



## **ACS Submission: HM Treasury Committee Inquiry into Consumers' Access to Financial Services**

1. ACS (the Association of Convenience Stores) welcomes the opportunity to respond to the HM Treasury Committee inquiry into consumers' access to financial services. ACS represents 33,500 local shops and petrol forecourts across the country, including Co-op, McColls, BP and thousands of independent retailers trading under brands such as Spar, Nisa and Costcutter. Further information about ACS is available at Annex A.
2. Convenience stores provide access to financial services in communities across the country, offering bill payment services (64%), ATMs (62%) cashback (58%) and Post Office branches (23%)<sup>1</sup>. The sector has a unique reach, trading across rural (37%), urban (37%) and suburban (26%) locations, including in city centres (12%), neighbourhood parades (36%) and as isolated shops providing the only local retail and service provision for an area (38%)<sup>2</sup>.
3. ATMs are an important component of access to financial services and consumers expect to be able to access their cash free of charge except in very isolated locations. 76% of convenience store customers have indicated they paid by cash after visiting a convenience store<sup>3</sup>. However, changes to LINK interchange fees are forcing retailers to review their ATM offering; to either switch from FTU to PTU or remove an ATM completely.
4. The convenience sector is investing to meet the payment needs of consumers, which increasingly includes contactless (80%) and mobile (63%) payments as well as cash<sup>4</sup>. The future of the FTU ATM network is dependent on interchange fees reflecting the operating costs for ATM providers and convenience retailers that host and maintain ATMs. To support consumer choice, interchange fees, supported by the Financial Inclusion Programme, must form the basis of a sustainable long-term funding model for access to cash.

### **2. Are certain groups of consumers excluded from obtaining a basic level of service from financial services providers?**

#### **d. Consider the trends on the use of the Post Office services in areas where bank branches have closed and examine what role the government could play in maintaining the Post Office network to provide shared services.**

5. Access to local physical banking services is essential for convenience retailers to deposit cash due to the high volume of cash transactions in the sector. 76% of

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<sup>1</sup> ACS Local Shop Report 2018

<sup>2</sup> ACS Local Shop Report 2018

<sup>3</sup> ACS Local Shop Report 2018

<sup>4</sup> ACS Local Shop Report 2018

convenience store customers have indicated they paid by cash after visiting a convenience store<sup>5</sup>. Bank branch closure programmes have exacerbated problems for retailers in depositing cash by requiring them to travel further to the next closest bank branch or Post Office. This has a negative impact on productivity by requiring retailers to spend more time away from the business, particularly rural-based retailers.

6. The Post Office network is providing an increasingly valuable cash deposit service for local businesses as banks reduce their branch network. One-in-four (23%) convenience stores host a Post Office branch<sup>6</sup>. These convenience stores handle a significantly higher proportion of cash than other retailers due to the business banking services they offer, whereby businesses can deposit at least £2,000 at a Post Office counter and domestic customers can make cash withdrawals.
7. The Post Office and UK Finance have launched a campaign to raise awareness of the in-branch banking services at the Post Office for domestic and business customers. The campaign is focusing on customers living in areas with limited bank branch coverage and seeks to improve collaboration between the Post Office and banks where bank branch closures occur<sup>7</sup>.
8. The future coverage of the Post Office network is dependent on the relationships between the Post Office and the businesses that deliver the services in communities. There is clear value for convenience stores in hosting these services, as shown by ACS' Community Barometer research that shows Post Office and Local Shops have the most positive impact on local communities<sup>8</sup>.
9. We welcome that the Government has delivered £370 million to support the Post Office Network. We also welcome the Post Office recognising the importance of the relationship with their retail partners to deliver services in communities. The strategic risk section of their latest Annual Report states, "Post Office continues to review and develop our proposition for our retail partners, to enable us to continue to successfully deliver our social purpose, address the impact of high street costs and increasing pressure from online shopping"<sup>9</sup>.

### **3. Do vulnerable consumers pay more for financial services products?**

#### **d. Evaluate the impact of reducing the number of free-to-use ATMs on vulnerable consumers.**

10. 62% of convenience stores host an ATM for local consumers, with 46% hosting a FTU ATM and 16% a PTU ATM<sup>10</sup>. However, reductions in interchange fees paid to ATM providers and shared with retailers are undermining the commercial viability of

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<sup>5</sup> ACS Local Shop Report 2018

<sup>6</sup> ACS Local Shop Report 2018

<sup>7</sup> <https://www.ukfinance.org.uk/banks-and-post-office-to-raise-greater-awareness-of-banking-services-available-in-local-post-office-branches/>

<sup>8</sup> ACS Local Shop Report 2018

<sup>9</sup> <http://corporate.postoffice.co.uk/sites/default/files/ARA%20201718%20Final%20with%20signatures.pdf>

<sup>10</sup> ACS Local Shop Report 2018

hosting an ATM and providing consumers with free access to cash. The first interchange fee reduction in July has made some ATMs unprofitable for retailers. Future reductions in interchange fees will make more machines unprofitable, further threatening access to cash for consumers.

11. ATMs in local shops have become increasingly valuable due to bank branch closures, but convenience retailers must ultimately consider the commercial viability of the service as with all other services provided, such as Post Offices, National Lottery and bill payment services. ATM providers have been assessing the economic viability of their ATM networks as interchange fees decline. In most instances this has involved changing their existing ATM contracts with convenience retailers to reduce their commission payments. Convenience retailers must therefore review their ATM services, including considering whether to move from a FTU ATM to a PTU ATM or remove their ATM completely.

### *LINK Decision*

12. LINK confirmed in January changes to interchange fees paid to ATM providers and shared with retailers following a 4-week internal consultation with its bank and ATM provider members. This announcement centred on reducing interchange fees by 20% over a four-year period from 25 pence to 20 pence per transaction. The first 5% reduction from 25p to 23.75p took place on 1<sup>st</sup> July 2018 and the next 5% reduction is set for 1<sup>st</sup> January 2019.
13. Following LINK statistics showing a larger than expected decline in ATM numbers<sup>11</sup>, LINK cancelled its January 2020 cut and postponed the 2021 cut, pending a review on the impact of the 2018 and 2019 interchange fee reductions<sup>12</sup>. The decision to postpone the 2020 fee cut is worth £578.04 in interchange fees per ATM to be split between retailer and provider<sup>13</sup>.
14. ACS welcomed the postponement but expects more interchange fee cuts will occur to prevent banks leaving the LINK network. LINK is the dominant ATM scheme but Visa and Mastercard operate rival schemes, with Visa charging interchange fees at 30% lower rates, making them below cost for ATM providers and retailers<sup>14</sup>. LINK is therefore expected to make further cuts as banks threaten to leave the network. Future cuts will exacerbate pressures to review the viability of individual ATMs by shifting the costs of ATM infrastructure from banks to ATM providers and retailers. This will ultimately cause detriment to consumers by restricting their access to cash.
15. Retailers should not be made to subsidise the ATM network. LINK interchange fees used to be set by an independent KPMG cost study before LINK's announcement to

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<sup>11</sup> [LINK Scheme ATM Footprint Report](#) LINK. 12 September 2018.

<sup>12</sup> <https://www.link.co.uk/about/news/link-update-to-interchange-rate-implementation/>

<sup>13</sup> Calculated using ATM Numbers and Transaction Volumes from <https://www.link.co.uk/about/statistics-and-trends/>

<sup>14</sup> <https://www.psr.org.uk/sites/default/files/media/PDF/ATM-scheme-competition-Executive-Summary-15012018.pdf>

arbitrarily cut the fees in January. We believe interchange fees must but set a level that accounts for the operating costs and commercial viability of hosting an ATM.

### *Impact on Vulnerable Consumers*

16. Reductions in LINK interchange fees are having a negative impact on access to financial services for vulnerable consumers by reducing the coverage of the ATM network. LINK itself states that there has already been a 2.8% decline (1500 ATMs) in the size of the ATM network from January 2018 – September 2018<sup>15</sup>. The LINK Financial Inclusion Programme is also failing to prevent ATM blackspots and closures of isolated ATMs.
17. The LINK Financial Inclusion Programme was set up following work with the Treasury Select Committee in 2006, established to secure ATM provision in deprived areas. When LINK announced it would proceed with its cuts to interchange fees in January, the network body also announced it would adapt the Programme to increase the interchange fee subsidy by a maximum of 30p to ensure all low-income areas have access to a FTU ATM within a one-kilometre distance.
18. Before the commitment to expand the Programme, LINK struggled to guarantee nationwide free access to cash for consumers. LINK had identified 2,651 deprived areas in the UK that were eligible for a free-to-use ATM subsidy, but 824 (31%) of these did not have free access to cash within a kilometre radius, 10 years after the introduction of the Programme<sup>16</sup>. Since expanding its programme, LINK's own data has shown that 127 'protected' ATMs are already no longer transacting<sup>17</sup>.
19. The Government must ensure the Financial Inclusion Programme is robustly enforced to protect access to cash. ATM withdrawal statistics show the aggregate value of withdrawals has stayed relatively stable with an average of £192 billion being withdrawn each year over the past decade<sup>18</sup>. The amount of cash in circulation is also at record levels with the Bank of England estimating the total value of all notes and coins has now reached £80bn<sup>19</sup>. The Treasury Committee, responsible for the establishment of the Programme, should address the Programme progress through this inquiry.
20. Changes to LINK interchange fees will undermine financial inclusion for vulnerable consumers who are reliant on cash. Cash is a resilient payment method relied upon by 2.7 million people, spread relatively evenly across age groups<sup>20</sup>. Half of these consumers have household incomes lower than £15k per year and rely on cash to help them budget and manage low incomes - 32% of consumers say they have less control over their expenditure when they use digital payment methods<sup>21</sup>. ATMs serve

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<sup>15</sup> <https://www.link.co.uk/initiatives/financial-inclusion-monthly-report/>

<sup>16</sup> [LINK Financial Inclusion Programme: 10 Year Anniversary](#) p.4

<sup>17</sup> [LINK Scheme ATM Footprint Report](#) LINK. 14 November 2018.

<sup>18</sup> [Insights into the future of cash](#) Bank of England. 13 June 2017

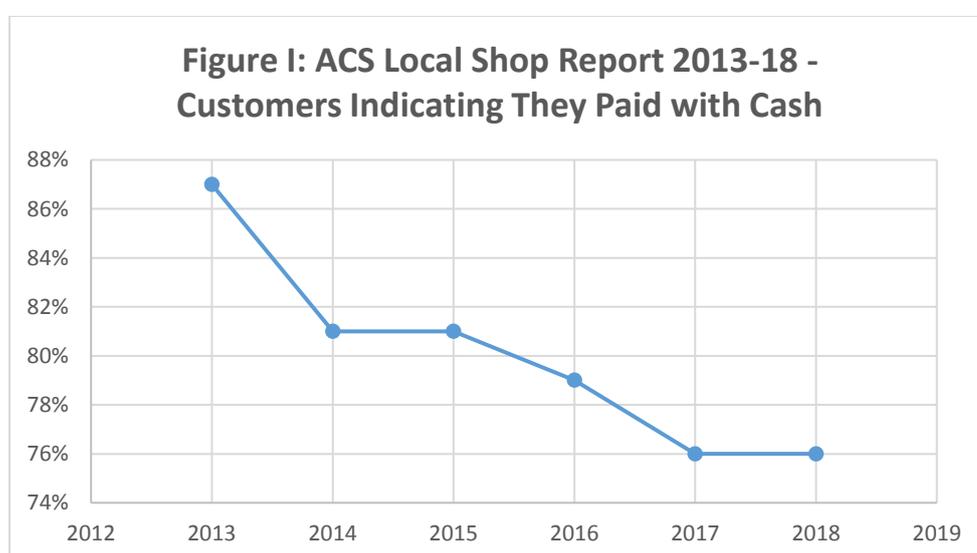
<sup>19</sup> <http://positivemoney.org/wp-content/uploads/2018/03/Positive-Money-Future-of-Cash.pdf>

<sup>20</sup> [Insights into the future of cash](#) Bank of England. 13 June 2017

<sup>21</sup> Britain Taking Note: The Value of Cash in UK Wallets. Cardtronics. January 2018.

a critical purpose in allowing these vulnerable consumers to access their cash and benefit financial inclusion.

21. Changes to LINK interchange fees will undermine access to financial services for *all* consumers, including younger age groups. Research from Cardtronics suggests that 68% of consumers appreciate being offered a range of payment options and cash remains the most popular payment method to carry across age groups<sup>22</sup>. The research also finds younger consumers (18 – 24 year olds) use ATMs significantly more frequently and 49% believe cash to be good for their everyday shop<sup>23</sup>.
22. It is for these reasons that, although cash usage has been gradually declining in the sector, it will remain the dominant payment method chosen by consumers for the foreseeable future (see Figure I). Changes to LINK interchange fees are harming access to cash and the Financial Inclusion Programme is not securing a national ATM network effectively.



#### *Securing Long-Term Access to Cash*

23. The ATM network, supported by interchange fees and an effective Financial Inclusion Programme, is the only viable method to secure long-term access to cash nationally. The Access to Cash Review chaired by Natalie Ceeney CBE should not seek to replace the ATM network with alternatives that cannot provide a nationwide solution.
24. LINK has previously suggested that retailers could fill future gaps in the ATM network through cashback services<sup>24</sup>. This would not be a sustainable approach and presents further challenges and costs for retailers by increasing the threat of robberies from holding more cash on the premises and increasing insurance premiums. 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

<sup>22</sup> Britain Taking Note: The Value of Cash in UK Wallets. Cardtronics. January 2018.

<sup>23</sup> Britain Taking Note: The Value of Cash in UK Wallets. Cardtronics. January 2018

<sup>24</sup> <https://www.telegraph.co.uk/news/2017/12/02/high-street-cash-machines-replaced-supermarket-cashback-service/>

can charge for cashback services by the Payment Services Regulations 2017 and paying for supplying cashback through their card acquirer's merchant service charge fees.

25. Post Office branches can now provide access to cash over the counter, but should supplement a national ATM network, not replace it. The Post Office network is now providing valuable access points for consumers to withdraw cash but does not have the reach to provide coverage for all high streets and shopping parades or allow access outside shop opening hours. PayPoint's 'cash over the counter' withdrawal service, which is being trialled by a small number of convenience retailers, could also supplement the ATM network in providing access to cash.
26. Securing long-term cash availability through the FTU ATM network would protect all consumers as a valuable contingency payment method when digital payment system fail, for example the Visa card temporary scheme failure<sup>25</sup>. The widespread availability of cash would also encourage a competitive payments market for merchants who are facing steep increases in the costs of banking cash and costs for processing card payments.
27. Ultimately payment methods should be available for as long as they are demanded by consumers. Future payments infrastructure must ensure access to cash remains widespread to support consumer choice and the ATM network is best placed to deliver this.

**For more information, please contact Steve Dowling, ACS Public Affairs Manager, via [steve.dowling@acs.org.uk](mailto:steve.dowling@acs.org.uk) / 01252 533009.**

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<sup>25</sup> <https://www.theguardian.com/business/2018/jun/01/visa-card-network-failure-what-we-know-so-far>

# Annex A

## ABOUT ACS

The Association of Convenience Stores lobbies on behalf of over 46,000 convenience stores across mainland UK on public policy issues that affect their businesses. ACS' membership is comprised of a diverse group of retailers, from small independent family businesses running a single store to large multiple convenience retailers running thousands of stores.

Convenience stores trade in a wide variety of locations, meeting the needs of customers from all backgrounds. These locations range from city centres and high streets, suburban areas such as estates and secondary parades, rural villages and isolated areas, as well as on petrol forecourts and at travel points such as airports and train stations.



## WHO WE REPRESENT

### INDEPENDENT RETAILERS



ACS represents over 19,000 independent retailers, polling them quarterly to hear their views and experiences which are used to feed in to Government policy discussions.

These stores are not affiliated to any group, and are often family businesses with low staff and property costs. Independent forecourt operators are included in this category.

### SYMBOL GROUPS AND FRANCHISES



ACS represents over 14,000 retailers affiliated with symbol groups. Symbol groups like SPAR, Nisa, Costcutter, Londis, Premier and others provide independent retailers with stock agreements, wholesale deliveries, logistical support and marketing benefits.

Symbol group forecourt operators and franchise providers like One Stop are also included in this category.

### MULTIPLE AND CO-OPERATIVE BUSINESSES



ACS represents over 12,000 stores that are owned by multiple and co-operative retailers. These businesses include the Co-Operative, regional co-operative societies, McColls and others.

Unlike symbol group stores, these stores are owned and run centrally by the business. Forecourt multiples and commission operated stores are included in this category.

## THE CONVENIENCE SECTOR



In 2018, the total value of sales in the convenience sector was £39.1bn.

The average spend in a typical convenience store transaction is £6.50.



There are 46,262 convenience stores in mainland UK. 72% of stores are operated by independent retailers, either unaffiliated or as part of a symbol group.



The convenience sector provides flexible employment for around 365,000 people.

24% of independent/symbol stores employ family members only.



24% of shop owners work more than 70 hours per week, while 19% take no holiday throughout the year.

70% of business owners are first time investors in the sector.



Convenience stores and Post Offices poll as the two services that have the most positive impact on their local area according to consumers and local councillors.

81% of independent/symbol retailers have engaged in some form of community activity over the last year.



Between August 2017 and May 2018, the convenience sector invested over £814m in stores.

The most popular form of investment in stores is refrigeration.

## OUR RESEARCH

ACS polls the views and experiences of the convenience sector regularly to provide up-to-date, robust information on the pressures being faced by retailers of all sizes and ownership types. Our research includes the following regular surveys:

### ACS VOICE OF LOCAL SHOPS SURVEY

Regular quarterly survey of over 1,200 retailers, split evenly between independent retailers, symbol group retailers and forecourt retailers. The survey consists of tracker questions and a number of questions that differ each time to help inform ACS' policy work.

### ACS INVESTMENT TRACKER

Regular quarterly survey of over 1,200 independent and symbol retailers which is combined with responses from multiple businesses representing over 3,000 stores.

### ACS LOCAL SHOP REPORT

Annual survey of over 2,400 independent, symbol and forecourt retailers combined with responses from multiple businesses representing 7,669 stores. The Local Shop Report also draws on data from HIM, IGD, Nielsen and William Reed.

### BESPOKE POLLING ON POLICY ISSUES

ACS conducts bespoke polling of its members on a range of policy issues, from crime and responsible retailing to low pay and taxation. This polling is conducted with retailers from all areas of the convenience sector.

For more information and data sources, visit [www.acs.org.uk](http://www.acs.org.uk)