022 Aug - Dec	2023	2024	2025	Variance to 2018 %
Branch cash	25.1	23.8	24.3	23.1	23.1	23.1	23.1	24.4	24.4	24.4	24.4	-3%
Branch non-cash	13.9	13.2	13.2	12.5	12.5	12.5	12.5	12.6	12.6	12.6	12.6	-9%
Non-branch cash	28.3	26.9	27.3	25.9	25.9	25.9	25.9	26.5	26.5	26.5	26.5	-6%
Non-branch non-cash	18.7	17.8	17.8	16.8	16.8	16.8	16.8	16.8	16.8	16.8	16.8	-10%

Protected interchange rates 2018-2025

Protected - from (Pence)	2018 Jan	2018 Oct	2022 Oct	2022 Dec	2023 Feb	2024 Jan	2025 Jan
Branch cash	25.1	25.6	26.2	26.8	27.4	27.4	27.4
Branch non-cash	13.9	13.9	13.9	13.9	13.9	13.9	13.9
Non-branch cash	28.3	28.7	29.3	29.9	30.5	30.5	30.5
Non-branch non-cash	18.7	18.7	18.7	18.7	18.7	18.7	18.7



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Summary of Main Data Taken into Account in Setting Interchange Fees for 2025

LINK is committed to protecting free access to cash for consumers. It will do whatever it takes to maintain satisfactory national access and uses a range of data to regularly check the position. A summary of this data is set out below:

- The Board considers the Footprint satisfactory and that it is expected to remain so. By April 2024, Protected ATMs had increased to 3,510 (9.6% of the total number of free machines). The cost of Protected Interchange and Premiums was £16.7m or 4.86% of all interchange in 2023. To date in 2024 (January to May), the cost of Protected Interchange and Premiums was £7.2m or 5.35% of all interchange.
- By April 2024, only 60 of the Protected ATMs in scope for replacement had not been replaced by Direct Commissioning. These are explained through factors such as poor site availability and security issues and are consistent with LINK's Policies.
- The current rate of decline in free ATM numbers is not a cause for concern. In 2023, total free ATM numbers fell from 39,429 at the start of the year to 37,299 (-5.4%), free remote ATMs fell from 26,888 to 25,907 (-3.6%) and branch ATMs from 12,541 to 11,392(-9.4%), driven by bank branch closures. By April 2024, the total number of free ATMs at 36,642 evidences a similar rate.
- LINK has forecast a reduction in free ATM numbers out to 2032 and this estimates there will be around 20,000 free ATMs (branch and remote) at this point and that this can provide satisfactory coverage.
- LINK takes a multichannel approach to cash access and currently counts Post Office Counters as an alternative to a free-to-use ATM. In addition, cash at the till is now available at locations across the UK through LINK. LINK therefore sees evidence of the resilience of the cash supply network being maintained.
- The Cost Study tracks the average cost per transaction. LINK notes that the difference between average cost and interchange for remote cash and non-cash in 2025 is 34% and 3% respectively. The underlying costs that contribute to these differences are broadly changing as expected.
- For Remote Cash, the difference between average costs and weighted interchange (this blends the standard, Protected and Premium rates) is currently smaller than the unweighted equivalent. The forecast difference for 2025 is 28%.