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# AUTOMATED TELLER MACHINES

## Survey Results Indicate Banks' Surcharge Fees Have Increased

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# Automated Teller Machines: Survey Results Indicate Banks' Surcharge Fees Have Increased

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GAO's testimony, based on its April 1998 report,<sup>1</sup> discusses information on automated teller machine (ATM) deployment and surcharge fees assessed by banks and thrifts (hereinafter referred to as banks). ATM surcharge fees are assessed by some banks on noncustomers—individuals who do not hold an account at their institution.

GAO conducted a statistically representative survey of about 500 randomly selected banks throughout the United States. All of the estimates are based on responses to this survey, which had a response rate of 90 percent. GAO did not include credit unions or nondepository institution (nonbank) ATM operators in its survey. However, GAO did collect similar fee information on ATMs owned by selected nonbanks.

GAO's survey results indicated that approximately the same percentage of banks in the United States operated ATMs as of February 1, 1998, as operated them as of February 1, 1997—just over 70 percent. However, during this 1-year period the number of ATMs that banks operated increased about 13 percent, to an estimated 132,000. About 66 percent of this growth was in ATMs located off bank premises. Survey results also indicated that, for the month of January, the average number of customer withdrawal transactions per ATM declined 15 percent from 1997 to 1998, while the average number of noncustomer withdrawal transactions per ATM declined 24 percent during this period.

According to GAO's survey results, the percentage of banks operating ATMs that assessed surcharges increased from 39 percent as of February 1, 1997, to 64 percent as of February 1, 1998. Also, the estimated number of ATMs with surcharges increased by more than 50 percent during the same period. Estimates indicated that the average surcharge fee assessed by banks, including in the calculation the ATMs without surcharges, increased from \$0.69 as of February 1, 1997, to \$1.00 as of February 1, 1998. Additionally, the estimated average surcharge fee, excluding ATMs that did not surcharge, increased from \$1.17 to \$1.27 during this period. For these ATMs, the most typical fee as of February 1, 1998, was \$1.50, compared to \$1.00 the previous year.

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<sup>1</sup>Automated Teller Machines: Survey Results Indicate Banks' Surcharge Fees Have Increased (GAO/GGD-98-101, Apr. 24, 1998).

# Automated Teller Machines: Survey Results Indicate Banks' Surcharge Fees Have Increased

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Mr. Chairman and Members of the Committee:

We are pleased to be here today to discuss the results of our study on automated teller machine (ATM) deployment and surcharge fees assessed by banks and thrifts.<sup>2</sup> In this testimony I refer to both types of institutions as banks. As you requested, we updated our May 1997 report<sup>3</sup> on ATM fees assessed by banks on noncustomers—individuals who do not hold an account at their institution. Such fees are called surcharge or access fees. We estimated that the percentage of ATMs with surcharge fees increased from 59 percent as of February 1, 1997, to 79 percent as of February 1, 1998. In addition, the average surcharge fee calculated for all ATMs operated by banks increased from \$0.69 to \$1.00 over the same period. The most typical fee as of February 1, 1998, was \$1.50, compared to \$1.00 the previous year.

You asked us to summarize our survey data on changes over the past year in (1) ATM deployment by banks in the United States and (2) the number of banks that surcharge noncustomers and the amounts surcharged. We also collected similar information on ATMs owned by selected nondepository institutions (nonbanks).

To address our objectives, we conducted a statistically representative survey of about 500 randomly selected banks throughout the United States. All of our estimates are based on responses to this survey, which had a response rate of 90 percent. In an effort to obtain more precise estimates than we were able to include in our 1997 report, we expanded our sample from about 250 banks to about 500 banks. We collected information from all the banks responding in this year's sample as of February 1, 1998. We also collected February 1, 1997, information from the banks we surveyed this year and used it to revise our 1997 estimates, taking advantage of the larger sample to provide more precise estimates. All estimates are subject to sampling errors, which we reported if the errors were greater than plus or minus 10 percent. In addition, reported changes in estimates from 1997 to 1998 are statistically significant unless otherwise noted. We did not include credit unions or nonbank ATM operators in our survey.

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<sup>2</sup>The detailed results are presented in *Automated Teller Machines: Survey Results Indicate Banks' Surcharge Fees Have Increased* (GAO/GGD-98-101, Apr. 24, 1998).

<sup>3</sup>See *Automated Teller Machines: Banks Reported That Use of Surcharge Fees Has Increased* (GAO/GGD-97-90, May 16, 1997).

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Regional, national, and/or international ATM networks link ATMs and computer systems, allowing the customers of one network member to access their accounts through other network members' ATMs. Until April 1996, the two primary national networks banned the practice of surcharging noncustomers for the use of their networks' ATMs. However, the bans could not be implemented in 15 states that statutorily prohibited ATM networks from enforcing them. With other states considering similar prohibitions, the two primary networks lifted their bans in April 1996. Since then, some ATM operators in states where surcharges were formerly banned by the networks have begun assessing surcharges.

ATM operators assess surcharge fees on the user's bank; the bank in turn pays the fees and then assesses them directly on the user. The national networks require that, if the surcharge fee is assessed on the user, the fee appear on the receipt at the cash machine as well as on the user's bank statement.

In addition to surcharge fees, switching and interchange fees are charged for ATM use. A switching fee is assessed by the ATM network on the user's home bank to pay for processing each of its network transactions and to defray other network operating costs, such as advertising and network security. Banks may absorb this fee or pass it on to the ATM user. An interchange fee may be assessed by ATM operators on a nonaccount holder's home bank for handling a transaction. If the home bank passes this fee on to the ATM user, the Federal Reserve's Regulation E requires the user's home bank to inform the user that the assessment will appear on the user's bank statement.

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## **ATM Deployment by Banks**

According to our survey results, just over 70 percent of banks in the United States operated ATMs as of both February 1, 1998, and February 1, 1997. We estimated that approximately 8,010 of 10,960 banks active at the time of our survey operated ATMs as of February 1, 1998; and approximately 8,210 of 11,110 banks operated ATMs as of February 1, 1997.

Banks operated an estimated 132,000<sup>4</sup> ATMs in the United States as of February 1, 1998, a 13 percent increase over the estimated 117,000<sup>5</sup> ATMs

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<sup>4</sup>Sampling error is plus or minus 12 percent.

<sup>5</sup>Sampling error is plus or minus 11 percent.

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they operated as of February 1, 1997.<sup>6</sup> About 66 percent of this growth was in ATMs located off bank premises. Additionally, large banks operated more ATMs than either medium or smaller banks as of February 1, 1998.<sup>7</sup> The percentages of ATMs operated by large, medium, and smaller banks as of February 1, 1997, and February 1, 1998, are presented in appendix I.

According to our survey results, for those large banks that operated ATMs, the median<sup>8</sup> number of ATMs operated increased by about 100 from February 1, 1997, to February 1, 1998—from 345 to 440. The median number of ATMs operated by medium and smaller banks was 43 and 3, respectively as of February 1, 1998—approximately the same median number as they operated the previous year.

Our survey results also indicated that, for the month of January, the average number of customer withdrawal transactions per ATM declined 15 percent from 1997 to 1998, while the average number of noncustomer withdrawal transactions per ATM declined 24 percent during this period.

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## **More Banks Assessed Surcharges and Fees Increased**

Our survey results indicated both that a greater percentage of banks assessed surcharges as of February 1, 1998, than did a year before and that the number of ATMs with surcharges increased. Almost 64 percent of banks that operated ATMs as of February 1, 1998, assessed surcharges on at least some of their ATMs, while about 39 percent of the banks that operated ATMs as of February 1, 1997, imposed surcharges. Additionally, the number of ATMs with surcharge fees increased by more than 50 percent—from about 69,100<sup>9</sup> to about 104,100<sup>10</sup> ATMs during this period. This represents an increase from 59 percent to 79 percent of ATMs. The increase included newly deployed or acquired ATMs, as well as existing ATMs that previously did not have a surcharge fee.

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<sup>6</sup>Point estimates are subject to a sampling error that differs from the sampling error on our estimates of the change between 1997 and 1998. Although the confidence intervals on the point estimates may overlap, the estimate of the change between the 2 years is statistically significant.

<sup>7</sup>We categorized banks as large, medium, and smaller and defined these categories as banks with assets of over \$10 billion, \$1 billion to \$10 billion, and less than \$1 billion, respectively.

<sup>8</sup>The median is the middle observation—that is, half the observations lie above this value and half lie below it.

<sup>9</sup>Sampling error is plus or minus 15 percent.

<sup>10</sup>Sampling error is plus or minus 15 percent.

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According to our 1998 survey results, the average ATM surcharge fee has also increased since February 1, 1997.<sup>11</sup> Our estimates indicated that the average surcharge fee assessed by banks, including in our calculations the ATMs without surcharges, increased from \$0.69 as of February 1, 1997, to \$1.00 as of February 1, 1998.<sup>12</sup> The average surcharge fee as of December 31, 1995, was \$0.17.<sup>13</sup> This was before the two primary national networks lifted their ban on surcharge fees. In addition to the previously discussed average fees, the estimated average surcharge fee assessed by banks, excluding ATMs that did not surcharge, increased from \$1.17 as of February 1, 1997, to \$1.27 as of February 1, 1998. The maximum ATM fee reported by banks in our sample as of both dates was \$3.00.

Our survey results also indicated that for the ATMs with surcharges, the most typical fee as of February 1, 1998, was \$1.50 compared to \$1.00 for the previous year. Additionally, these results indicated that the number of ATMs with surcharge fees of \$1.50 or more had increased since 1997. Specifically, an estimated 21 percent of ATMs had fees of \$1.50 or more as of February 1, 1997, and an estimated 40 percent of ATMs had such fees as of February 1, 1998. Appendix II provides more specific data on the percentages of banks that assessed surcharge fees, average surcharge fees, and the percentage of ATMs with various surcharge fees.

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## **Selected Nonbanks Also Increased Fees**

Consistent with the results of our bank survey, the seven large nonbanks that provided us information generally reported increases in the number of ATMs owned, the number of ATMs with access fees, and the average access fee.<sup>14</sup> Specifically, these nonbanks reported an 11 percent increase in the number of ATMs they owned—from 9,223 ATMs to 10,277 ATMs—between February 1, 1997, and February 1, 1998. During the same period, the 7 nonbanks reported a 61 percent increase—from 5,056 to 8,120—in the number of ATMs they owned that charged users an access fee. The average fee, including in our calculations the ATMs without access fees, increased from \$0.48 on February 1, 1997, to \$0.81 on February 1, 1998. The average

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<sup>11</sup>We calculated average surcharge fees on a per ATM basis rather than on a per bank basis.

<sup>12</sup>Actual surcharge fees tend to occur in 50-cent increments (e.g., \$1.00, \$1.50, and \$2.00). However, a commonly used measure of surcharge fees throughout the industry is a simple average. We calculated the average surcharge fee in two ways: for all ATMs, including those with no surcharge fees, and for only those ATMs with surcharges.

<sup>13</sup>Sampling error exceeds plus or minus 10 percent.

<sup>14</sup>When referring to nonbanks, we use the generic term access fee rather than surcharge fee. Surcharge fees refer to the access fees that banks charge individuals who do not hold an account at their institution. However, nonbanks do not have deposit account holders.

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fee, excluding ATMs that did not charge a fee, increased from \$0.87 to \$1.03 over the same period. The maximum access fee reported by these nonbanks was \$8.00.

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This concludes my prepared statement. I will be happy to respond to any questions you or other members of the Committee may have.

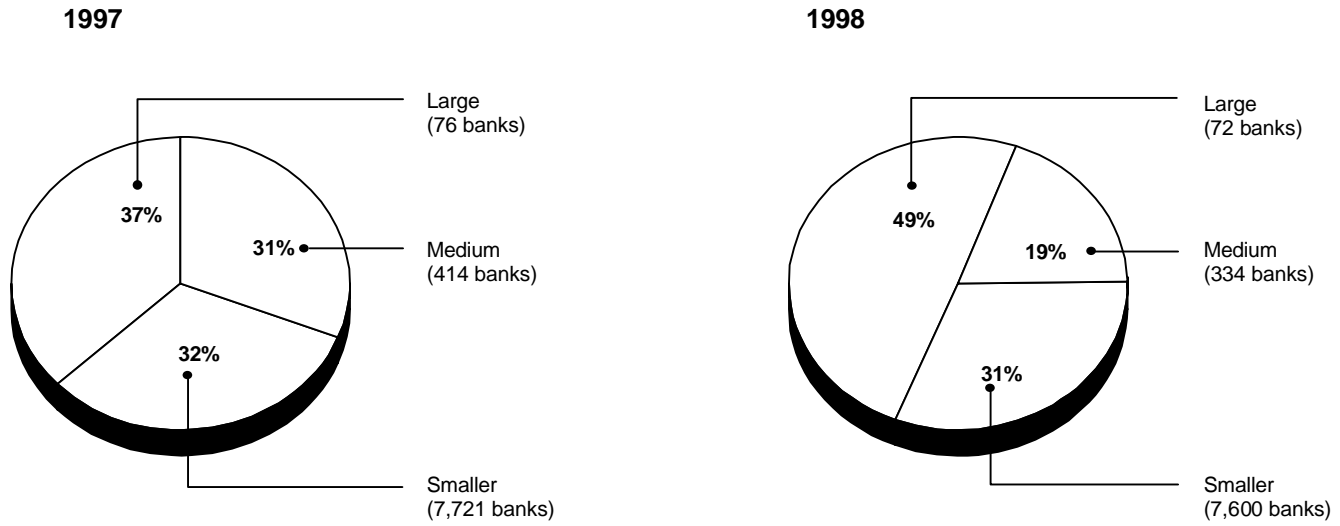


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# ATM Deployment

**Figure I.1: Percentages of ATMs Operated by Large, Medium, and Smaller Banks as of February 1, 1997, and February 1, 1998**

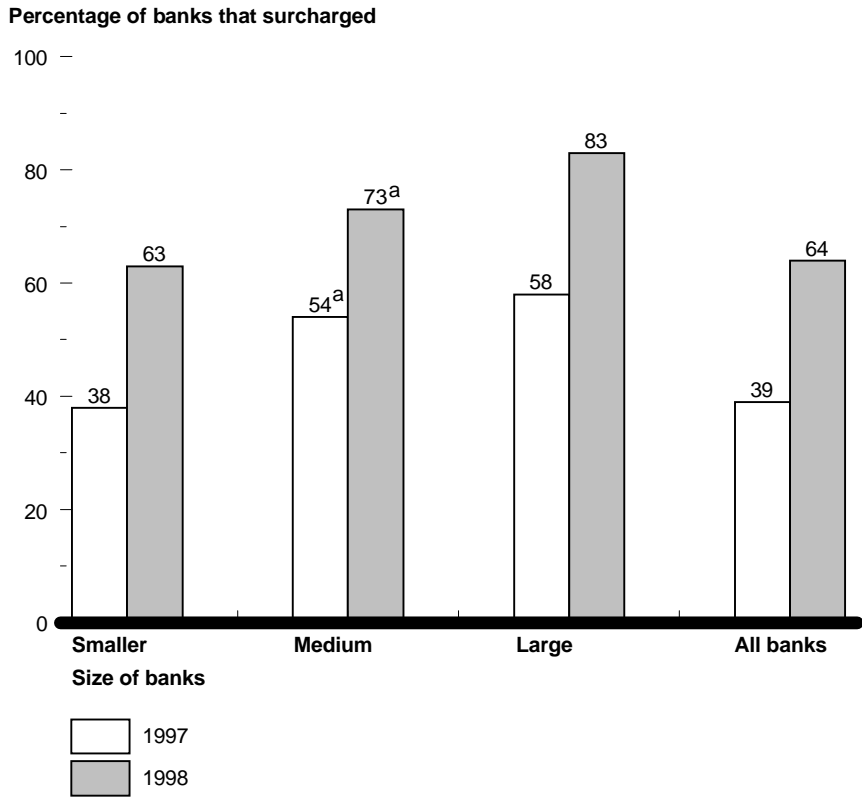


Note: Percentages may not add to 100 due to rounding.

Source: GAO analysis of survey results.

# ATM Surcharge Fees

**Figure II.1: Percentages of Large, Medium, and Smaller Banks That Assessed Surcharges on at Least Some of Their ATMs as of February 1, 1997, and February 1, 1998**

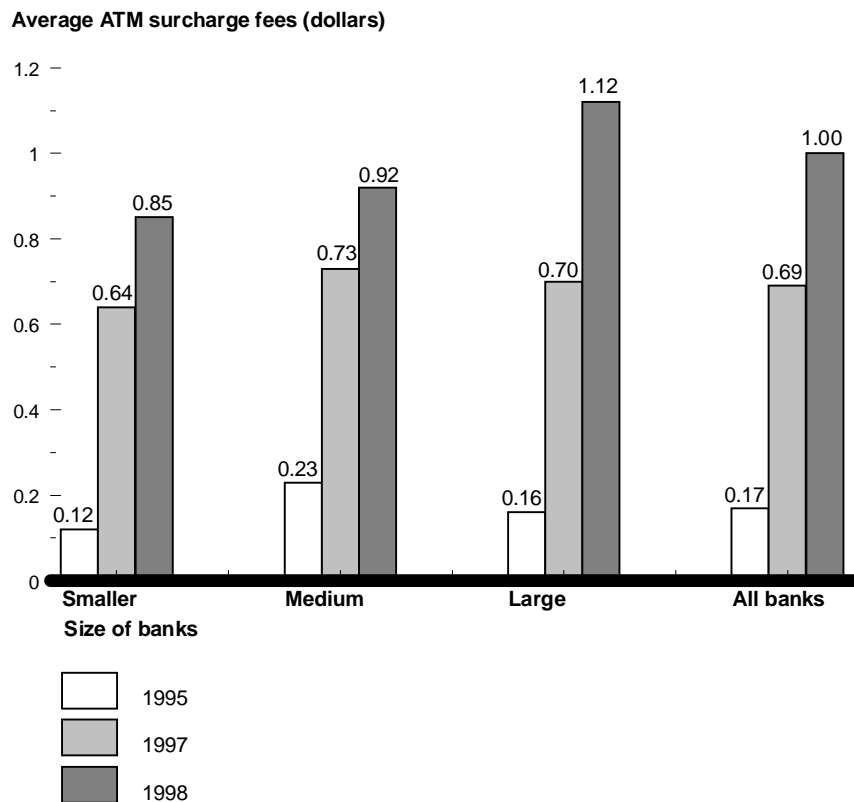


<sup>a</sup>Sampling error is plus or minus 11 percent.

Source: GAO analysis of survey results.

**Appendix II**  
**ATM Surcharge Fees**

**Figure II.2: Average ATM Surcharge Fees Assessed by Large, Medium, and Smaller Banks, Including ATMs Without Surcharges, as of December 31, 1995; February 1, 1997; and February 1, 1998**



Note 1: We collected December 1995 data during our 1997 survey. We did not collect additional 1995 data during our 1998 survey. December 1995 estimates were based on the responses of banks we surveyed in February 1997.

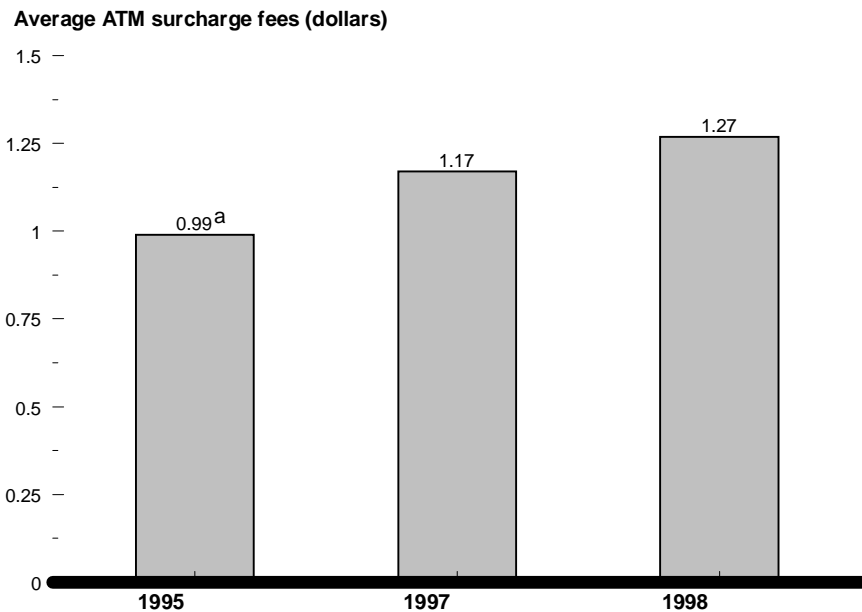
Note 2: Although some of the sampling errors for the data for smaller, medium, and large banks were greater than plus or minus 10 percent, all of the differences between the 1995 and 1997 data within the three size groups were statistically significant, and the differences for the smaller and large banks between 1997 and 1998 were also statistically significant.

Note 3: The average ATM surcharge fees were calculated for all ATMs, including those that did not surcharge.

Source: GAO analysis of survey results.

**Appendix II**  
**ATM Surcharge Fees**

**Figure II.3: Average ATM Surcharge Fees Assessed by Banks, Excluding ATMs Without Surcharges, as of December 31, 1995; February 1, 1997; and February 1, 1998**



<sup>a</sup>Sampling errors is plus or minus 12 percent.

Note 1: We collected December 1995 data during our 1997 survey. We did not collect additional 1995 data during our 1998 survey. December 1995 estimates were based on the responses of banks we surveyed in February 1997.

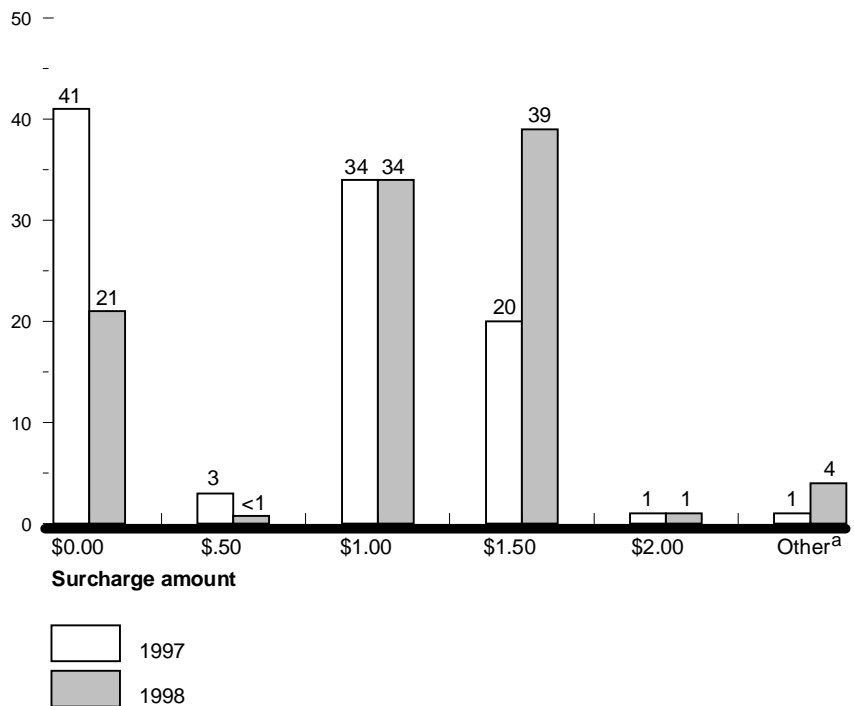
Note 2: The average ATM surcharge fees were calculated for only those ATMs with surcharges.

Source: GAO analysis of survey results.

**Appendix II  
ATM Surcharge Fees**

**Figure II.4: Percentages of ATMs With Various Surcharges as of February 1, 1997, and February 1, 1998**

**Percentage of ATMs with various surcharges**



<sup>a</sup>Includes all other fee levels combined.

Source: GAO analysis of survey results.

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