

ACS Submission: Scottish Affairs Committee Access to Financial Services Inquiry

1. ACS (the Association of Convenience Stores) welcomes the opportunity to submit evidence to the House of Commons Scottish Affairs Select Committee inquiry on Access to Financial Services. There are almost 5,000 local shops and petrol forecourts in Scotland 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.
2. Convenience stores provide access to financial services in communities across Scotland, offering bill payment services (63%), ATMs (62%) cashback (59%) and Post Office branches (25%)¹. The sector has a unique reach, trading across rural (37%), urban (23%) and suburban (27%) locations, including in city centres (15%), neighbourhood parades or high streets (43%) and as isolated shops providing the only local retail and service provision for an area (42%)².
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 in Scotland have indicated they paid by cash after visiting a convenience store³. However, changes to LINK interchange fees have been forcing retailers to review their ATM offering; either to retain their ATM at a loss, switch from FTU to PTU or remove the ATM completely. These decisions are now being taken out of some retailers' hands after a leading ATM operator's decision to move its independent retailers from the FTU to PTU model.
4. The convenience sector is investing to meet the payment needs of consumers, which increasingly includes contactless (78%) and mobile (58%) payments as well as cash⁴. 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.
5. For more information or to follow up on this submission, please contact Steve Dowling, ACS Public Affairs Manager, via steve.dowling@acs.org.uk or 01252 533009.

¹ ACS Scottish Local Shop Report 2018

² ACS Scottish Local Shop Report 2018

³ ACS Scottish Local Shop Report 2018

⁴ ACS Scottish Local Shop Report 2018

Q1. What challenges are there to accessing financial services in Scotland?

6. Convenience retailers provide access to a range of financial services for consumers, building on the sector's unique reach into communities across Scotland. The provision of ATMs, valuable as high street enablers providing consumers with access to their cash to spend in local businesses, is being undermined by changes to LINK interchange fees (see Q4) and ATM business rates bills.

Business Rates

7. Through the wall ATMs are issued with a separate business rates bill to the convenience store where it is hosted. Business rates bills are sent to ATM operators, but the contract between a retailer and ATM operator will directly pass on the cost of ATM rates bills to retailers.
8. The legal rationale for why ATMs should be rated separately to a store is that the Scottish Assessors deem the ATM operator to be the occupier of the ATM hereditament, not the retailer. This means there is different occupation between the ATM and the corresponding convenience store, meaning the two hereditaments require distinct treatment. ATMs hosted within a store are not liable for rates bills.
9. This business rates burden actively disincentivises convenience retailers from hosting ATMs to provide access to cash for consumers. As ATM rates bills are based on a turnover methodology, bills can be higher for free-to-use machines, meaning there is an extra disincentive to provide FTU ATMs. Retailers are billed £4,000 on average for hosting an ATM, in addition to rates payable for the shop⁵.
10. For England, Wales and Northern Ireland, the Court of Appeal has ruled that through the wall ATMs should not be separately rated and retailers should be refunded for rates bills going back to 2013⁶. The Valuation Office Agency is now petitioning the Supreme Court to overturn the decision and the Court has until June 2019 to consider whether an appeal can proceed⁷. The Scottish Affairs Committee should consider the impact of ATM business rates bills on the commercial viability of hosting an ATM. We would support ATMs being either being removed from the rating list or exempted from bills.

Access to Cash Review

11. The Access to Cash Review, funded by LINK but independently chaired by Natalie Ceeney CBE, has found that despite trends towards digital payments, the UK is not ready to go cashless. Research informing the Review's final report shows that free access to cash is important beyond disadvantaged groups who may solely rely on cash, to 25 million people who say living in a cashless society would present real challenges⁸.

⁵ [£300m of business rates refunds held until "cash tax" decision reached](#) Retail Gazette. 21 May 2018

⁶ <https://www.bbc.co.uk/news/business-46151407>

⁷ <https://www.talkingretail.com/news/industry-news/government-set-appeal-atm-business-rates-ruling-06-12-2018/>

⁸ <https://www.accesstocash.org.uk/media/1087/final-report-final-web.pdf>

12. The inquiry should acknowledge these findings from the Review. The Review has recommended the Government develops a 'guarantee' on access to cash, whereby the Regulator 'steps in' to ensure cash access through wide consultation with stakeholders and consumer groups if access is threatened. The Review is also calling for an overall government policy on cash, to investigate the total costs of cash acceptance for small businesses and encourage innovation to improve local cash deposit facilities for retailers. The implementation of these recommendations would help to secure long-term access to cash (see Q6).

Q2. What impact have recent bank branch closures, and the changes in ATM funding, had on access to financial services in Scotland?

13. 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 convenience store customers in Scotland have indicated they paid by cash after visiting a convenience store⁹. 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. Retailers typically cannot store additional cash on the premises rather than make additional trips due to the cost of insurance premiums and higher risk of theft this would cause.
14. The Post Office network is providing an increasingly valuable cash deposit service for local businesses as banks reduce their branch network. One-in-four (25%) Scottish convenience stores host a Post Office branch¹⁰. 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.
15. Post Offices are valuable providers of financial services including access to cash but cannot directly replace the ATM network. Consumers can only access cash through Post Offices during shop opening hours and the location of Post Offices does not extend to all high streets and neighbourhood parades where there is demand for access to cash. Convenience retailers have stepped up to maintain access to cash following bank branch closures and associated ATM closures. The impact of recent changes in ATM funding on convenience retailers is detailed at Q4.

Q4. What impact has reductions to the interchange fee had in Scotland?

16. 62% of Scottish convenience stores host an ATM for local consumers, with 50% hosting a FTU ATM and 12% a PTU ATM¹¹. However, reductions in interchange fees paid to ATM operators and shared with retailers are undermining the commercial viability of hosting an ATM. The July 2018 and January 2019 interchange fee cuts have made many ATMs unprofitable for retailers, further threatening access to cash

⁹ ACS Local Shop Report 2018

¹⁰ ACS Local Shop Report 2018

¹¹ ACS Local Shop Report 2018

for consumers. According to LINK, the FTU ATM network is now shrinking by more than 250 machines per month¹².

17. 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 operators have been assessing the economic viability of their ATM networks as interchange fees decline. This has caused one of the leading ATM operators to switch its FTU ATMs in independent convenience stores to PTU and charging 95p for cash withdrawals. These retailers are tied into contracts preventing them from removing their ATM without significant financial penalty. We expect this will cause a shift from FTU to PTU machines across the sector and some retailers will opt to remove their ATM when their contract (typically with a 3/5/7-year term) expires.
18. Following LINK statistics showing a larger than expected decline in ATM numbers¹³, LINK cancelled its January 2020 cut and postponed the 2021 cut, pending a review on the impact of the 2018 and 2019 interchange fee reductions¹⁴. The decision to postpone the 2020 fee cut is worth £578.04 in interchange fees per ATM to be split between retailer and provider¹⁵.
19. 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 operators and retailers¹⁶. 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 operators and retailers. This will ultimately cause detriment to consumers by restricting their access to cash.
20. 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 arbitrarily cut the fees in January 2018. We believe interchange fees must be set a level that accounts for the operating costs and commercial viability of hosting an ATM.

Q5. How effective is the Financial Inclusion Programme, at ensuring access to cash is available in more remote areas?

21. The LINK Financial Inclusion Programme is failing to prevent ATM blackspots and closures of isolated ATMs. LINK's announcement to introduce super-premiums of up

¹² <https://www.link.co.uk/about/statistics-and-trends/>

¹³ [LINK Scheme ATM Footprint Report](#) LINK. 12 September 2018.

¹⁴ <https://www.link.co.uk/about/news/link-update-to-interchange-rate-implementation/>

¹⁵ Calculated using ATM Numbers and Transaction Volumes from <https://www.link.co.uk/about/statistics-and-trends/>

¹⁶ <https://www.psr.org.uk/sites/default/files/media/PDF/ATM-scheme-competition-Executive-Summary-15012018.pdf>

to £2.75 has come too late, after poor implementation of the expanded Programme from July 2018 has caused hundreds of areas to lose their last FTU ATM¹⁷.

22. When LINK announced it would proceed with its cuts to interchange fees in January 2018, 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.
23. 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 Programme¹⁸. Since expanding its programme, LINK's own data has shown that 142 'protected' ATMs are already no longer transacting¹⁹. LINK's implementation of the Programme has failed to secure a national network.
24. This led to LINK announcing a 'super-premium' of up to £2.75 for ATMs currently under threat of closure despite the existing interchange fee subsidises under the Financial Inclusion Programme²⁰. Although the super-premium announcement is welcome and should reduce the further loss of 'protected' ATMs, the damage has already been done with many consumers in predominantly rural areas unable to withdraw cash through a FTU ATM. Sporadic and sudden changes to the Financial Inclusion Programme also highlight the power LINK holds over the funding of ATMs and need for a long-term strategy backed up by proper funding to secure the future of the ATM network.

Q6. How effective have financial services regulators been, in ensuring continued access to financial services in Scotland?

25. The Payment Systems Regulator had three requirements on LINK to proceed with its interchange fee cuts in 2018 and 2019. These were to; protect the geographic spread of the ATM network, phase its cuts in stages and bolster the Financial Inclusion Programme. LINK responded by expanding its Financial Inclusion Programme and exempting isolated FTU ATMs further than 1km from the next FTU ATM from the cuts²¹.
26. As outlined in Q5, the expanded Financial Inclusion Programme has not protected the geographic spread of the ATM network. The Payment Systems Regulator has issued LINK with a Specific Direction requiring the body to outline how it will implement its commitments under the Financial Inclusion Programme but must engage closely with LINK on its 'hard review' in 2019 of the interchange fee cuts set for July 2018 and January 2019. This review should satisfy the Regulator that

¹⁷ <https://www.accesstocash.org.uk/media/1087/final-report-final-web.pdf>

¹⁸ [LINK Financial Inclusion Programme: 10 Year Anniversary](#) p.4

¹⁹ https://www.link.co.uk/media/1424/v-96-link-scheme-ltd-change-control-method4-change-2019-1027_19-atm-footprint-report.pdf

²⁰ <https://www.link.co.uk/about/news/super-premiums/>

²¹ https://www.psr.org.uk/sites/default/files/media/PDF/Protecting_free_to_use_ATMs.pdf

medium-term cash access is secure before the future path for interchange fees is set. The Scottish Affairs Committee should scrutinise the Regulator closely on how it is reviewing the impacts of changes to interchange fees.

Securing Long Term Access to Cash

27. The Payment Systems Regulator should be the leading regulator on protecting access to cash through the ATM network. 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. Some other methods of accessing cash, for example through the Post Office network (see Q2) or PayPoint's 'cash over the counter' withdrawal service, can support cash access but are not a suitable alternative for the network.
28. LINK has previously suggested that retailers could fill gaps in the ATM network through cashback services²². 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 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.
29. Lloyds and Visa have recently announced a cashback initiative that will see retailers paid 22p per withdrawal for a cashback transaction. The initiative is set to be trialled in areas with limited cash access. The criteria for the cashback interchange fee will mirror the Financial Inclusion Programme. Lloyds is a banking member of the ATM network body LINK and a key proponent behind calls for reductions in interchange fees. Cashback services are cheaper for banks than ATMs, by cutting out the ATM operator, but add these challenges and costs for retailers. The Committee should consider the motivations behind Lloyd's initiative – which must not preclude cashback services becoming an acceptable replacement for an ATM under the Financial Inclusion Programme.
30. 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 failure²³. 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.

²² <https://www.telegraph.co.uk/news/2017/12/02/high-street-cash-machines-replaced-supermarket-cashback-service/>

²³ <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