

ACS Submission: Review of the Structure of LINK Interchange Fees

ACS (the Association of Convenience Stores) welcomes the opportunity to submit evidence to the Payment Systems Regulator on the structure of LINK interchange fees. ACS represents 33,500 local shops and petrol forecourts including Co-op, McColls, BP and thousands of independent retailers, many of which trade under brands such as Spar, Nisa and Costcutter. Further information about ACS is available at Annex A.

Convenience retailers have been responding to evolving customer demands for payment methods, offering contactless payments (in 80% of stores) and mobile payments (63%)¹. Convenience stores are also positive actors on financial inclusion and access to cash, providing cashback services (58%), free-to-use (FTU) ATMs (46%), Post Offices (23%) and pay-to-use (PTU) ATMs (16%)². 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%)³.

Rural shoppers report that ATMs are the second most valued service in their local convenience stores, behind only Post Office branches⁴. Despite this, ATM provision in the sector is dramatically changing as a direct result of reductions in LINK interchange fees, forcing ATM operators to convert considerable proportions of their FTU ATM estate hosted in independent retailers' stores to PTU. LINK's most recent statistics suggest that almost 200 FTU ATMs are closing per month, most of which will likely be ATMs in convenience stores trading in non-central locations⁵.

This call for views primarily concerns the effects of the interchange fee structure on ATM operators, but these effects will impact outcomes for retailers contracting with ATM operators too. For convenience retailers, set costs associated with hosting an ATM include energy usage and business rates bills. Retailers must also manage access to the site for operator maintenance, self-fill the ATM with cash in some cases, and take on the risk of ATM crime for the store.

A key element of supporting access to cash is making sure retailers and ATM operators are appropriate incentives to maintain a suitably wide geographic spread of ATMs to contribute towards a truly national network. The Payment Systems Regulator's analysis of the ATM market and associated operating costs based on the location of ATMs is too simplistic. Operating costs, for operators and retailers, vary according to hyperlocal conditions rather than a pure scale of population density. We believe the current structure of interchange fees with premiums where they are required could effectively deliver the geographic spread of the ATM network but is undermined by the declining level of fees and poor implementation of the Financial Inclusion Programme.

For more information on this submission, please contact Steve Dowling, ACS Public Affairs Manager, via steve.dowling@acs.org.uk / 01252 533009.

¹ ACS Local Shop Report 2018

² ACS Local Shop Report 2018

³ ACS Local Shop Report 2018

⁴ ACS Rural Shop Report 2019

⁵ <https://www.link.co.uk/about/statistics-and-trends/>

Q1) Do you agree with the description and framework (including the objectives we set out) for considering the costs of providing ATMs and the value they provide that are set out in this paper? If not, please explain why and set out your view of the alternative way these issues should be analysed.

The starting point for the structure of interchange fees should be to support a national ATM network and ultimately facilitate choice in payment methods for all consumers. The Access to Cash Review has found that 17%⁶ of the UK population would struggle to cope in a cashless society and 76% of convenience store transactions are paid for in cash, demonstrating clear consumer need in the sector⁷. For 97% of the population who carry cash, access to cash is valued to use for small transactions, act as a backup to digital payment methods, provide them with payment choice, help with personal budgeting and make informal transactions with friends and family⁸.

The overwhelming majority (98%) of cash withdrawals are carried out at FTU ATMs, with most other transactions taking place using PTU ATMs, Post Office counters and cashback services. Post Office counters and cashback services do not provide equitable privacy for the consumer, while ATMs are an established infrastructure for accessing cash which can take away cash on the premises and the costs of supplying cash from retailers. The ATM network must remain a strategically valuable infrastructure for the payments industry into the future, when currently the value to the customer of each ATM does not always match the economic value of the interchange fee scheme.

The Payment Systems Regulator's analysis of the ATM market and associated operating costs based on the location of ATMs is too simplistic. This analysis should be caveated by the hyperlocal impacts of location. Unit operating costs will vary considerably regardless of location, for example, petrol forecourt sites hosting ATMs will attract high traffic in rural locations and ATMs in tourist areas may see significantly higher footfall in the summer months. ATMs in suburban and residential urban areas, for example housing estates or neighbourhood parades, can also be relatively isolated from the rest of the network.

We would also add to the given framework that the removal of a FTU ATM can still have a significant impact on an area even when another FTU ATM is available locally. For example, a now defunct FTU ATM could be removed from a neighbourhood parade when an alternative ATM is available within a short distance. In this situation, consumers would no longer be able to access cash on that neighbourhood parade, affecting its constituent businesses, and more consumers would be required to travel out of their way to specifically withdraw cash.

The funding model for the ATM network should reflect increasing operating costs. One significant increase in operating costs introduced after the original interchange fee arrangements were set in 2001 concerns business rates bills. 'Through-the-wall' ATMs are liable to business rates bills, averaging £4,000 per annum, and are a key consideration for retailers reviewing the commercial viability of their ATM offer⁹. Business rates bills should be considered a key cost of providing ATMs for retailers.

⁶ Access to Cash Review: Final Report

⁷ ACS Local Shop Report 2018

⁸ Access to Cash Review: Final Report

⁹ [Retailers welcome ATM business rates ruling](#) Talking Retail. 9 December 2018

Q2) Are there any other factors we should take into account when analysing the incentives to provide ATMs?

Convenience retailers are paid by operators for hosting a FTU ATM either according to a negotiated flat fee structure without reference to transaction numbers, commission paid after a minimum monthly level of transactions are met, or commission paid on all transactions. Retailers receive a share of the amount charged to consumer for operating PTU ATMs, there are no interchange fees for PTU ATMs.

Retailers therefore benefit from hosting an ATM through the fees they are paid by the operator and footfall from ATM transactions when it translates into shop sales. ACS has been collecting case studies on the impact of ATMs switching from FTU to PTU as a result of interchange fee cuts. Retailers suggest there is a significant decline in shop turnover as a result. Retailers also host ATMs because consumers still value cash as a payment method of choice; 76% of consumers report they paid in cash after visiting a convenience store¹⁰.

The value of hosting an ATM for retailers is declining with commissions falling, operating costs increasing and threats of crime increasing. There has been a growth in ATM ramraids, we estimate 353 incidents in the convenience sector over the past year¹¹. ATM ram raids have a huge monetary cost not only due to the loss of cash, but also structural and operational damage to stores where heavy machinery pulls ATMs from internal and external fixings.

Beyond these additional factors influencing retailers' decisions on hosting ATMs, the level of the interchange fee and impact this has on ATM revenue is the most significant factor for retailers. We would encourage the Payment Systems Regulator to consider LINK's incentives to reduce interchange fees, which has been driven by the network body seeking to prevent its member banks from leaving to join rival ATM networks Visa or Mastercard, which do not have responsibility for ensuring national ATM coverage.

Q3) What incentives and impacts do the existing LINK interchange fee arrangements as described in this paper (including in Annex 2) have?

The reduction of LINK interchange fees is causing ATMs to switch to PTU or withdraw machines across the convenience sector, particularly impacting rural and non-central locations where the next local ATM is an inconvenient alternative for consumers. The convenience sector hosts a large proportion of non-branch ATMs away from high streets where the clustering of ATMs may occur, trading as isolated shops (38%) and in small neighbourhood parades (36%)¹².

Current interchange fee arrangements will continue to shrink the FTU ATM network, even where ATMs are highly valued by consumers. Most FTU ATM closures over the past year have been ATMs that were hosted by independent convenience retailers, whose operator has converted the ATM to PTU as a direct result of changes to interchange fees. Multiple retailers have typically negotiated ATM contracts offering more protections and preventing switches to the PTU model at short notice, but the size of their ATM estates will likely be affected by changes to interchange fees when these contracts expire.

¹⁰ ACS Local Shop Report 2018

¹¹ ACS Crime Report 2019

¹² ACS Local Shop Report 2018

LINK's Financial Inclusion Programme (FIP) is also failing to protect national coverage of the ATM network. Before LINK confirmed its decision to reduce interchange fees and triple the FIP subsidy from 10p to 30p, 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 FTU 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 Programme¹³. Since expanding the programme, LINK's own data has shown that 168 (7%) 'protected' ATMs are already no longer transacting¹⁴.

LINK's decision to then introduce 'super premium' interchange fees for low-transacting isolated FTU ATMs is clear evidence that the combined impact of LINK's changes to interchange fees and the FIP are having negative impacts on the ATM network. These recent changes also demonstrate the power of LINK to change the funding model of ATMs at short notice, when an appropriately funded long-term strategy is needed to secure the ATM network. The ATM funding model should be predictable to encourage investment from operators and confidence from retailers to host ATMs where consumers value them. Interchange fees should reflect costs for operators and retailers and changes in their structure must not leave retailers to subsidising machines.

Q4) What structure of interchange fees would have appropriate incentive effects going forward?

Interchange fees should be structured to fund and sustain a geographic spread of ATMs. This structure should prevent cases where ATM closures inconvenience consumers by requiring them to travel out of their way to access cash, which can have a negative economic impact on local businesses, especially in rural and suburban locations.

ACS' comments on the three proposed structures are available below:

Multi-Part Tariff

Adopting a multi-part tariff approach would either require a fixed payment per ATM to be set at a level which sustains low-transacting isolated ATMs or a payment per ATM which accounts for differences in servicing costs and the consequent impact on retailers' costs and revenues.

The per transaction payment, similar to the current interchange fee, would have to be set at a level which covers costs to for retailers and ATM operators. This should account for the impact of declining transaction numbers, which declined by 6% across the LINK network from 2017 to 2018¹⁵.

Banding Structure

We would not support a banding structure approach. Setting interchange fees on a per ATM basis to account for varying costs to supply would introduce significant complexity to the existing interchange fee system. Despite this additional complexity, a banded approach would create losers at the edges of the set interchange fee bands and not necessarily support low transacting isolated ATMs.

¹³ [LINK Financial Inclusion Programme: 10 Year Anniversary](#) p.4

¹⁴ [LINK Scheme ATM Footprint Report. April 2019](#)

¹⁵ <https://www.link.co.uk/about/statistics-and-trends/>

Standard Fee with Premiums (Current Structure)

We agree with the Regulator that the existing structure incentivises operators to lower their operating costs. However, the current structure of standard interchange fees and the Financial Inclusion Programme is not preventing ATM closures where they create gaps in network coverage.

The current structure could support a stable ATM network. Interchange fees should be set at a level which accounts for the operating costs and commercial viability of hosting an ATM. Although LINK has postponed a previously scheduled fee cut for 2020, more cuts are expected. LINK interchange fees used to be set by an independent KPMG cost study before LINK's announcement to arbitrarily cut the fees.

The Financial Inclusion Programme can be amended by LINK at short notice, which detracts from operator investment to install ATMs in locations where they would attract subsidy. The procurement process between LINK and operators is complex and not preventing gaps from emerging in the network, while new ATM openings can affect existing ATMs' eligibility for FIP subsidy. The Payment Systems Regulator should ensure operators and retailers are provided with certainty by LINK about medium-term eligibility of an ATM for FIP.

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, McColl's 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