

Bank of England: Consultation on the Bank of England's supervisory approach to wholesale cash distribution

LINK's Response to the Bank of England's consultation on its supervisory approach to Wholesale Cash Distribution (WCD). Published on 14th December 2022.

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Introduction

1. LINK manages the UK's main cash dispenser (ATM) network and is central to the operation of the UK's cash infrastructure.
2. LINK's network connects the vast majority of ATMs (both free and charging) in the country and allows customers of banks and building societies (card issuers) that are LINK Members to make cash withdrawals and balance enquiries with their payment card at almost all ATMs. All of the UK's major card issuers and ATM operators currently choose to become Members of LINK. This helps to ensure that consumers in the UK have the choice of using cash should they wish to.
3. In 2022, LINK processed 1.5 billion transactions and dispensed £7 billion in cash through a network of over 50,000 ATMs.
4. Cash is in long term decline in the UK but still plays a significant role in many peoples' lives. There were 6 billion consumer cash payments in the UK in 2021 (17% of all payments), a fall of 1.7% from 2020, second after debit cards (55%) and above Direct Debit (12%) Credit and charge cards (10%) and Faster Payments (3%)¹. Around 43.4 million people used cash machines in 2021, with 51% of cash machine users withdrawing cash at least once a month. Cash machines are by far the most common method of acquiring cash, accounting for 93% of all cash acquired in 2021.²
5. Since the Government announced in March 2020 its intention to legislate to protect access to cash, that trend has accelerated as a result of COVID-19. Until the planned legislation is in force (likely in 2023), there are no requirements that give consumers the right to access cash (free or otherwise). LINK has therefore chosen to set itself the objective of **ensuring that communities throughout the UK have satisfactory free access to cash** while policymakers finalise a longer-term strategy.

¹ UK Finance: UK Payment Markets 2022

² UK Finance: Cash and Cash Machines 2022

6. Part of LINK's objective is to support the orderly transition of the UK from cash to digital payments. Hence, LINK is active in supporting digital transition and has a broad interest in the successful development of an inclusive digital payments approach, while ensuring access to cash remains available for consumers who remain reliant on cash for as long as possible.
7. LINK notes that crypto-assets (such as a sterling CBDC) may well play an important role in the future of retail digital payments and may replace elements of cash usage. LINK is therefore keen to ensure that policymakers are alert to the importance of following inclusive policies that ensure that all consumers can enjoy the benefits of digital payments.
8. LINK is regulated by the Payment Systems Regulator (PSR), and by the Bank of England (the Bank) as a systemically important payment system and is Recognised as such by the Treasury (HMT).
9. LINK works closely with the members of the Joint Authorities Cash Strategy (JACS) Group which is the Government's vehicle for developing a longer-term strategy.
10. LINK is also working with the industry's Access to Cash Action Group (CAG) to develop industry-led solutions while legislation is pending.
11. As part of that work, LINK has agreed to act as the "Co-ordinating Body" to support the issuers in ensuring adequate provision of access to cash to communities across the UK. Further details of this initiative can be found on the UK Finance website.³ As part of this new commitment, LINK will independently review the impact of all changes to banking provision in communities and identify where new services are needed. These new services will then be provided by a bank-owned delivery company called Cash Access UK Limited.

LINK's Response to the Consultation

12. LINK sees that the risks in wholesale cash are increasing and agrees with the Bank's focus on this risk and its approach. Should one aspect of the cash supply chain fail, then all will fail, including those areas of retail distribution such as ATMs which are LINK's responsibility.
13. The Bank's proposed approach strongly mirrors the highly effective approach that is already in place with FMIs. LINK therefore agrees with the Bank's detailed proposals as covered by the various questions.
14. In addition to the questions, LINK notes that the Financial Services and Markets Bill's drafting allows a broad range of wholesale cash activities to be brought into scope. This is essential as failure in any area (eg Cash-in-transit) would undermine the whole supply chain. The current drafting of the Bill appropriately defines a very broad potential scope: *"wholesale cash distribution activities" are activities intended to facilitate or control wholesale cash distribution and include (but are not limited to)— (a) purchasing cash from issuing authorities or the Mint; (b) storing cash; (c) transporting cash; (d)*

³ <https://www.ukfinance.org.uk/area-of-expertise/personal-finance/access-cash-action-group>

undertaking authentication processes; (e) facilitating the return of cash to issuing authorities or the Mint”.

15. LINK also note that there is no current plan to consolidate the market and create a wholesale activity and that competitive forces operate. Unless and until that changes, (which LINK believes will eventually be necessary), the Bank’s intended horizon scanning activity will be essential to identify risks before they crystalize. LINK is keen to support this work and agrees with this statement in the Consultation: *“The Bank will also conduct horizon scanning in order to achieve an overall view of the market, including wider market information gathering and dialogue with other relevant market participants and authorities. The information gained from reporting and meetings will be used to inform the Bank’s risk assessment and will be regularly reviewed, including a full review at least annually, as part of the Bank’s annual supervisory cycle. This assessment will be undertaken by the Bank, along with other such interim examinations and assessments as the Bank judges necessary”.*
16. Therefore, LINK recommend that the horizon scanning activity should encompass a broad range of topics including potentially riskier areas of the wholesale supply chain such as CIT and coin distribution, as well as potentially important trends such as growth of local note recirculation and the decline of retailer cash acceptance.
17. In addition, for LINK to fulfil its objective of ensuring that communities throughout the UK have satisfactory free access to cash, it is vital that that WCD operates effectively, efficiently and at reasonable cost. This cost should, over time, reflect the overall decline in cash usage as many of WCD’s costs are passed onto LINK’s ATM operator (acquiring) Members and then paid by LINK’s card issuing Members through interchange and finally by their account holding customers. For example, an approach that “froze” or “solidified” costs would only increase the tensions in the system and increase the risk of a market failure at the retail end of the supply chain.
18. As LINK does not directly participate in WCD, Section 4, which outlines proposed supervisory fees, it is not for LINK to comment on, beyond noting the fees should not be excessive, should be proportionate to participation, and that the total size and scale of the market and be appropriately allocated.

Ends.