

Testimony

Before the Senate Banking Committee

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AUTOMATED TELLER MACHINES

Banks Reported That Use of Surcharge Fees Has Increased

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Automated Teller Machines: Banks Reported That Use of Surcharge Fees Has Increased

GAO's testimony, based on its recently issued report,¹ discusses information on the practice of surcharging by banks and thrifts with regard to automated teller machines (ATMs) used by individuals who do not hold accounts at the institutions owning the ATMs. Banks have access to ATM networks that link their respective ATM and computer systems so that depositors from any member of the network can access their respective accounts through any network bank's ATM. There are fees associated with using ATMs. One type of fee is the surcharge fee that ATM owners may charge ATM users who do not have accounts with them. In assessing these fees, ATM owners generally charge users' banks, which pay the fees and then charge them directly to the users' accounts.

GAO conducted a projectable survey of 246 randomly selected banks throughout the United States to determine the number of banks that operate ATMs, the number of these banks that surcharge non-account holders, and the amounts of surcharges that are assessed.

GAO estimated that, as of February 1, 1997, about three-fourths of all banks in the United States operated ATMs. As of that date banks operated about 119,000 ATMs, an increase of 34 percent over the 89,000 ATMs operated at the end of 1995.

About one-third of the banks that operated ATMs reported that they imposed surcharges on non-account holders who used their machines. More of the large banks than smaller banks reported surcharging, and a greater percentage of the large banks reported that they began surcharging during the past year.

Actual surcharge fees tend to occur in 50-cent increments—e.g., \$1.00, \$1.50, \$2.00. GAO estimated that the average surcharge fee for all ATMs operated by banks, including those with no surcharge fees, had more than tripled since the end of 1995, from \$0.17 to \$0.62 in 1997. The average reported surcharge fee for those ATMs with surcharges was \$1.14 in 1997; the most commonly reported actual surcharge fee was \$1.00.

¹Automated Teller Machines: Banks Reported That Use of Surcharge Fees Has Increased (GAO/GGD-97-90, May 16, 1997).

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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 the use of surcharge fees for automated teller machines (ATMs).¹ As you requested, we gathered information on fee-charging practices of banks and thrifts with regard to ATMs used by individuals who do not hold accounts at the institutions owning the ATMs. Such a fee is called a surcharge or access fee. We estimate that in the 13-month period from December 31, 1995, to February 1, 1997, there was a 320-percent increase in the number of ATMs that had surcharge fees. In addition, the average surcharge fee calculated for all ATMs operated by banks and thrifts more than tripled over this same time period.

You asked us to summarize the information in our study relating to (1) the number of banks that operate ATMs, and (2) the number of these banks that surcharge non-account holders and the amounts of surcharges that are assessed. Our study did not attempt to determine the effect surcharge fees have on the deployment of new ATMs. Further, it was not intended to address whether ATM operators are adequately disclosing information on ATM fees to customers.

To address these objectives, we conducted a survey of 246 randomly selected banks throughout the United States. We sent a questionnaire to the selected banks to obtain information on ATMs they operated and surcharge fees assessed non-account holders using these ATMs as of December 31, 1995, and February 1, 1997. We selected those dates to obtain data before and after the two primary national ATM networks changed their policy in April 1996 from prohibiting surcharges to allowing their members to assess surcharges. The response rate for our survey was 87 percent.

The sample size and composition were determined by the need to obtain a high response rate, as well as by time constraints. To obtain as much information as possible about ATMs and surcharges, we sampled large banks at a higher rate than other banks, because large banks, on average, operate more ATMs. Consequently, the estimates for large banks were more precise—i.e., the estimates have smaller sampling errors. We reported all sampling errors greater than ± 10 percent.

¹The detailed results are presented in Automated Teller Machines: Banks Reported That Use of Surcharge Fees Has Increased (GAO/GGD-97-90, May 1997).

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Studies done by financial industry groups report that ATMs can perform many of the tasks bank tellers perform. For example, consumers use ATMs to make cash withdrawals from personal checking, savings, and other deposit accounts, as well to make deposits and to move money between accounts and ATMs are typically available 24 hours a day.

Banks have access to ATM networks that link their ATMs and computer systems so that depositors from any member of the network can access their accounts through any network bank's ATM. There are regional, national, and international networks. These networks enable ATM users to obtain ATM services over a much wider geographic area than that covered by their own bank's offices or ATMs.

There are fees associated with using ATMs. The fees may or may not be directly passed to the ATM user. Banks may charge their own account holders for using their ATMs; however, most of the fees are associated with consumers using ATMs operated by other banks in the network system. A switching fee is assessed by the ATM network to 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. An interchange fee may be charged by ATM owners to a non-account holder's home bank for handling one of its transactions. Finally, a surcharge fee may be charged by ATM owners to ATM users who do not have accounts with them. In practice, ATM owners may surcharge the users' banks, and the banks in turn pay the fees and then may charge them directly to the users' accounts. In our study, we gathered information on surcharge fees only.

Most Banks Reported Operating ATMs

From our analysis of the survey responses, we estimate that, as of February 1, 1997, about 75 percent (± 14 percent sampling error) of banks in the United States operated ATMs. Of the estimated 8,600 ($\pm 1,700$) banks that reported operating ATMs as of February 1, about 8,000 ($\pm 1,800$) had ATMs as of December 31, 1995. In addition, we estimate that, as of February 1, 1997, banks operated about 119,000 ATMs, a statistically significant increase from the estimated 89,000 ATMs they operated at the end of 1995.

Although large banks—those with assets over \$10 billion—accounted for about 1 percent of the total number of banks that reported operating ATMs, they operated 37 percent of the total number of ATMs in the United States. The percentages of ATMs operated by large, medium, and smaller banks are

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indicated in appendix I. For banks that operate ATMs, the large banks reported a median of 346 ATMs in operation, compared with 2 for the smaller banks. About 98 percent of the large banks had 26 or more ATMs in operation.

Our survey results show that for smaller banks—those having assets of less than \$1 billion—75 percent (± 15 percent) had at least one ATM as of February 1, 1997. Banking officials' responses indicated that between the end of 1995 and February 1, 1997, more smaller banks began operating ATMs at both on- and off-premise locations, rather than at only on-premise locations. Off-premise locations include entertainment and transportation facilities and retail outlets. We found that about 95 percent of the large banks continued to operate ATMs both on- and off-premises.

Banks Reported Use of Surcharge Fees Has Increased

About one-third—2,900 ($\pm 1,400$) of 8,600—of the banks that operated ATMs reported that they imposed surcharges on non-account holders who used their machines.² As of February 1, 1997, 57 percent of large banks reported surcharging, an increase from the 20 percent that were doing so in 1995. Thirty-two percent (± 16 percent) of the smaller banks were surcharging in 1997, while 20 percent (± 14 percent) of these banks imposed a surcharge in 1995.

The reported number of ATMs with surcharge fees has also increased since 1995. Our survey showed that from the end of 1995 to February 1, 1997, there was an almost 320-percent increase in the number of ATMs with surcharge fees—from about 15,400 ($\pm 6,500$) to about 64,400 ($\pm 16,700$). This increase included newly deployed or acquired ATMs as well as old ATMs that previously did not have a surcharge fee. Banks indicated that both on-premise and off-premise ATM surcharging had increased since 1995.

Actual surcharge fees tend to occur in 50-cent increments—e.g., \$1.00, \$1.50, \$2.00. The most typical surcharge reported to us was \$1.00. 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. We estimated that the average surcharge fee for all ATMs operated by banks, including those with no surcharge fees, had more than tripled since the end of 1995, from \$0.17 (± 0.08) to \$0.62 (± 0.10) in 1997. The average reported surcharge fee for those ATMs with

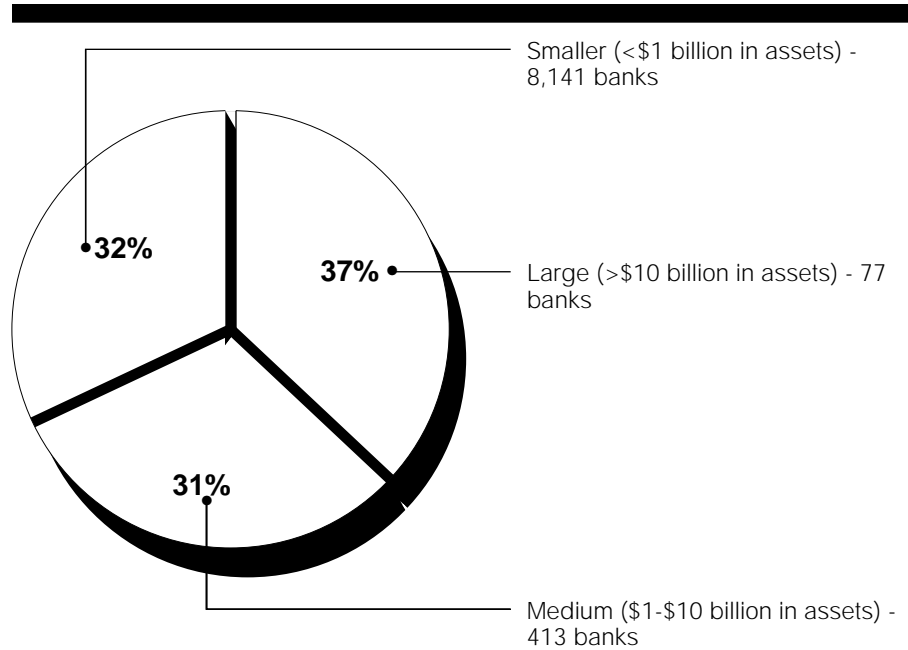
²While about one-third of banks reported surcharge fees, these fees were charged for the use of about 54 percent of the ATMs in service as of February 1, 1997.

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surcharges was \$1.14 (\pm \$0.06) in 1997. Appendix II provides the average surcharge fees by bank size, and shows that the number of ATMs that have surcharge fees of \$1.00 or more has increased since 1995.

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

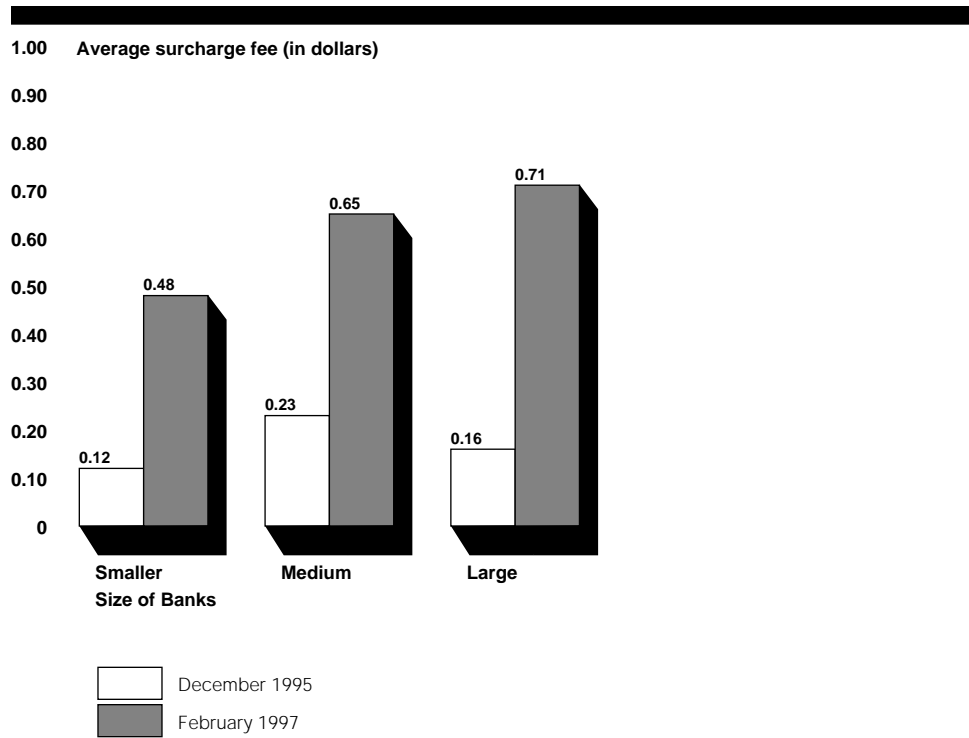
Percentages of All ATMs in Operation Reported by Large, Medium, and Smaller Banks, 1997



Source: GAO analysis of survey results.

ATM Surcharge Fees

Figure II.1: Average ATM Surcharge Fees Reported by Large, Medium, and Smaller Banks, 1995 and 1997



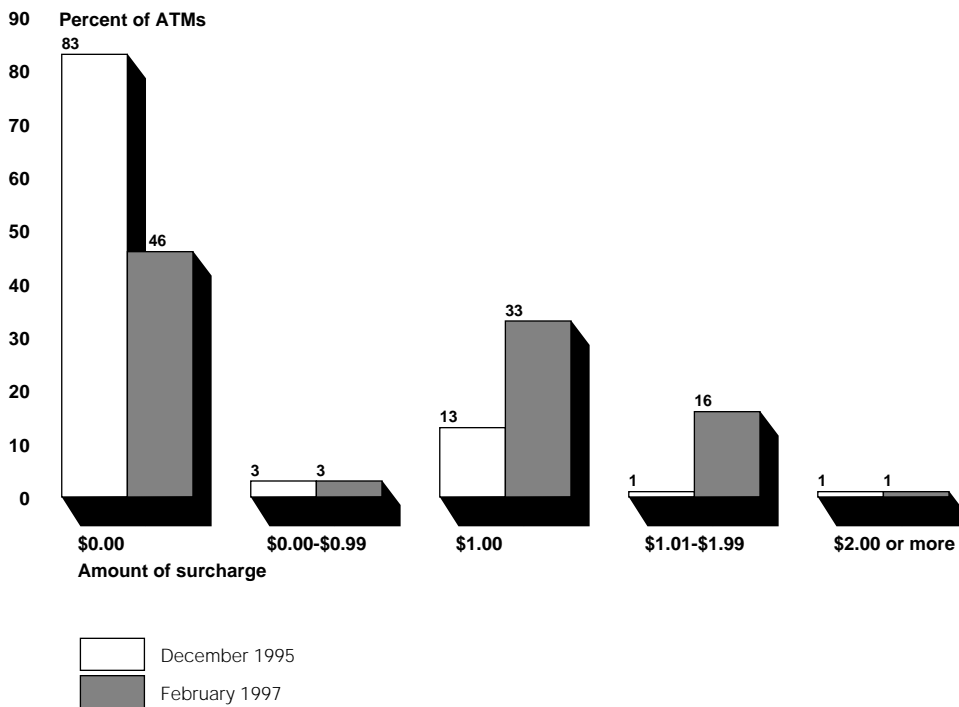
Note 1: The average ATM surcharge fees were calculated for all ATMs, including those which have no surcharges.

Note 2: Although some of the sampling errors were much greater than ± 10 percent, all of the differences within the three size groups were statistically significant.

Source: GAO analysis of survey results.

Appendix II
ATM Surcharge Fees

Figure II.2: ATM Surcharges Reported by Banks, 1995 and 1997



Source: GAO analysis of survey results.

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