01 August 2018

Dear Nicky,

Thank you for your letter of 18 July.

As you point out, LINK has decided to proceed with its interchange fee reduction of 5% on January 2019, to cancel the reduction planned for January 2020, and to put on hold the planned final reduction due in January 2021, pending a further review next year.

The number of cash payments and ATM withdrawals continues to fall – indeed, the decline in ATM withdrawals accelerated to around 6% per annum in the first half of this year. This fall in ATM withdrawals will directly impact ATM deployers’ revenue. We welcomed the LINK Board’s announcement, because it showed that LINK is considering the ongoing appropriateness of its interchange decision, as we have asked it to, in the face of wider changes in consumer behaviour.

With regards to your specific points:

**Our engagement with LINK prior to its 16 July announcement**

From the very start we said that any reduction to the interchange fee must be made only after the impact of the previous change had been considered. We said that it was important that the LINK Board carefully reviews its decisions on interchange fees to reflect changing market conditions including demand for cash, and change course if needed.

Its decision to cancel the third and suspend the fourth fee reduction gives us the confidence that it is taking this requirement seriously.

**Proposed second interchange fee reduction**

While LINK is currently proposing to implement its second 5% reduction to the interchange fee on 1 January 2019, we have required LINK to do so only following consideration of the effect of the first reduction against its expected impact.
LINK’s review into long-term access to cash

LINK has stated that its independently chaired review into long-term access to cash is to consider consumer requirements for cash over the next five to fifteen years, and developments that may be necessary to address this if demand for cash continues to fall.

The findings of this review are separate to determining whether the January 2019 interchange fee reduction should go ahead. Its time horizon is well beyond the next planned reduction, and its scope also goes beyond ATMs. My policy specialists are observing this review along with a representative from the Bank of England.

We have also commissioned our own independent research into access to cash, to be undertaken over the next few months. This will look at how consumers and small businesses access cash, including in regional and remote areas, older consumers and out-of-hours users, and will help inform our policy development for the future. We will also consider whether we would need additional powers to protect continued access to cash.

An update on our approach to monitoring and intervening, if necessary

We have asked LINK to provide supplementary information following its first formal report to us.

Before receiving this information, which I have been assured we will receive by 20 August, it would be premature of me to comment on LINK’s ability to meet its commitments to us in full. We will intervene if we see that LINK is not taking these commitments seriously, as set out in our February letter to LINK.

As soon as we have assessed the information LINK provides to us, I will write to you again to keep you and the Committee updated on any developments.

Yours sincerely,

Hannah Nixon
Managing Director
Payment Systems Regulator