

VOCALINK PERSPECTIVE

Centralised ATM switching

Learning from the UK experience

At the heart of successful ATM switching lies a symbiotic relationship between card issuers and ATM acquirers. Acquirers need certainty of interchange funds to maintain and invest in their estate. Issuers benefit by offering their customers ready and convenient access to cash. The UK has operated a central ATM switching infrastructure for several decades and is the busiest ATM switch in the world. This business model is fully exportable: other financial communities can learn from the UK experience to gain a step-change improvement in switching efficiency and ATM management.

The UK's highly developed ATM market is a result of a combination of competition and collaboration. Since the late 1990s, the UK has operated a central infrastructure with the scheme (LINK) providing governance. This has enabled virtually every UK ATM to connect to the network, which has produced continual benefits for issuers, acquirers and consumers. As a pioneer of ATM services, the UK has made the transition from a series of bilateral switching arrangements between banks to achieving a 'national grid' of ATMs.

The first ATMs were introduced in the UK during the 1960s and over time, financial institutions developed reciprocal, bilateral arrangements to increase customer convenience. However, it became increasingly expensive for issuers and acquirers to administer these arrangements, and fragmented standards inhibited growth, increased complexity and reduced innovation.

As transaction volumes grew, UK banks and financial institutions collaborated more closely and an increasing number joined the LINK scheme. This grew to include all the major UK banks and building societies, encompassing previous bilateral arrangements. The UK had effectively consolidated a complex series of bilateral arrangements into one scheme and central infrastructure. Why?

Bilateral versus central infrastructure

Operating a shared central infrastructure offers a simple, sustainable alternative to a complex series of bilateral relationships. A central infrastructure offers a permanent reduction in operational costs while

mitigating financial and operational risk. The amount of pooled investment available for innovation is increased and overall service quality improved through a dedicated resource.

These network benefits are available to all members, while individual financial institutions are free to compete on the merits of their individual brands and services. This combination of competition and collaboration is only achievable through a shared infrastructure. The approach has enabled the UK to build and maintain a leading position in ATM switching and service provision.

The transaction switch, operated by VocaLink, also serves as a strategic platform for innovation and business growth. New services, such as mobile phone top-up and charity giving, can be introduced quickly and easily. Network participants also benefit from the LINK scheme's centralised governance, common dispute processes and universal message standards. And as VocaLink runs the switch independently on behalf of the UK financial services industry, the market is more inclusive and democratic. Financial institutions of all sizes compete on the strength of their service offerings, rather than sheer processing scale. Issuers can give customers ready access to their cash, and acquirers benefit from improved service and reliability. The UK central network also acts as a gateway to the world and offers connectivity to global schemes and communities, including: Visa, MasterCard, Amex, Credit Mutual, EAPS, China Union Pay, and PULSE.

This central infrastructure also insulates participants from an uncertain future. Individual members are spared having to make lump-sum investments to keep pace with changes in technology, legislation or market practice. Members can also be ensured over the funding of the ATM channel, something that has hampered growth in regions where global schemes have taken sudden steps to reduce ATM interchange.

The UK operating model speaks for itself. The model combines business benefits with a step-change improvement in processing efficiency and is highly relevant to banking communities with no central ATM switching infrastructure. ■

The UK's highly developed ATM market is a result of a combination of competition and collaboration

Find out more

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