

In 1999 UK consumers
paid nothing to access
their money.

In 2006 they'll pay
£250 million.

SPECIAL REPORT

The increasing threat
to free cash withdrawals



There is a real possibility that free access to cash will not survive other than at branches.

A year ago, Nationwide warned in a report that the future of the UK's free cash machine network was under threat. A subsequent Treasury Select Committee report confirmed their view was that without action from the Government and the industry, free access to cash would come under threat. Now, twelve months after Nationwide's initial report, following a complacent Government response to the Committee's recommendations and little action from the industry, the threat remains. In particular, the Society is concerned that the future of free cash machines away from branches is under threat.

There are fewer free cash machines than there were this time last year, and more charging machines. If this pattern continues, there is a real possibility that free access to cash will not survive other than at bank and building society branches and a few other locations such as main post offices.

The initial Nationwide report, published on 21 September 2004, estimated that the annual cost to consumers of charging cash machines was £140m. Nationwide now forecasts that in 2006, this will grow to a staggering £250m. Since the start of the decade, the annual cost to consumers of withdrawing their own cash has risen from virtually nil to the point at which next year they will pay a quarter of a billion pounds.

Fee charging cash machines remain highly unpopular with consumers. New research¹ shows that 93% of British adults think that it is unacceptable to be charged to withdraw their own money from cash machines. This is up from 89% twelve months earlier and represents an overwhelming expression of sentiment.

Campaigning by Nationwide has led to some improvement in transparency rules for charging machines². However, the charging or free status of cash machines is still not sufficiently clear and consumers face an ever rising bill to access their own cash.

The threat to the existing free cash machine network is real and only swift action can protect consumers.



Stuart Bernau
Executive Director
Nationwide Building Society

Key Facts

In 2006, UK consumers will pay £250m in fees to withdraw their own money from cash machines

The number of charging cash machines increased by 16% between September 2004 and September 2005 – in the same period the number of free machines fell by 0.3%

The proportion of charged transactions is rising fast. It was put at 3.6% in the Treasury Select Committee report in March and is now 5% - that is a 40% increase in charging transactions

Transparency and Consumer Protection

Action is necessary to bring about clarity for consumers and to avoid the erosion of free, remote cash machines – those not at a branch. Consequently, Nationwide is calling for:

1. **the industry to introduce standard “free” green signs on all free machines and standard “charging” red signs on all charging machines**
2. **LINK to publish accurate, quarterly figures of branch and non-branch-based cash machines including the number that do and do not charge**
3. **HM Treasury, which has responsibility for policy regarding financial inclusion, to monitor the growth in charging machines and guard against adverse impacts on consumers, especially in areas of social deprivation**

The threat to the existing free cash machine network must be countered, and only swift action from the industry can protect consumers.

Threat to Free Cash

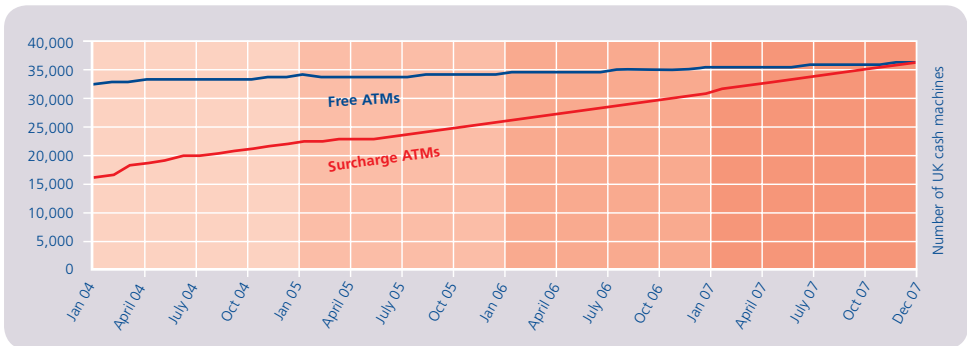
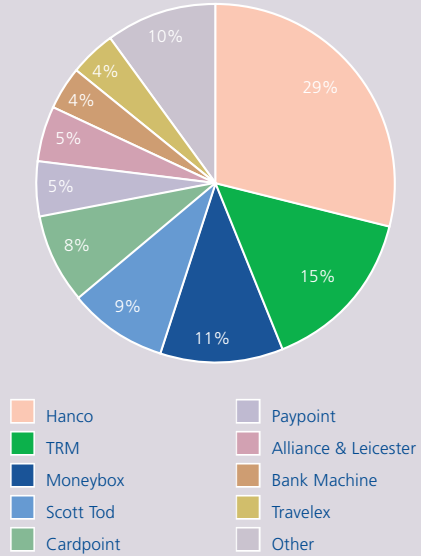
In 1999, virtually all cash machines in the UK were free but today customers are charged at 43% of UK machines, and this is rising. Almost 24,000 of the UK's 56,000 cash machines now charge and consumers will pay £200m to access their own cash this year. In 2006, this figure will rise to £250m.

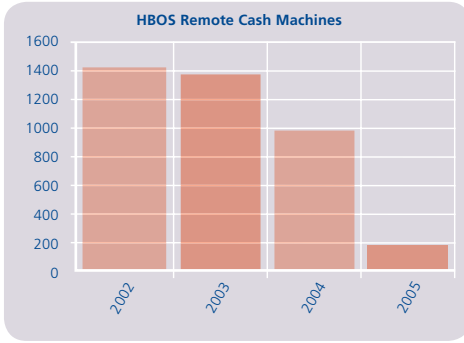
Over the past 12 months, the number of charging machines has risen by 16% from almost 21,000 to 24,000.

The cost to consumers of withdrawing their own cash is set to continue rising. It is probable that the threshold where 50% of machines charge will be reached at the end of 2007.

During evidence sessions of the Treasury Select Committee inquiry, it was suggested that the proportion of charged withdrawals would "stabilise at somewhere between 5 and 10 per cent". The actual proportion was put, at the time, at 3.6%. However, the basis for this estimate was not stated and the proportion charged has already risen to 5%. If the trend seen in the USA is replicated here, the proportion could reach 40% over time.

Main charging operators and their approximate share of the UK's network of charging machines as at August 2005





	2002	2003	2004	2005
HBOS-Remote cash machines	1440	1368	952	166
Percentage change (on previous year)	-	-5.0%	-28.2%	-83.1%

Source: Which? Treasury Select Committee Evidence 170, based on figures from APACS

“We have concerns that, away from existing branches, free access to cash withdrawals could decline as banks sell or close their existing network and remaining machines become concentrated in fewer locations.”

Source: Treasury Select Committee report into charging cash machines, 31 March 2005

Whilst some charging ATMs are in locations that cannot support a free cash machine, many are located in busy areas near to free machines, in shopping centres for instance. However, many other charging machines are replacing free ones. This has happened when charging operators have aggressively poached sites from free providers and when free machines have been sold by banks. Cardpoint plc has referred to the “transition from free machines to highly profitable charging” ones in the year since buying 816 HBOS machines.

A real threat exists regarding the future of free cash machines away from branches. There is a real possibility that the poaching of sites by charging operators will cause free access to cash to become limited over the next five years. Free machines may largely become restricted to bank and building society branches and a few other locations such as main post offices.

The Treasury Select Committee recognised that if more banks follow HBOS and Abbey in selling machines to charging operators, free access to cash could be damaged. HBOS sold 816 machines to Cardpoint in May 2004 and Abbey sold 50 to Moneybox in 2002/2003. HBOS has subsequently committed to not selling the remaining machines and to keeping them free. However, in July 2005, shortly after the Treasury Select Committee enquiry, Alliance & Leicester was reported to have appointed Citigroup to explore selling its ATM network.

A real concern is that charging machine operators will continue buying remote sites that are currently free. This has already happened at motorway service stations and has reduced the geographical coverage of free access to cash. Numerous other deals have seen free remote machines being replaced by charging ones.

As fee charging operators continue to make large profits, their financial strength will increase. This will increase their ability to bid for sites and will result in more remote sites that are currently free becoming charging.

Given the fragmented nature of the charging cash machine market, consolidation is likely. In July 2005, Cardpoint plc agreed to acquire Moneybox plc to create a group with approximately 5,000 UK machines. The net effect may be that larger groups are in a stronger position to bid for sites that are currently free leading to a reduction in the distribution of free cash machines.

Nationwide is concerned that without greater transparency surrounding the charging status of machines, and without Government monitoring of the social impact, the consequences could be serious and irreversible. We could look back in five years time and say "remember when cash withdrawals were free?"

"The evidence we have received indicates that the dynamics of the market will continue to lead to some conversion of free machines to charging machines in locations away from bank branches."

Source: Treasury Select Committee report into charging cash machines, 31 March 2005

"If there were to be a substantial reduction in the availability of free cash machines then that could exacerbate existing financial exclusion."

Source: Treasury Select Committee report into charging cash machines, 31 March 2005

The impact of the rise in charging ATMs is illustrated by the following examples of charging ATMs in public places far removed from the 'convenience locations' that charging operators still claim to be targeting:

- Universities - there are almost two thousand (1,888) charging machines within half a mile of a university. Students tend to make regular, small withdrawals so fees can hit them particularly hard.
- Hospitals – around one hundred hospitals have charging ATMs. Not only are the infirm, elderly and vulnerable likely to be affected but nurses and other health workers may have to pay to obtain their cash.
- Motorway service stations – charging operators have signed exclusive deals with motorway service station operators: Cardpoint with Welcome Break and RoadChef, and Moneybox with Moto. Consequently, free machines are being replaced with charging ones.
- Rail stations - there is evidence of increasing numbers of charging machines in transport interchanges such as railway stations - Doncaster was cited as an example during the Treasury Select Committee inquiry. These can leave the travelling public with no option but to pay.

Need for action

Cash machines are the main way in which people access cash. In fact, 84% of UK adults use cash machines to withdraw money¹. Consequently, the growth in the number of ATMs charging for cash is increasingly affecting consumers. In six weeks from 1 July 2005 one in five people (19%) used a machine that charged for cash¹.

Nationwide research¹ discovered that over a quarter (27%) of paid-for withdrawals are for £20 or less. This is of particular concern as a £1.50 charge on a £10 withdrawal represents 15%. Consequently, the less well-off, who are most likely to make smaller withdrawals, are disproportionately affected.

In addition, there is significant confusion about which machines charge and which do not. One in three people (37%) wrongly think that they will get charged if they use a cash machine from a bank or building society other than their provider¹. A further 12% are not sure. This means that only half of people are aware of current practice that enables free access to cash from the machines of most other banks and building societies.

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Consumer Protection

1 – Standardised, at-a-glance signage

Nationwide is calling on the entire cash machine industry to adopt unambiguous, standardised, at-a-glance signage. All free machines should carry a green “free cash withdrawals” sign whilst all charging machines should carry a sign stating “This machine CHARGES a FEE for withdrawals” on a red background.

Nationwide is taking action and is introducing clear and unambiguous signage on all of its cash machines. The large wording “FREE CASH WITHDRAWALS” on a bright green background will enable consumers to see ‘at-a-glance’ that they will not be charged. HBOS has also announced that it is introducing green signs.

The green and red signs answer the Treasury Select Committee’s call for the industry to explore the feasibility of standardised labelling of free and charging machines. The adoption of clear signage, identifiable at-a-glance, is a straightforward solution.



93% of British adults think that it is unacceptable to be charged to withdraw their money from cash machines¹.

“The new improvements [1 July 2005] to transparency agreed by LINK do not go far enough to ensure that the amount of the charge is clearly visible to consumers before they begin to use the machine.”

“We support the idea of standardised labelling for free (non-surcharging) and charging machines. We recommend that LINK and the consumer groups explore the feasibility of this idea, examining the costs and benefits.”

Source: Treasury Select Committee report into charging cash machines, 31 March 2005

“At present there is little scrutiny of free cash machine provision and obtaining accurate and timely information is difficult.”

Public support for clear red and green signage is overwhelming!:

- 97% of British adults think all cash machines should bear either a red or green sign to make it clear whether they do or do not charge
- 98% think that cash machines which charge should be easily identifiable, before they are used



HM Treasury should monitor the growth in charging machines

2 - Information

At present there is little scrutiny of free cash machine provision and obtaining accurate and timely information is difficult. For a real network of free cash machines to operate, there need to be machines not only at bank and building society branches, but in other locations as well. Industry sources suggest that the overall number of free ATMs at non-branch locations is decreasing, which could damage access to free cash, but accurate figures are difficult to confirm. Nationwide is calling for LINK to publish regular, accurate figures of free and charging branch and non-branch-based cash machines. The data should indicate whether the growth in cash machines overall is improving access or whether there are simply more machines at the same sites.

3 - Monitoring

There appears to be little or no monitoring of the adverse impacts of the increased numbers of charging machines in order to assess any social consequences. It is important to understand how increasing charges at ATMs and falling numbers of free ATMs outside bank and building society branches could impact on lower income groups and those who may be less mobile or more reliant on cash.

HM Treasury, which has responsibility for policy regarding financial inclusion, should monitor the growth in charging machines and the impact on consumers, especially in areas of social deprivation, with a view to identifying any public policy implications.

Pushing for Change

Nationwide has been campaigning against cash machine fees since 1999 when it threatened to sue Barclays over 'disloyalty' fees. Nationwide's ongoing awareness campaign resulted in charging machines having to carry a warning sign and display fees up front (from 1st April 2004). The Society then issued a report in September 2004 highlighting that, at the time, the number of charging machines had grown to over 20,000 - 40% of the network.

Nationwide has been campaigning against cash machine fees since 1999















Nationwide's report helped prompt an investigation into charging cash machines by the House of Commons Treasury Select Committee in late 2004 and early 2005. The Committee's report, published in March 2005, called for further transparency improvements including unambiguous warnings of the amount to be charged, larger font sizes for warnings and an end to misleading signs promising 'free balance enquiries'.

Treasury Select Committee recommendations & Government response

The inquiry received written evidence from 28 organisations and heard evidence in person from 13 different bodies, including the Treasury, major banks and cash machine operators, the Post Office, consumer groups, LINK and Nationwide. The subsequent report, published on 31 March 2005, ran to 70 pages, with 46 conclusions and recommendations for action.

Nationwide believes that the Government response, published in July, was disappointing and complacent. In particular, we are surprised and concerned that it rejected calls for an investigation into the impact of cash machine charges on low income groups.

Nationwide is concerned that the government rejected calls for an investigation into the impact of cash machine charges on low income groups

SELECT COMMITTEE RECOMMENDATIONS	RESPONSE / PROGRESS MADE
Growth of charging machines	
The Government needs to keep developments – including banks selling or closing their networks – under review	 Government says it “will continue to monitor the situation closely” but makes no specific commitment
LINK should research whether the growth in free machines has improved access to free machines or whether there are simply more free machines at the same sites	 Not yet progressed
LINK should improve its database and publish regular figures on the number of free and charging machines	 Not yet progressed
OFT payments system task force should research the geographical distribution of cash machines	 Not yet progressed – the payments system task force has said this is outside its remit
Transparency and clear signage	
Amount charged should be visible from a distance - minimum size for warnings should be increased from 14pt	 Not yet progressed
The feasibility of standardised signage for free and charging machines should be examined	 Not yet progressed at an industry level, though some individual institutions have made progress
Signs offering ‘free balance enquiries’ or using the word ‘free’ on charging machines should be forbidden	 Not yet progressed
Machines converting from free to charging or closing where there is no free machine nearby should have warning signs for 30 days	 Not yet progressed
LINK should publish details of its monitoring and enforcement process	 LINK has commissioned an independent survey to monitor compliance and has said it will publish the result
Regulation of cash machines	
LINK should open its meetings to consumer representatives	 LINK is considering this
The Banking Code should apply to subsidiaries of subscribers	 The Banking Code Standards Board is consulting on this
The Banking Code should incorporate LINK rules on transparency	 The Banking Code Standards Board is consulting on this
Charging operators should become subject to the Banking Code	 The Banking Code Standards Board is consulting on this
OFT should examine whether charging operators’ contracts are hindering competition	 OFT is to examine contracts

SELECT COMMITTEE RECOMMENDATIONS	RESPONSE / PROGRESS MADE
Financial exclusion	
<p>The Financial Inclusion Task Force should review access to free cash machines in low income areas</p>	<p>Rejected – but the Government says it will monitor the impact of charges on low income consumers</p>
<p>The Treasury should share its list of postcodes with concentrated financial exclusion with the Post Office and others</p>	<p>Rejected – the Treasury says it is not allowed to share the data under its contract with the research company</p>
Public sector sites (Post Offices, rail and underground, hospitals etc)	
<p>Public sector site owners have a particular responsibility to consider their charging policy and monitor the amount of charges</p>	<p>The Government agrees site owners should take this into account but has not issued guidance</p>
<p>The Post Office should place signs on charging cash machines in Post Offices reminding customers that free withdrawals in many cases will be available over the counter</p>	<p>The Post Office is considering this</p>
<p>The Post Office has particular responsibility to ensure free machines are installed if commercially viable</p>	<p>The Post Office is withdrawing from contracts with charging operators and is installing 300 new free machines</p>
<p>HSBC, RBS and HBOS should allow their current account customers to withdraw cash over the counter in Post Offices</p>	<p>Not yet progressed</p>
<p>The Government should consider the impact of cash machine charges on Direct Payment of benefits</p>	<p>Rejected – but the Government has agreed to look again if there is new evidence of a problem</p>
<p>Department for Work and Pensions should include warnings about cash machine charges in its guidance to benefit recipients</p>	<p>Accepted</p>

 Accepted

 Not yet progressed

 Rejected

The LINK Interchange Fee

This fee is the sum each provider is paid for handling transactions for another company's cardholders

The vast majority of cash machines in the UK are part of the LINK network. Each year LINK collects each provider's costs for handling transactions. From this LINK calculates the average cost per transaction for all providers. This is currently around 19p for cash withdrawals from machines inside bank branches, and 31p for cash withdrawals from those at other sites (sometimes called 'remote ATMs'). There are smaller fees for balance enquiries and rejected or cancelled transactions. This fee is the sum each provider is paid for handling transactions for another company's cardholders.

The average cost per transaction has come down from 40p as providers become more efficient. But this reduction in costs has not been passed on to consumers – in fact over that time more consumers have had to pay more money to withdraw their own cash from cash machines.

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NOTES

¹ Research carried out by Marketing Sciences in August 2005 amongst 1,001 respondents and June 2004 amongst 1,035 respondents.

² From 1 April 2004, machines were required to give customers early warning if there was a charge. From 1 July 2005, rules require operators of cash machines that charge to: Show on the screen – before customers insert a card – how much they can expect to pay to withdraw their own money; increase the type size on warning stickers to 14pt and to place the stickers in places where they are more visible.

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