



House of Commons
Treasury Committee

**Cash Machine Charges:
Government Response
to the Committee's
Fifth Report of Session
2004–05 (HC 191)**

**First Special Report
of Session 2005–06**

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The Treasury Committee

The Treasury Committee is appointed by the House of Commons to examine the expenditure, administration and policy of the HM Treasury and its associated public bodies.

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Contacts

All correspondence for the Treasury Committee should be addressed to the Clerk of the Treasury Committee, 7 Millbank, House of Commons, London SW1P 3JA. The telephone number for general enquiries is 020 7219 5769. The Committee's email address is: treascom@parliament.uk.

First Special Report

On 31 March 2005, our predecessor Committee published its Fifth Report of Session 2004–05, Cash Machine Charges, as House of Commons paper No. 191. We have now received a response from the Government (dated 9 June 2005) which is appended below.

APPENDIX

Government response

1. Introduction

As the Treasury Committee note in their report, ATM withdrawal is the most common method of cash acquisition by consumers, with over 2.5 billion withdrawals made in 2004. It is therefore essential that the ATM industry is as competitive, transparent and efficient as possible.

The Government believes it is important that people should be able to obtain their cash free of charge. This is particularly true for those on low incomes. In the light of this, the Government welcomes the work of the Treasury Committee in investigating the current situation regarding cash machine charges in the UK.

This report sets out the Government's response to the Treasury Committee's investigation, with particular attention to those recommendations that are addressed to the Government.

2. The Principle of Charging

Over the past five years there have been significant changes in the ATM industry: independent ATM operators have gained direct access to LINK, virtually all the main banks and building societies now offer free ATM services and, where charges are applied, transparency has greatly improved. As the Financial Secretary to the Treasury noted in the evidence he gave to the Committee, any assessment of the current situation should be seen in the light of the fact that, as recently as the year 2000, if you went to an ATM of a bank other than your own, you were likely to have to pay. Most banks were operating a complicated, opaque and discriminatory system of charges. Customers of one bank could generally obtain free withdrawals from only a small set of other banks; if they used ATMs elsewhere they were likely to be charged as much as £1.50. The fact that there are now over 30,000 ATMs in the UK that are free to customers of all banks and building societies and that over 96% of ATM withdrawals are free of charge shows a very significant improvement in this situation.

The Government welcomes the fact that the ATM industry has been opened up to independent operators. This has brought greater competition to the market and has led to a substantial increase in the number of cash machines in the UK. There are now approximately 20,000 charging ATMs, the vast majority in locations where previously there was no cash machine.

The Government does not believe that free ATMs in the UK are under threat. There have been a few examples recently of banks selling off some of their ATMs to independent operators but the major banks have all now made clear that they have no plans to sell off any more of their ATM networks. The Government welcomes this and notes that the number of free ATMs is still increasing at around 3% per annum. In 2004 this growth included clear investment by banks on new sites in non-branch locations.¹ However, the Government would be concerned if evidence were found of a significant reduction in the number of free ATMs.

Recommendation 3

There are a number of different ways of funding cash machine provision and it is appropriate for a variety of models to exist in a transparent, fair and competitive market. We recognise that cash machines which charge consumers are a legitimate business model. Their introduction has increased the overall availability of cash withdrawals and helped sustain small businesses. However, while these machines do increase provision of "convenience" locations that had not previously justified a cash machine, there is evidence that they are now spreading—appearing alongside, and in some cases displacing, machines that were previously free to the consumer. This gives rise to an issue of public policy, namely whether this trend is desirable and what response to it there needs to be. (Paragraph 21)

Recommendation 12

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. All witnesses agreed that the number of charging cash machines and the number of withdrawals made from them will continue to grow, although opinion differed as to how far this trend would go. Where such machines are additional provision, in areas served by free machines, then this will be beneficial to consumers. If they displace free machines and reduce access overall to free cash withdrawals, particularly in areas where there are no bank branches, then they would have a detrimental effect on consumers. This will lead to public policy concerns if areas of the country are left without adequate access to free cash withdrawals—particularly if this exacerbates existing financial exclusion (which we consider later). Whether this happens will to a large extent depend on the attitude taken by the banks to the provision of free cash machines in these areas. It is

¹ Lloyds TSB, for example, introduced 300 new remote ATMs in 2004, including 130 at petrol stations.

therefore important that the Government monitors the situation very closely to ensure a fair and competitive market, and to be ready to respond if necessary. (Paragraph 64)

The Government agrees with the Treasury Committee's remark in recommendation 3 that the introduction of surcharging ATMs gives rise to an issue of public policy and, as the Committee advises under recommendation 12, we will continue to monitor the situation closely. The Government would be concerned if evidence were found of a significant reduction in the number of free ATMs.

We agree that charging ATMs are a legitimate business model and welcome the increase in the total number of ATMs that their introduction has brought. There has been rapid growth in the number of charging machines in recent years but this is typical of a new, infant market. There is a general consensus among those in the industry that the increase in the number of surcharged withdrawals in the UK is likely to level off when the number of surcharged withdrawals reaches no more than around 5-10% of total withdrawals.

The vast majority of new, charging ATMs are to be found in locations where previously there was no cash machine. Where they have come alongside free machines this offers a genuine extension of choice, giving consumers the option of, for example, avoiding a queue by paying for their withdrawal and is an example of the market working as it should. However, where they have been placed in areas where there are no free ATMs, the Government would be concerned if there were no other means of obtaining cash without incurring a charge. There are alternative ways of gaining free access to cash: many of the major banks now offer their customers free over-the-counter withdrawals at the Post Office and 'Cash back' is widely available in supermarkets and shops, although not on all bank account types.

Recommendation 10

The public sector has a particular responsibility as site owner in respect of negotiation of contracts for the installation of machines. Public sector managers and employers will wish to take into account the extent to which their employees (including those on night shifts in hospital for example) and other site users may find it difficult to access free cash elsewhere. This does not preclude them from making financially advantageous arrangements with independent operators to install a free machine, though in some cases where there are not enough transactions to support a free machine a charging machine may be appropriate. Public sector site owners should consider their charging policy, and monitor the amount of any charges closely. (Paragraph 57)

The choice between installing free or fee-charging ATMs is a matter for the site owner, consistent with its own particular needs and those of its users. However, all public bodies are required to achieve value for money for the taxpayer in their purchasing and this should include consideration of both whole life cost and quality issues. As part of this value for money consideration, the Government believes the site owner should take

account of all relevant factors in the provision of cash machine services, and therefore supports the notion that this may include factors beyond sole consideration of price.

3. Transparency

The Government strongly believes that, where applied, ATM charges should be transparent so that consumers can make informed choices about whether to use an ATM. We consider that some good progress has been made on this issue since the time of the Cruickshank Report² in 2000, when ATM charges were complicated, opaque and discriminatory. Issuer charges on LINK cash machine cards have been removed³ and LINK agreements mean that double charging (by both the card issuer and ATM operator) is forbidden and that customers must be warned of charges before inserting their card. More recently, the new LINK rules of December 2004 are a good step forward in further increasing transparency, particularly due to their stricter requirements on location and size of signs. We look forward to considering the effect of these new rules when they are implemented in July.

We believe the Committee was right to raise the issue of the enforcement of current LINK rules and are aware that examples have been found of charging ATM not displaying the required signs. Again, we welcome the LINK agreement in December to strengthen sanctions for non-compliance and are pleased to note that a LINK-commissioned independent survey to monitor the situation is already underway. In response to recommendation 26 of the Treasury Committee's Report, it is useful that LINK intend to publish the results of this survey when completed.

4. Financial Exclusion and the role of the Post Office

The Government is committed to tackling financial exclusion.⁴ Our key priority in doing so is to reduce the number of individuals in households with no bank account at all. The most recent Family Resources Survey in 2003-04 shows that around 6% of households in the UK have no access to a bank account, any other type of savings vehicle or a Post Office Card Account. This equates to 1.5 million households or around 2.3 million adults. The total percentage of households without a current account is 11%. Compared to international experience these figures are high. For example, only 3% of adults in Australia lack an 'everyday' bank account while in Canada, between 3 and 4% of adults do not have a bank account. Lacking access to banking facilities imposes significant costs on the individuals involved. For example, financial transactions such as money transfer and cheque cashing may be very costly and individuals are unable to benefit from savings made through payment by Direct Debit. In addition, lacking access

2 The Cruickshank Report can be found on HM Treasury's website: http://www.hm-treasury.gov.uk/documents/financial_services/banking

3 Some charges remain on certain credit cards when these are used to withdraw cash.

4 'Promoting financial inclusion', HM Treasury, December 2004, sets out the Government's strategy to tackle financial exclusion in three priority areas: access to banking, affordable credit and free face-to-face money advice.

to a bank account can act as a barrier to employment and leaves people vulnerable to theft or losing their money. Financial exclusion also occurs where individuals are forced to pay more for services than those able to access a broad range of services.

The Treasury Committee's report raises concern that vulnerable and low-income consumers might be subject to disproportionate costs as a result of ATM charges. We agree with the Committee that it is important that this should not be the case, and would be concerned if it were. On existing evidence, we do not believe that it is the case. As the Post Office said in their evidence to the Committee, 99% of people in urban areas and 84% in rural areas live within one mile of a Post Office branch. For those who do have a bank account, ATMs are not the only way of gaining access to cash. Basic bank accounts offer free Post Office access, as do current accounts with many of the major banks.⁵ Benefit recipients receiving their income into a Post Office Card Account rather than a bank account are also able to access their cash for free.

The Treasury Committee Report makes a number of recommendations to the Post Office as to their policy regarding charging ATMs, which are a matter for Post Office Ltd to take forward. Among these recommendations, the Treasury Committee asks the Post Office to place signs next to charging cash machines in Post Office branches informing customers of the option to make free withdrawals over the counter. We are aware that the Post Office goes to considerable lengths to advertise its free over-the-counter cash withdrawal service and welcome their intention to examine further whether they can place signs next to ATM machines to make this choice even clearer to their customers.

Recommendation 33

We note the work being undertaken by the Government to tackle financial exclusion and to improve access to bank accounts, and the continued funding and support from the financial services industry for this. As part of this strategy, it is important that vulnerable and low income consumers are not subject to disproportionate costs as a result of cash machine charges. We note that consumers with basic bank accounts may lack a debit or credit card, giving them less choice in relation to payment mechanism, and will be unable to obtain cashback from retailers. (Paragraph 106)

The Government believes it is important that vulnerable and low-income consumers in all communities can access their cash for free. We do not think that there is currently evidence to suggest that such consumers are incurring disproportionate costs as a result of cash machine charges but agree with the Committee that it is important this is not the case. In addition to over 30,000 free ATMs in the UK, free withdrawals are available to all basic bank account holders and many current account holders over the counter at the Post Office.

⁵ These banks are Alliance and Leicester, Barclays, the Clydesdale Bank, the Co-operative Bank and Lloyds TSB.

As to the features of basic bank accounts, the Policy Action Team 14 report 'Access to Financial Services' published in 1999, recommended that the banking industry develop and promote a basic bank account and prescribed certain key features of such an account. The report states that the essential feature of a basic account is that, in order to help the unbanked, there should be no possibility of an unauthorised overdraft. This is achieved by replacing the chequebook with an on-line debit card facility. Basic bank accounts also do not have any authorised credit facility attached to them. This allows individuals to open accounts, without unnecessary credit check restrictions, and therefore basic bank accounts are available to a wider constituency than standard current accounts with a debit card, a cheque book and credit facilities.

Basic bank accounts are an important means of dealing with financial exclusion and are a gateway to wider mainstream services, such as current accounts. All the major high street banks now offer a basic bank account and the Government and the banking industry is committed to extending their reach. The 2004 Pre-Budget Report announced a shared goal between Government and the banking industry to halve the number of adults in households without an account of any kind, and to see significant progress towards that goal within two years. Developments will be reviewed at the end of the two year process to see if further initiatives are needed.

Recommendation 34

As part of an agenda tackling financial exclusion, it is very important that those on low incomes have access to free cash withdrawals. We note evidence that the cash machines most likely to be converted to charging are those away from existing bank branches in low footfall locations. If there were to be a substantial reduction in the availability of free cash machines then that could exacerbate existing financial exclusion and the Government needs to keep developments under review. As part of its work, the Government's Financial Inclusion Task Force should examine the issue of access to free cash machines in low income areas. (Paragraph 109)

The Financial Inclusion Taskforce was formally launched in February 2005. The role of the Taskforce is to monitor progress against the objectives the Government has set, in increasing access to banking facilities, affordable credit and free face-to-face money advice, and to report to Government on what more needs to be done. The Taskforce has a specific role to report to Government on the shared goal between the Government and the banking industry to halve the number of adults in households without a bank account of any kind.

Banks have indicated that they are committed to maintaining their ATM networks and the number of free cash machines is growing at around 3% per annum. However, the Government believes it is important that vulnerable and low-income consumers in all communities can access their cash for free. The Government's monitoring of the ATM market will include monitoring the impact of charges on vulnerable and low-income consumers.

Recommendation 35

If the Treasury is going to spend public money identifying areas of concentrated financial exclusion, it seems unhelpful not to share this information with those organisations that might be able to make improvements in those areas. We recommend that the Treasury negotiate permission to share the list of postcodes where there is concentrated financial exclusion with the Post Office and other organisations that can help tackle the disadvantage that people living in those areas face. (Paragraph 111)

The terms of the contract with the company that provided the postcode analysis of areas of concentrated financial exclusion means that the Government is unable to share the raw data with any third party. A summary of the secondary analysis the Treasury conducted for the publication of 'Promoting financial inclusion' last December can be found on page 14 of that report. The Post Office and other organizations are free to contact the research company, CACI, if they wish to discuss with them the possibility of direct access to the information.

Recommendation 38 (1st part)

We ask the Government to indicate whether it was always envisaged that over 75% of the cash machines installed in Post Offices would charge the public up to £1.50 to make cash withdrawals; (Paragraph 120)

The Government supports the Post Office's strategy of making access to cash as convenient as possible, including the provision of ATM access in addition to over-the-counter access. However, it was always recognised that ATM access is provided on a commercial basis, meaning that it is chargeable in some circumstances.

Recommendation 44

When fully implemented, Direct Payment will save the government around £400 million each year. It will also result in many benefit recipients using cash machines to access their benefit. The benefits system aims to provide a minimum standard of living for recipients. If benefit recipients have problems getting free access to their money then they will have less benefit available for other essentials. Immediate government research into the effect of Direct Payment should specifically examine the issue of cash machine charges and the Government should ensure that the switch to direct payment of benefits does not disadvantage recipients in the way they access their cash. (Paragraph 138)

As noted above, there are a number of ways in which those receiving benefits can access their money for free. The Department for Work and Pensions has ensured that its most vulnerable customers are paid in such a way that the question of charges does not arise (because they do not need to use ATMs to collect their money). They are either paid into a Post Office card account (which is accessed free of charge over the Post Office counter) or by cheque (which can be cashed free of charge at the Post Office).

A number of witnesses suggested that there was a significant problem in terms of benefits and pensions customers incurring charges to access their money. This is an issue DWP have been monitoring closely. It has not been raised with them at the regular meetings they have with customer representative groups. Nor is there any evidence from Ministerial correspondence or from feedback that is obtained from DWP front line staff that this is a significant problem.

DWP have already undertaken independent research into customers' experiences of, and satisfaction with, Direct Payment⁶ (a copy of which has been sent to the Committee). This involved speaking to 1,500 customers who receive their benefits and pensions by Direct Payment. They were asked an open question about the disadvantages of Direct Payment and no one specifically mentioned cash machine charges. If these were a significant problem, as suggested by some witnesses, then they would have been in respondents' minds and the Government believes they would have listed them as a disadvantage. Asking open questions in this way is commonly used in research and is an effective way of finding out, in an unprompted way, what is uppermost in people's minds.

DWP do not believe that the available evidence suggests benefit customers are having problems obtaining free access to their money and therefore, at this stage, the Government does not think that further research is necessary. However, we will continue to monitor the situation closely and if there is substantive evidence to indicate that ATM charges are becoming a significant problem for benefit customers then we will look again at whether further research is needed.

Recommendation 45

The DWP leaflet informing benefit recipients about the move to Direct Payment does not contain any mention that some cash machines (including over 75% of those in post offices) will levy a charge to people accessing their benefit. We recommend that the DWP revises its guidance to make it clear to benefit recipients that they may be charged for using cash machines and provides them with clear information about how to withdraw their benefit free of charge. (Paragraph 139)

The particular leaflet referred to by the Committee is no longer in use. However, the Government welcomes the Committee's recommendation. The Department for Work and Pensions will revise its guidance and information to customers to make it clear that they may be charged for using some cash machines. It will also continue to provide information on how customers can access their money free of charge.

HM Treasury
9 June 2005

⁶ 'Customer Experience of Direct Payment' by Lorna Adams, Karen Bunt and Danielle Bright. DWP In House Report 150 published 24 September 2004.