



DEBATE PACK

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Impact of ATM closures on towns and communities

By Timothy Edmonds

Summary

Ged Killen is sponsoring a Westminster Hall debate about the impact of ATM closures on individuals, businesses and their communities.

Contents

1. Background	2
1.1 Introduction	2
1.2 The ATM network	2
Ownership	2
Network size	3
Social commitment	4
2. Impact of Closures	6

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1. Background

Summary

ATMs have become a very familiar feature of daily life since their introduction 50 years ago. There is concern, however, that the ATM network might contract due to the decline in cash-based transactions and the closure of bank branches which house many ATMs. Whilst this might not affect all consumers a number of vulnerable individuals might be badly affected and businesses in small towns and villages might experience drops in custom as a result.

The Link network has run a Financial Inclusion Programme for 12 years to address some of these issues and it is currently funding research in 'Access to cash'.

1.1 Introduction

ATMs are now over 50 years old and are as common and central to the architecture of the high street as perhaps telephone boxes were 50 years ago. So commonplace and taken for granted are they, that many people would struggle to say what ATM actually stands for (answer on the last page). In the past they have stood for the 'emergency getting home' money, or the 'avoiding the queues in the bank, money, the 'funder of the unexpected shopping bargain' or, perhaps, that late night impulse trip to the curry house. In short, they are a tremendous personal convenience and beneficial to local shops and services. But, cash is less pervasive than it was and a whole new generation of consumers are quite comfortable with only an infrequent use of cash. Sweden aims to be the first cash free country. So how does society reconcile the industry's need to maintain a profitable business with falling demand for its product, and where does society's broader concerns over the viability of communities and access to services of poorer or vulnerable consumers fit in?

1.2 The ATM network

Ownership

ATMs fall into two broad categories. Those provided by banks and mostly found outside the branch and those that are provided by any one of the ATM machine providers which are then leased/rented out to shops, stations and other outlets. From a public policy perspective there is another distinction, namely between non-bank ATMs that are free to use and those that charge. There is criticism that there are fewer free ATMs in poorer areas than elsewhere.

Members may find interesting Link's Parliamentary Constituency ATM finder which lists all the ATMs in a constituency split between pay and free to use. It can be found [here](#).

[LINK](#) is the UK's main ATM network, which allows consumers to withdraw cash from ATMs which do not belong to their bank. Almost every ATM in the UK (both free and pay-to-use) is LINK enabled. All the UK's main debit and cash machine card issuers (predominantly banks and building societies) and the main cash machine operators (banks, building societies and independent ATM deployers) are members of LINK. A more detailed description of its role can be found [here](#).

In the case of non-bank ATMs, the provision of the machine itself is either through purchase, lease or rentals. The actual arrangements will vary but some combination of in-house or the ATM provider will offer maintenance of the machines and in return the merchant may get a percentage of surcharge fees on transactions. One of the selling points of having an ATM on the premises is that people will visit a shop more, or an already popular shop will generate a lot of transactions. The commercial agreement between merchant and ATM provider will reflect which party gains most. So, ATMs in very busy supermarkets are very cheap to buy/lease, but one in an out of the way location, with fewer transactions might be more expensive to start with or may charge for use.

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Network size

Full statistical details of the Link network can be found [here](#). Very briefly:

- In 1998 there were 24,600 ATMs, in 2017 there were 69,600 (down from 70,000 in 2016)

The frequency of transactions and their value has declined in recent years.

- For the first 10 months of the year the volume of transactions declined from 2,640 million in 2016 to 2,446 million in 2018.
- In terms of value, the same periods show a less even picture (value increased in 2017, but for the first 10 months the value of transactions in 2018 (£103,999 million) was lower than in 2016 (£106,940 million) or 2017 (£107,412).

In January 2018, LINK announced a phased reduction in Interchange rates over four years, from around 25p to 20p. The first reduction in Interchange of five per cent took effect on 1st July 2018 and the second five per cent reduction will take place on 1st January 2019. Following a six per cent year-on-year fall in the volume of ATM transactions, the LINK Board has decided to cancel the third reduction, due in January

2020 and put on hold the fourth reduction, due in January 2021, pending a further review next year. The Treasury Committee asked Link to quantify the impact of these changes here is their written response:

The LINK Board has stated that it is difficult to precisely answer questions on the impact of the proposals on the number of ATMs in the UK, as this depends on LINK members' business models (which are confidential). What assurances can you provide to the Committee that the proposals will preserve the existing geographic spread of ATMs, and will have no negative impact on financial inclusion?

The proposals are designed to maintain the present geographical spread of ATMs, with any reduction being in areas where there are currently multiple ATMs located close together. Around 80% of free-to-use ATMs are currently within 300 metres of another free-to-use machine. We do not expect significant numbers of machines to close immediately as a result of the proposals. The current interchange rate will reduce by 5% under our proposals next year. As the current rate has led to around 5,000 new free-to-use machines over the last three years we believe that the initial impact will be to stop this unnecessary growth. We note that interchange for non-branch cash withdrawals was 26p (approximately 9% lower than now) only three years ago and that deployers were happy to add machines vigorously and not remove them at that level. We intend to maintain coverage by boosting LINK's Financial Inclusion Programme. The proposed 30p maximum premium is six times the proposed reduction in Interchange, a reduction which will in any case be phased over four years.

2. How many ATMs do you project will close as a result of the proposals?

As noted above, we expect the immediate number of closures to be negligible. In the long run, we do expect ATM numbers to decline, should consumers choose to move from away cash to alternative payment options. Our proposals will ensure that this is achieved by closing machines close to each other rather than closing more remote ATMs or seeing them able to turn to a charging model. We aim to avoid the clustering of free high use machines in busy locations and a network of charging machines in more remote locations.

The full letter can be found [here](#).

Social commitment

There has been a significant commitment by Link to providing a broad geographical coverage of machines and to do what it can to end financial exclusion.

At the centre of these efforts is the **Financial Inclusion Programme** to ensure that all consumers have free access to cash within a reasonable distance of where they live or work.

This was designed and set up following work with the Treasury Select Committee under the chairmanship of John (now Lord) McFall in 2006.

It works by subsidising the lowest income area of the country to ensure that all have at least one free atm. The subsidy is paid via a 10p (now 30p) interchange premium available to any low-income area that doesn't have a free ATM within a kilometre distance. This has proven very successful in incentivising operators to provide free ATMs across the country. Under the programme, over 1,700 deprived areas were identified, in 2006, as needing a free to use ATM. Following a change in methodology in 2015, a further 900 areas were identified as being in need. As at June 2016 Link estimate that over 1,800 of these areas had been resolved. There is more information about this programme in the Link Report [here](#).

2. Impact of Closures

Most of the evidence for the impact of closures is akin to that regarding the impact of closing bank branches. A general loss of amenity in an area and possible deprivation. The existence of the Financial Inclusion Fund is a tacit acknowledgement by Link that ATMs are an important part of the social fabric of life. The continued proliferation of non-cash payment methods might mitigate that in future, but at present, the absence of cash is a serious impediment for many people.

Much of the evidence is anecdotal, instances of particular towns or businesses noticing drops in trade consequent upon the closure of an ATM or a bank branch. Link has initiated a general 'Access to Cash' review to get more evidence of hardship and to get ideas of how the system should be improved.

The main campaign to keep a large ATM network is one run jointly by Which? and the Federation of Small Business: #Saveourcashpoints. Addressing the argument that cash is becoming less relevant they [say](#):

While it is true that there has been a rapid movement towards cashless payments, particularly with contactless payment cards, consumer demand for cash remains high, with cash payments remaining the most widely used payment method in the UK. 54% of consumers in rural areas would not be able to access cash easily if their nearest cashpoint was to close, compared with 43% of those living in urban areas.

This will no doubt hit small firms, particularly those in rural areas that are already vulnerable to financial exclusion. Access to cash is absolutely vital to local growth in rural and deprived communities. Too often we hear of towns running out of cash because current cash point provision isn't good enough.

Businesses are already struggling to access cash with the rising number of bank branch closures. As cashpoints often serve as key alternatives to bank branches, closures of ATMs will make things even harder.

Which? responded to the Link Review mentioned above, it points out that ATMs are only one part of the cash nexus that needs to be protected. [Its ideas](#) are:

Without a wider strategy for cash, the closure of bank branches, post offices and ATMs could mean the UK reaches a point where maintaining the current system of free-to-access cash is no longer viable. There are also potential risks to all UK consumers and businesses if we no longer have a sustainable cash network. Recent IT failures at RBS, for example, have highlighted that the distribution of cash can be a critical national infrastructure, and often the only viable alternative if a consumer or business cannot make an electronic payment.

That is why Which? is calling on the Government to take urgent action to protect cash by placing a duty on the Payment Systems Regulator (PSR) to protect access to cash and to ensure the sustainability of the UK's cash infrastructure. This would:

- Support consumer choice

- Prevent financial exclusion
- Ensure there remains access to a secure non-digital form of payment
- Promote effective competition across all payments

Polling research by Which? found that

Cash remains popular and important. Which? research has shown that almost three quarters of people (73%) use cash at least two or three times a week, including 60% of 18 to 24 year olds. Only 5% of people use cash once every three months or less.

And

While cash use is in decline, Which? is concerned that it is being overlooked that the majority of consumers still rely on cash in some circumstances. Which? research found that 57% of consumers say they have experienced a situation in the last three months in which they could only pay by cash. Two thirds (67%) of people say cash is important for making small purchases and six in ten (61%) say it is important for paying for occasional professional services, such as babysitting and cleaning. Cash is still, therefore, a widely used payment method. It is relied upon not just by consumers, but by those receiving payments, with 52% thinking it is an important way of being paid.

The full Which? response can be accessed from [here](#).

Box 1: ATM.....

stands for Automated Teller Machine.

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