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Treasury Committee

Cash Machine Charges

Fifth Report of Session 2004–05

Report, together with formal minutes, oral and written evidence

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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.

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The issues

At the time of the Cruickshank Report in 2000, only a tiny proportion of cash machines involved a direct charge. The proportion now is 37%. Cash machines are the most important method of cash withdrawal in the UK, used by millions every week. Concerns arise about:

- the principle of charging and the increasing prevalence of charging machines;
- the clarity of presentation of these charges to the consumer;
- the impact that the spread of charging may have on financial exclusion.

The principle of charging and the prospects for the free ATM network

Cash machines which charge consumers are a legitimate business model. However, their spread gives rise to a public policy issue: how far is such a trend desirable? Although charging machines only account for around 3.6% of total cash withdrawals in October 2004, it is estimated that over the past twelve months consumers have paid around £140 million in charges. At the same time, the number of free machines is also increasing.

The increase in the number of free machines, alongside the increase in charging machines, should represent an increase in non-charging sites. However, because of their location and increased concentration in machines, there is a question how far this growth has actually increased the number of generally available and genuinely different sites.

Provided the LINK agreement remains in force and banks continue to offer free banking for personal customers, at present there seems little threat to continued free access to all cash machines located in bank and building society branches.

The independent charging operators' expansion of their business will result in cash machines in previously unserved locations, but will also result in a trend of free machines being forced out of sites and replaced with charging machines. Banks and building societies have incentives to sell some of their non-branch machines to independent operators: there could accordingly be conversion of a large number of free ATMs to charging.

The attitude of the site owner is very important in determining whether a cash machine on their premises is free of charging. The public sector has a particular responsibility and public sector managers will wish to take into account the extent to which their employees and other site users may find it difficult to access free cash elsewhere.

Overall, opinion differs as to how far the trend of free machines converting to charging, in locations away from bank branches, will go. A great deal will depend on the attitude taken by banks to the provision of free machines in these areas. It is therefore important that the Government monitors the situation very closely, and is ready to respond.

Transparency of charges

The industry has a duty to provide consumers with sufficient information to allow an informed choice about whether to use a charging machine. Poor standards of transparency are detrimental to consumers, and hinder competition. The arrangements put in place by LINK since April 2004 are inadequate. The improvements agreed in December 2004, to take effect from July 2005, are welcome but do not go far enough.

We recommend: clear indication of the amount of surcharge on external signage; larger minimum font sizes; standardised labelling for all free and charging machines; no use of the word 'free' in connection with other services available from a charging machine; timely and prominent warnings where a machine previously free is to be replaced. There is also a need for evidence of greater effectiveness in LINK's enforcement procedures.

Regulation

LINK needs to improve consumer representation and to develop greater openness. The present LINK approach to enforcement is inadequate. The Banking Code should be extended before the end of the year to cover all charging cash machine operators (including Code subscribers' subsidiaries) and to incorporate LINK transparency rules.

Financial exclusion & the Post Office

Vulnerable consumers should not be subject to disproportionate costs as a result of ATM charges. A substantial reduction in the availability of free machines could exacerbate existing financial exclusion. The Government needs to keep developments under review.

The Post Office has a unique role. Most post office ATMs charge, with sub-postmasters having no control over the decision. This is not in the best interests of sub-postmasters, benefit recipients or local communities. Government should ensure that the switch to direct payment of benefits does not disadvantage recipients in their access to cash.

Key areas for action from Government, regulators and the industry:

- *Growth of charging machines*: There would be important public policy concerns if, away from existing branches, free access to cash withdrawals declines. The Government needs to keep developments under review.
- *Better transparency*: Improvements have been made in the requirements set down by LINK, but more needs to be done.
- *Regulation and the Banking Code*: Charging cash machines need to be brought within the Banking Code.
- *Financial exclusion*: Cash machine charges may have a disproportionate impact on low-income consumers. If free machines are withdrawn from areas without bank branches then this may exacerbate existing financial exclusion. The Post Office has a particular role and there is a need for a fundamental change of strategy.

1 Introduction

The issue and this inquiry

1. Aspects of the operation of the cash machine market were reviewed in the Cruickshank Report on Competition in UK Banking in March 2000. At that time, only a tiny proportion of the cash machines—also known as ATMs (Automatic Teller Machines)—in the UK involved a direct charge for the user. The proportion now is 37%. In 2004 consumers spent £140m accessing cash at cash machines. The time is ripe for a review of the issue of cash machine charges.

2. We planned to include questioning on this during evidence sessions in October last year with bank chief executives, as part of our work on credit card charges. But, in recognition of the significance of the subject and the fact that the underlying issues were somewhat different, we decided instead to conduct a separate short inquiry.[1]

3. We announced that we would look at, in particular:

- *The principle of charging and the trend towards charging*: the principle of charging for access to funds through cash machines; and the increasing prevalence of machines at which a charge is levied …;
- *Transparency*: the clarity of presentation of these charges to the consumer …;
- *Financial exclusion and location*: concerns over the impact that the spread of charging may have on financial exclusion and low-income households.

4. We took oral evidence on 21 December 2004 from consumer groups[2] and from LINK (the body responsible for controlling the participation of banks and other organisations in the ATM network),[3] on 1 February 2005 from Royal Bank of Scotland and HBOS (both banks which had made recent commercial decisions significantly affecting the ATM market place) and from leading operators of charging cash machines,[4] and on 10 February 2005 from Nationwide Building Society, from the Post Office and from the Financial Secretary, Mr Stephen Timms MP (the responsible Treasury Minister). We also received written submissions from a wide range of other relevant bodies and from individuals, including individual ATM site owners and members of the public. Most of these submissions are printed as written evidence, together with the oral evidence, with this report. We are extremely grateful to all those who have helped with this inquiry.

1 See Second Report, Session 2004-05, *Credit card charges and marketing*, HC 274, Q 297

2 Citizens Advice, *Which?*, and National Consumer Council

3 LINK is thus a member-based body, comprising banks, building societies and other organisations; we discuss the role of LINK further below at paras 93-95

4 Bank Machine Ltd, Cardpoint plc, Moneybox plc, TRM

The operation of cash machines (ATMs) in the UK

How ATMs work

5. The UK's first cash machine, also known as an Automated Teller Machine (ATM), was installed by Barclays in their Enfield branch in 1967.[5] An ATM is, in essence, a computer attached to a safe with a communications link to a computer system which holds customer account details. The original and core function of ATMs is to distribute cash, although the underlying infrastructure allows a wider range of services to be supplied such as balance inquiries, mini-statements and bill payments. A number of ATMs also provide non-banking services such as pre-pay mobile phone top-ups. The withdrawal of cash involves the machine sending the transaction details[6] to the card issuer, who authorises or rejects the cash withdrawal. As we discuss below, if a direct charge is to be levied, the customer will then be informed of the size of the charge and given the opportunity to cancel. If the transaction is authorised (and the customer does not cancel) then the cash is dispensed to the customer. Their account is then debited by their card issuer, by the value of the cash withdrawn plus any associated charges.

6. There are two different types of charges that can be applied to customers using ATMs. The first type of charges is referred to as an 'acquirer' charge, 'convenience' charge or 'surcharge'—these charges are levied by the ATM owner. The second type of charge is known as an 'issuer' charge or 'disloyalty fee'—these are levied by the card-holder's bank for using an ATM owned by another bank or building society. As discussed below, following the Cruickshank report in 2000, banks agreed to abolish issuer charges for all UK debit and cash cards. For credit and charge cards, banks typically levy an issuer charge (referred to as a cash handling fee) of around 1.5%, with a minimum of £1.50. LINK rules forbid double charging—if a bank levies an issuer charge then the ATM owner is prevented from levying an acquirer charge.

7. Separate from these retail charges are the "wholesale" charges, which are levied between the different banks and ATM owners. The most important of these is the 'interchange fee'[7] which is paid by the card issuer to the ATM owner on shared transactions, to cover the cost of the services provided. Essentially, it is the fee that one bank agrees to pay another for letting its cardholders use another bank's ATM. For example, if a customer of Barclays bank uses a cash machine owned by Lloyds TSB to make a free cash withdrawal, then Barclays will pay Lloyds an 'interchange fee' for this service (currently set at 20p for an ATM at a branch and 30p for a remote or non-branch ATM). Interchange fees differ for cash withdrawals and non-financial transactions (balance enquiries and rejected transactions).[8] A default level for interchange fees is agreed and set centrally by the LINK network, based on an independent study of ATM costs undertaken by KPMG.[9] LINK rules—arrived at after discussions with the OFT—mean that ATM owners levying a

5 Ev 95

6 The details of the account (contained on a microchip) from which the withdrawal is to be made, the customer's confidential number ('PIN number') and the service required.

7 Technically, this is the 'Multilateral Interchange Fee' or MIF

8 These also depend on whether it is a branch or a non-branch machine

9 The study is regularly updated

surcharge to the consumer do not receive the interchange fee from the consumer's bank for the cash withdrawal (although they will receive interchange fees for any balance enquiries and rejected transactions).

Cash acquisition by individuals

8. Measured by number of transactions, cash is still the main method of making payments in the UK.[10] As table 1 shows, ATM withdrawal is the most important method of cash acquisition by consumers. The number of transactions and value of cash withdrawn from ATMs has continued to grow despite the increasing use of plastic cards to make payments in retail locations. APACS (the Association for Payment Clearing Services) told us "Relatively high daily allowances for cash machine withdrawal, greater convenience of their siting and wider availability of cashback are inducing customers to shift away from using cheques and passbooks as the means by which they withdraw cash from their accounts".[11] APACS expects these trends to continue, projecting that "In 2013 cash machines will dispense £189 billion in 2003 money, including 75% of all cash acquired by individuals".[12]

Table 1: Cash acquisition by individuals (Millions of transactions)

Method	*Year*						Percentage change (1998-2003)
	1998	***1999***	***2000***	***2001***	***2002***	***2003***	
Cheque encashment	187	174	148	141	124	123	-34.2%
Plastic card at counter	67	57	65	76	74	84	25.4%
ATM withdrawal	1,841	1,959	2,015	2,158	2,252	2,357	28.0%
Cashback	143	164	201	223	233	256	79.0%
Passbook withdrawal	174	151	124	101	77	72	-58.6%
Business/employer	194	189	168	139	137	127	-34.5%
State benefits	898	856	802	734	651	558	-37.9%
Other	41	34	34	34	33	34	-17.1%
Total	3,545	3,585	3,556	3,607	3,581	3,609	1.8%

Source: APACS

9. In terms of usage, APACS told us that "nearly two-thirds of adults are regular cash machine users, with the proportion rising to 90% in the 25-to-34 age band. Usage is lower as one moves up the age range and along the socio-economic spectrum. This reflects the fact that direct receipt of cash in state benefits and pensions is a higher proportion of income for the over-65s and for adults in socio-economic groups D and E, and hence there is less need to get cash from a cash machine."[13] However, usage by these groups is likely to increase over future years due to the Government's programme of 'Direct Payment' of benefits into bank accounts, replacing the benefit book system. By May 2004, 65 per cent of the Department of Work and Pensions' customers were being paid all their benefit entitlements by direct payment and the department is aiming to raise this figure to 85 per cent by December 2005. APACS told us: "The Direct Payment programme is expected to have a significant impact upon cash machine use. Some of the customers who previously went to the Post Office to receive their state benefits or pensions in cash will switch to cash

10 This is when payments are measured by volume, given the importance of low value payments in cash usage; when measured by value, less than half of payments are by cash.

11 Ev 87 para 5.2

12 ibid.

13 ibid.

machines once these payments are made directly to their bank account giving the Government considerable cost savings."[14] We discuss the impact that this may have on benefit recipients in the section of this report discussing financial exclusion. **Cash machines are the most important method of cash withdrawal in the UK and are used by millions of consumers every week. Projections from APACS indicate that cash machines will continue to be an important source of cash for many people for the foreseeable future. The move to Direct Payment of benefits will result in many benefit recipients using cash machines to access their benefits.**

The Cruickshank review

10. In November 1998, the Government set up the Banking Review, an independent investigation of banking services in the UK led by Mr Don Cruickshank.[15] The review looked at levels of innovation, competition, and efficiency in the industry and how well it served the needs of business, other consumers and the UK economy. Its final report was published on 20 March 2000. The Treasury told us that "the Cruickshank report noted that there was very little relationship between prices charged in the ATM industry and underlying costs. Interchange fees were heavily weighted against smaller players, especially firms who might want to specialize in [operating ATMs], and issuer charges were both discriminatory and opaque".[16] For example, Cruickshank noted that the large banks were charging their customers either £1 or £1.50 for making withdrawals from certain ATMs, and that this was around "five to six times above the price they are paying as an interchange fee to the ATM owner".[17] To avoid these inflated issuer charges, customers were also face with increased transaction costs in terms of time spent searching for and travelling to the right ATM.

11. Another concern raised by Cruickshank was that the rules operated by the LINK network acted as a substantial entry barrier to the ATM industry. In particular he highlighted the fact that firms wishing to supply ATMs without also issuing cards were prevented from becoming members of LINK. This, in practice, meant that only large banks and building societies could operate cash machines. In February 2000 the LINK board made the decision to open up membership to non-card issuers, a change which allowed the independent ATM operators to become members.[18] Several witnesses noted that this rule change had been an important factor leading to the growth in charging cash machines over the last four years.[19]

12. There were also concerns that allowing both card issuers and ATM owners to make charges could result in customers being effectively charged twice for the same transaction. At that time a small number of banks were charging their own customers a fee (an issuer fee) for using machines that were not owned by the customer's bank. Other banks levied a

14 Ev 88

15 *Competition in UK Banking: a Report to the Chancellor of the Exchequer*, Mr Don Cruickshank, March 2000 (TSO)

16 Ev 112 para 2.2

17 Cruickshank report, para D 4.82, page 293

18 Although before that date it was possible for operators to gain access to the LINK network by obtaining sponsorship from an existing member.

19 Qq 426, 429-430, 257

surcharge fee to non-customers using their machines. In some cases, it was possible that the customer could have been charged twice for one transaction. From July 2000 LINK members agreed to ban double charging so that an ATM user could not be charged by both their card issuer and the ATM operator. In late 2000, following a great deal of public scrutiny, including pressure from Parliament, consumer groups, and Nationwide Building Society, virtually all high street banks agreed not to levy a charge on any customers withdrawing cash from another bank's machine.

13. The cumulative effect of the changes made as a result of the Cruickshank review resulted in the ATM market developing with a recognisable split. There is generally no charge for a cardholder withdrawing cash from their bank account at a cash machine operated by the major bank or building societies. Opening up the cash machine market to non-banks allowed the Independent ATM Deployers (IADs) to enter the market and provide cash machines which typically levy a surcharge to the consumer.

The costs of ATM provision

14. There are costs involved in running the number of cash machines across the UK, with a range of different elements. Witnesses[20] told us that these included the purchase and installation costs of the machine, site rental, repairs and maintenance, cleaning, communication costs, cash delivery and replenishment, insurance and security, rates, and the opportunity cost of the cash in the machine. LINK told us that "the typical cost of operating a free [i.e. non-charging] machine is £19,000 per annum at a branch and £33,000 at other locations. The typical annual cost of operation of an ATM installed by an independent deployer is £9,500".[21] These figures are averages, and the individual cost of a cash machine can vary widely, depending on location and transaction volume. Also, a through-the-wall machine would be more expensive to install than a free-standing machine. Mr Higgins, of RBS, told us that the annual running cost of a free-standing ATM was "about £25,000".[22]

15. The provision of cash through an ATM is considerably cheaper to the bank or building society which holds the account than if a customer makes a withdrawal from a branch by using a pass-book or cashing a cheque. The Cruickshank report noted that the cost to a bank of a branch-based withdrawal undertaken over the counter was over three times as much as an ATM withdrawal,[23] using figures taken from a 1996 APACS report on *The cost of Money Transmission*. Although APACS indicated that they had not updated the work in the interim, HBOS and RBS confirmed that the estimate was still about right for their banks.[24] The figures are shown in the chart below. **Cash machines are not a service from which only the consumer is the beneficiary. They also help banks by providing a cheaper alternative to bank counters or branches for the provision of access by customers to their accounts**.

20 Ev 89 and Ev 120

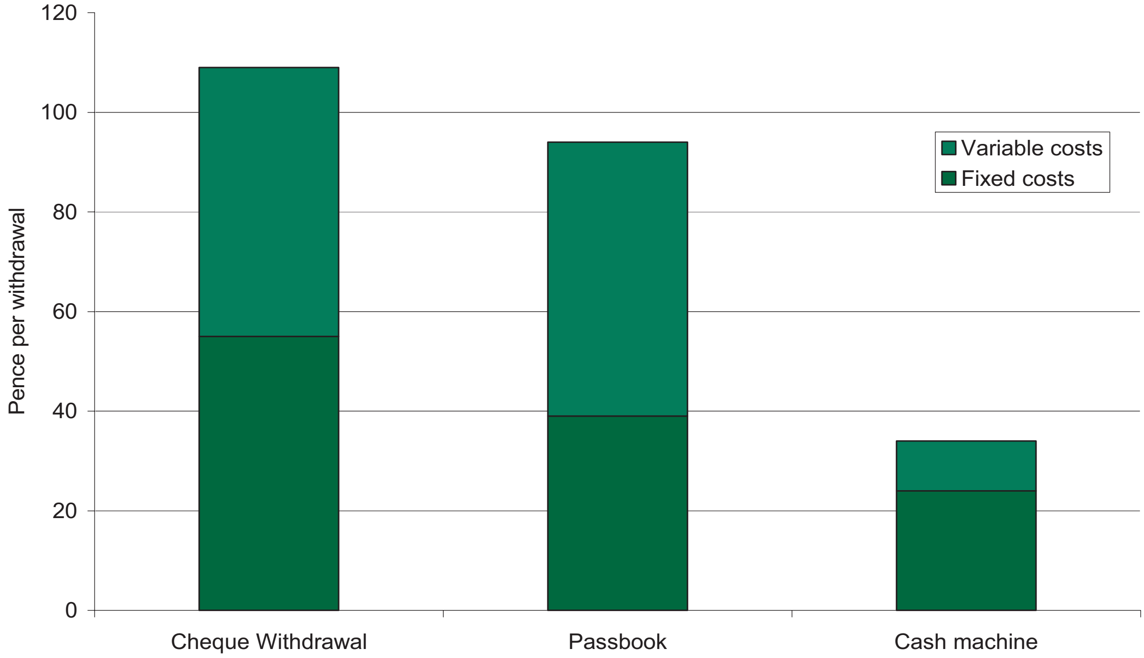
21 Ev 121

22 Q 355

23 Cruickshank Report, para D 4.34, page 283

24 Q 322

Chart 1 : Unit costs of cash withdrawal



Source: APACS, The Costs of Money Transmission, 1996

2 The principle of charging

Approaches to the funding of ATM provision

16. The provision of cash machines has a cost that needs to be funded through some mechanism. A number of different approaches to funding have been suggested:

a) by the banks as part of the provision of banking services (with universal free access sustained by the interchange fees);

b) through direct payment by consumers, in the form of surcharging;

c) by the site owner (at least in respect of capital and operating costs), as a means of attracting custom to their business;

d) through advertising on the machine, both for the services provided by the banks and through the sale of advertising space to third parties;

e) through the savings which banks make from any reduction in bank branches and cashiers;

f) by spreading the large fixed costs of the cash machine through the provision of other services such as mobile phone top-ups.

17. Each of these methods of funding ATMs will have advantages and disadvantages, for banks, consumers and site owners, with different implications for efficiency and fairness. Different models may be appropriate for different locations. Mr Crosby, of HBOS, told us that it was important to emphasise that "there are two business models. There are high volume, low margin machines which are the traditional free machines…and there are the more convenience orientated low volume charge based machines."[25]

18. One of the key arguments put forward by charging machine operators was that the introduction of charging has allowed cash machines to be installed in places that, due to their low footfall, would not have justified a free machine. This introduction of charging machines has increased the overall ability of the public to access cash. TRM, one of the independent operator companies, told us that they "had been deploying cash machines in many locations where there had previously not been a machine. These deployments are driven by consumer demand and simply offer consumers an additional convenient choice of access to cash".[26] When the independent charging operators began the installation of charging cash machines in 2000 and 2001, LINK noted that "The new machines will be situated in 'convenience' sites that have not previously justified a cash machine".[27] Nationwide were concerned that in practice what observers understood by the word 'convenience' may have changed in the intervening years. They told us: "The locations where charging machines are found have multiplied, and they are now in busy motorway service stations, shopping centres, petrol stations, bars, Post Offices, railway stations,

25 Q 257

26 Ev 153

27 LINK press release, 2 March 2001

hospitals and cinemas. In some locations charging machines may even be found alongside free ones. Charging operators will describe these locations too as ‘convenience’, but in such busy areas as a motorway service station or a main shopping centre it would be difficult to argue that a free machine would be unprofitable.”[28] Mr McNamara of Moneybox believed that convenience was probably the wrong word, telling us “there is a high degree of consumer choice. In some cases there may be a long way to go to a free machine: in other cases the physical distance may not be great, but the consumer is prepared to pay the cost of the charge rather than travelling a small distance”.[29]

19. Mr Cullum of the National Consumer Council told us that he was concerned about the term ‘convenience’. He told us that there are high streets in London which have lots of banks that are free and if the consumer “is in a shop or a pub or a shopping centre and [they think] ‘Do I want to pay £1.50 and use the machine that is nearby or do I want to walk a couple of hundred metres down the road?’ – that is clearly a matter of convenience and that is a useful option for consumers to have”. He thought that “when we are talking about areas where there are not any banks and the charging machines are the only ones which are there, whether that is a low-income area or a rural area, there are much more severe issues, and I think it is unhelpful to talk about those as being convenience; this is about access”.[30] We examine the financial inclusion aspects of this in more detail below, in a separate section.

20. Even witnesses with concerns regarding the growth of charging machines recognised that there was a place for them in certain locations. The Campaign for Community Banking Services told us that in principle it had no objection to charging machines in “super convenience locations such as pubs, clubs, hotels and neighbourhood stores”, provided free access was maintained in other places.[31] Which? told us that their general view was that “surcharging ATMs are an acceptable way of delivering cash to consumers in certain circumstances, on the condition that: they do not encroach on the free ATM estate, endangering consumers’ free access to their money; the surcharge is fair and reasonable; and [the cash machines] are suitably labelled”.[32] However they did not believe that these three conditions were being met currently.

21. **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.** In a world of increasing numbers of charging machines, it

28 Ev 137

29 Q 436

30 Q 1

31 Ev 103 para 5.1

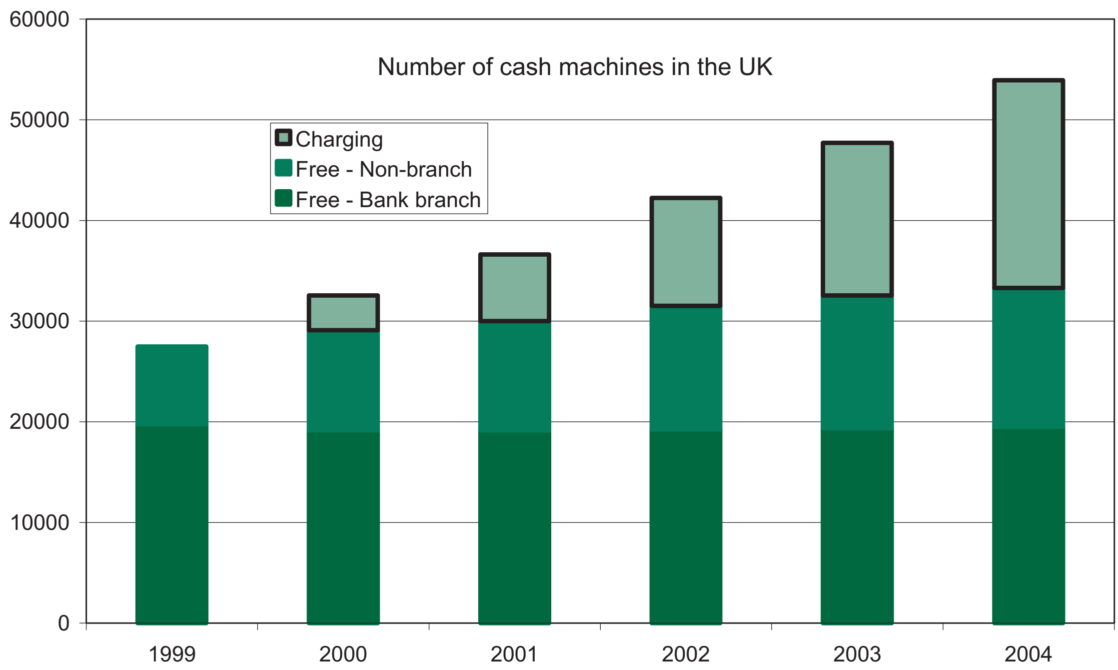
32 Ev 160 para 4.2

is also vital that consumers are equipped with clear information concerning whether a machine charges and the amount of the charge, so that they can make an informed choice about which cash machines to use. We discuss this issue in section 3 below.

The growth of charging cash machines

22. The strong growth of charging cash machines has occurred since the year 2000, with growth rates of over 25% in each of the past four years. LINK told us that the number of charging cash machines reached 19,569 in October 2004. Charging cash machines now account for 37% of the total number of cash machines in the UK, and over 60% of the cash machines that are not located in bank branches. Chart 2 below shows how the number of charging and free cash machines has changed since 2000, distinguishing in respect of free machines between those located in bank/building society branches and non-branch (or 'remote') machines.

Chart 2 : Number of cash machines in the UK

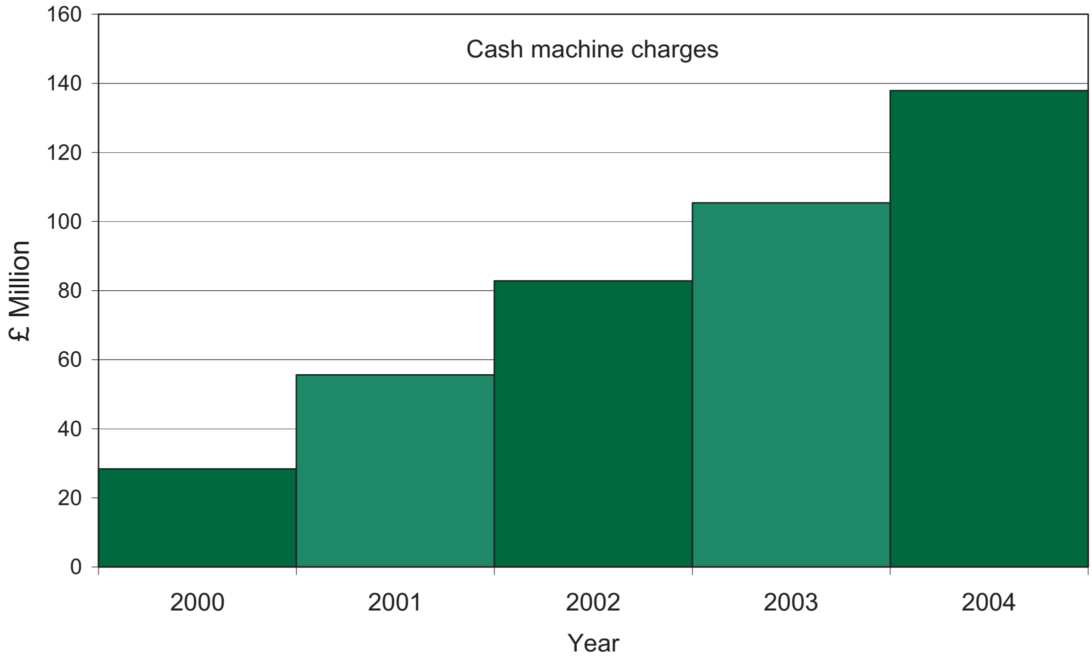


Source: based on figures from APACS, ATM Survey 2004 & LINK, Ev119

23. However, charging cash machines have a much lower volume of transactions than the typical free machine. In October 2004, 8.8 million cash withdrawals were made at charging machines—3.6% of total cash withdrawals. Despite being a low proportion of the total number of withdrawals, the amount consumers are paying in charges is already significant: Nationwide estimate that in the 12 months to October 2004 consumers paid charges of around £140 million.[33] Chart 3 below shows estimates of how much consumers have paid in cash machine charges over each of the past five years.

33 Own calculations, based on LINK data

Chart 3 : Cash machine charges incurred by the public (£ million)



Source: Committee calculations, based on LINK data

24. Many of our witnesses repeatedly made the point that alongside the strong growth of charging machines since 2000 the number of free machines had also risen. Alliance and Leicester told us: "The increase in the number of surcharging ATMs in the market over recent years has not been at the expense of [free] machines. Most surcharging ATMs are new ATMs and the number of 'free' ATMs installed has increased significantly over recent years."[34]

25. However, while there has been an increase in the number of free machines, it does not automatically follow that there has been a commensurate increase in the number of different sites at which the general public can access free cash. One reason for this is that some of the new machines are in locations—such as casinos, betting shops, amusement arcades and bingo halls—which do not have general public access. The number of such machines is not clear but is not insubstantial and may account for over one seventh of the growth in the number of free machines since 2000.[35]

26. Potentially even more significant, extra free machines do not translate into an increase in access to free cash withdrawals if they are all concentrated in the same locations. Busy locations such as major transport interchanges will attract a large number of machines.[36] For example, a free machine in London's Victoria station may be undertaking around

34 Ev 79

35 The LINK database indicates that there are currently around 700 free machines in such locations operated by the independent deployers rather than the banks; this makes it highly likely that they have been installed since 1999/2000.

36 The Cruickshank report pointed out that using methods of average costs to work out the interchange fee "provides only a weak mechanism for efficient suppliers to drive out inefficient suppliers. It also creates a source of economic rents for relatively efficient suppliers. This can lead to over supply of ATMs in particular geographic areas as suppliers chase these rents". (Cruickshank report, para D4.77)

15,000 cash withdrawals every month,[37] which at the current level of interchange fee could generate up to £70,000 each month for the ATM owner. Even though the machine may be serving adequately the needs of the public, another operator would have a strong incentive to place another ATM alongside the existing machine. If the transactions were split equally between them, each ATM owner would generate around £35,000 in revenue, which would still be in excess of the average cost of operating a non-branch machine.

27. We asked banks to what extent the growth in the number of free machines had been driven by the increased concentration of free machines. Mr Crosby, for HBOS, did not know but stated that, while increased concentration was "obviously a factor", "whenever we put another machine in it is always because the first one is too busy in practice."[38] Some increased concentration may be taking place at bank machine branches themselves: the total number of branch machines has risen slightly, despite closures of branches over the intervening period. There is other anecdotal evidence of increased concentration of free machines. To take another station as an example, while London Underground's Westminster station used to contain one free cash machine, three additional free machines have been installed in recent years. While provision of extra machines at existing sites represents an increase in the total number of free machines, it is difficult to argue that it is extending access to free cash withdrawals.

28. **The number of charging cash machines has grown strongly in recent years, reaching 37% of the total number of cash machines in the UK. Although only accounting for around 3.6% of total cash withdrawals in October 2004, it is estimated that over the past twelve months consumers have paid around £140 million in cash machine charges. The number of free machines has also increased in recent years. But while this should represent an increase in consumer choice of non-charging locations for cash withdrawals, there is some question—because of such factors as increased concentration of machines—of how far this is actually the case. There is a need for LINK to conduct research to assess the extent to which the growth in free machines has increased access to free machines in terms of the number of generally available and genuinely different sites.**

Prospects for the future of the free estate of ATMs

29. There are a range of factors affecting the way the ATM market is developing. Some of these place potential pressures on the extent of the estate of free machines. We examine some of the main factors in the paragraphs which follow.

Machines in bank branches

30. Many bank and building society branches contain either free-standing machines inside the branch in the lobby or customer area, or machines mounted on the outside of the building in a 'hole in the wall' and accessible by customers 24 hours a day. There are around 19,500 machines located at branches, with virtually all of these being free to use to all cardholders of UK accounts. Branch-based machines have a number of advantages for

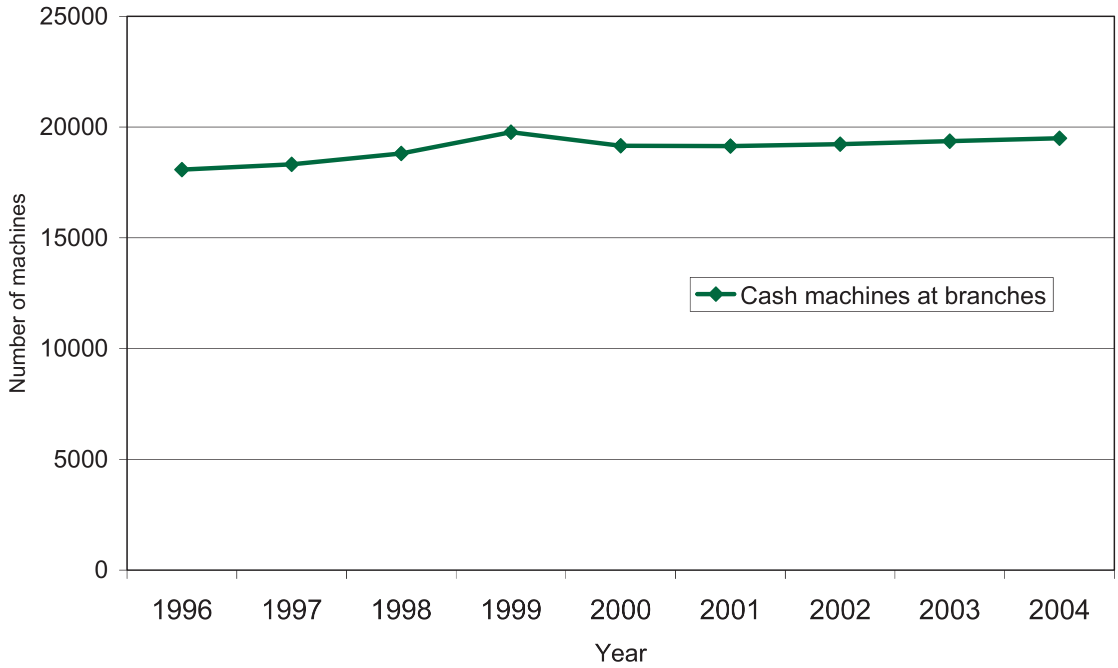
37 Mr Higgins told us that some free machines undertake as many as 30,000 transactions per month. The busiest ATM in the country is in London's Liverpool Street Station

38 Q 343

the banks compared to non-branch machines. They are significantly cheaper to operate than non-branch machines: as already noted, the average branch based machine has operating costs of £19,000 a year, compared to £33,000 for a non-branch machine. Branch machines can be protected by the bank's existing security arrangements and can be filled by the bank's staff without the need for separate cash deliveries. There is also little space rental cost associated with the machine and no need for contract negotiations with any third party site owner. Finally, it is cheaper for the bank if its own customers use the ATM rather than undertaking a withdrawal at the counter, allowing the bank to save on staff costs or free staff to sell other financial products.

31. The chart below indicates that the number of branch-based cash machines has remained broadly constant in recent years. There has been some shift from indoor machines in the lobby area to through-the-wall machines. As already noted, there are indications of increased concentration of free cash machines within branches: analysis of the LINK database indicates that almost 3,000 of the free cash machines are concentrated in around 650 branches that contain 4 or more free ATMs.

Chart 4 : Number of cash machines in bank and building society branches



Source: APACS, ATM Survey 2004

32. Which? told us that they "have not observed any incidence of branches removing all their free ATMs or replacing them with surcharging ones". They believed that it was "unlikely at this time that banks and building societies will start removing free ATMs from their branches. We think that, although the overall number of branch-mounted ATMs will continue to decline, the free branch ATM network is assured as long as the branches themselves continue to exist and there remains a sizeable non-branch free ATM network".[39] Many of the individual banks that responded to our inquiry told us that they were committed to the provision of free cash machines within their own branch estate. Indeed due to the economics of a branch machine there would seem little incentive for the

39 Ev 157

banks to introduce charges as this would cause more customers to conduct the transaction within the branch, costing the banks more. **The number of free cash machines located in bank and building society branches has remained broadly constant in recent years. Given the continuing numbers of branch closures, it is likely that this has resulted in an increased concentration of the remaining free machines inside a lower number of branches. Provided the LINK agreement remains in force and banks continue to offer free banking for personal customers, at present there seems little threat to continued free access to all cash machines located in bank and building society branches.**

Conversion of non-branch sites to charging by independent operators

33. We heard evidence that charging operators were seeking to take over sites where machines had previously been free, in order to install charging machines. Nationwide told us that they were concerned by the "aggressive approach of charging operators who seek to expand their networks by taking over sites where banks and building societies currently operate free cash machines profitably. Charging operators offer the site owner financial inducements to replace free cash machines with charging ones."[40] Other banks agreed with this analysis. RBS told us that "Providers of free ATMs are already being forced out of sites and these converted to charging units by the retailers".[41] Barclays told us that it was "increasingly difficult to compete with the new independent ATM firms when tendering for new non-branch sites. Prime locations, such as motorway service stations, attract very high tender prices and we expect this to continue. Often only independent operators, who raise income from charging consumers for using their ATMs can economically justify paying these higher prices for prime sites".[42] An example of this process is the removal by Welcome Break of 14 Natwest ATMs and their replacement with charging machines in early 2004;[43] Nationwide also told us that at 30 sites their free machines had been replaced by charging machines since early 2004.[44]

34. We sought to examine the extent to which the trend of free machines being replaced by charging machines would continue. Mr McNamara of Moneybox told us that he did "not think it will accelerate indefinitely, because markets seldom work that way, they usually peak out at some point in the future where the economics no longer reward the prices being paid… As a trend it will continue for a time".[45] Mr Higgins, for RBS, told us that "So far it has been relatively isolated" but "There will be more of it because it is a free market and market pressures will create that".[46]

35. Which? believed that "although free ATMs in busy central public spaces seem fairly assured at this time…it is possible that free ATMs in quieter low volume places are under threat."[47] As an illustration they gave a simple example using two ATMs, one located in a

40 Ev 136

41 Ev 149

42 Ev 96

43 Ev 150

44 Ev 174 para 10

45 Q 499

46 Qq 274-275

47 Ev 165-166 paras 7.2, 7.8

"busy mainline station where there are two other free ATMs and considerable footfall", the other "in a quieter service station outside a small village with only surcharging ATMs within a 2km radius". They saw the perspectives in such a situation as follows:

- Charging operator: The quieter service station is more attractive because competition against free ATMs for the potential footfall is limited. In the case of the mainline station, footfall is greater, but there is competition with free ATMs.
- Bank: The quieter service station will be a less attractive site. Although the rent will be cheaper, the lower volume will mean less revenue from the interchange fee. The remote location will mean higher costs of cash supply. The mainline station will have a higher rent, but significant footfall and revenue from the interchange fee.

36. During our evidence session there was some discussion about the type of sites that may be transferred to the charging operators. Mr Delnevo, of Bank Machine, pointed out that for a bank "3,000 transactions a month is a low transacting ATM for one of their free ATMs…low for a charging machine is 200-300 transactions every month".[48] Mr Dean of TRM indicated that "it is probably realistic" that there would be a trend for sites with low usage by bank standards over time to shift to independents.[49] Mr Delnevo, however, regarded it as a "marginal issue" as the "banks have very few ATMs in that category at the moment".[50]

37. **The independent charging operators are engaged in a commercial attempt to expand their business. While this will result in cash machines in previously unserved or "greenfield" locations, it will also result in a trend of free machines being forced out of sites and replaced with charging machines. There was a consensus that the trend of free machines being forced out by charging ATMs would continue, although there were different views as to how far. Quieter low volume locations, with no other free ATMs or bank branches nearby, may be at particular risk of conversion to charging.**

Pressure on banks to sell off free machines to charging operators

38. There are commercial pressures which can arise for banks to sell off non-branch machines to charging operators. Two examples of this happening are the sale of 816 non-branch machines by HBOS to Cardpoint, and the sale by Abbey of 50 machines located on Shell petrol station forecourts to Moneybox. Table 2 below shows the available information indicating the prices paid for these machines:

Table 2: recent sales of ATMs by banks to independent operators

Transaction	Date	Number of machines	Price	Price per machine
HBOS to Cardpoint	May 2004	816	£50,600,000	£61,500
Abbey National to Moneybox	2002/03	50	£1,100,000	£22,000

Source: Moneybox Ev 127; Cardpoint 2004 annual report, page 8. Note that the exact amount payable by Cardpoint to HBOS will depend on how many of the 816 cash machines are converted from free to charging

48 Q 572

49 Q 576

50 ibid.

39. HBOS told us that they "carefully scrutinised the sale of our remote ATM network…In doing so we were very mindful of our broader responsibilities to the communities we serve. As a result, cash machines in hospitals and public spaces like museums and galleries were excluded from the sale. We also retained ATMs in communities where there is no other free banking service available. It is worth noting that, of the machines that were bought by Cardpoint, 73% are within 1.6km of a free ATM and 92% are within 3km".[51] We note that this means that for around 220 of the machines there is no other free machine within one mile, and that for 65 of the machines there is no other free machine within approximately two miles.

40. Which? noted that the free machines sold amounted to 83.1% of HBOS's non-branch network. They told us that "The sale also follows a period of consistent decline: between 2001 and 2003 [HBOS] shed nearly a third of its remote network prior to the sale".[52] Table 3 below shows the number of non-branch machines operated by HBOS and how it has changed over the past four years. Consumer groups regarded the sale by HBOS of free machines and their conversion to charging as a worrying development. Mr Cullum, for the National Consumer Council, asked "What does that say about the mindset of the banks?"[53]

Table 3: HBOS non-branch ATMs (number of machines)

	2002	*2003*	*2004*	*2005*
HBOS–Remote cash machines	1440	1368	982	166
Percentage change (on previous year)	--	-5.0%	-28.2%	-83.1%

Source: Which?, Ev 170, based on figures from APACS

41. Some of the dynamics at work in the market are well illustrated by the HBOS/Cardpoint deal. We have therefore looked at some of the economics of the machines that had been transferred to Cardpoint and how they would alter if the machines were converted to charging. Cardpoint indicate that the average number of transactions at the machines sold by HBOS was around 9,400 a month prior to the sale.[54] Assuming a breakdown of transactions of around 6,700 LINK cash withdrawals, 2,400 balance enquiries and 330 rejected transactions (which we understand to be fairly typical in the industry) and applying the relevant LINK interchange fees gives an estimated possible annual revenue of around £30,000 for each of the free machines.[55] It should be noted that HBOS would have received less than this, as it only receives interchange fee income when non-HBOS customers use the machine. As there are no figures for how many of the transactions were undertaken by HBOS customers, it is not possible to calculate how much revenue each of these cash machines was generating for HBOS. However, HBOS is a major bank with around 11% of the current account market, and if we assume that around 20% of the transactions were undertaken by HBOS cardholders then the average revenue per free machine that was received by HBOS in the year before the free machines were sold would have been around £24,000. While these figures indicate that, prior to the sale to

51 Ev 108 para 2.2

52 Ev 165 para7.5

53 Q 2

54 Cardpoint plc *HBOS remote acquisition* press release 26th May 2004, page 6, www.cardpointplc.com

55 One industry estimate (by Evolution Beeson Gregory) was an average revenue of £32,000

Cardpoint, the free machines would on average not be supremely profitable for HBOS, they could have been commercially viable if run by a lower cost provider. HBOS would have had a number of alternatives to selling them to a charging provider. They could have explored an out-sourcing agreement in an attempt to reduce costs, and indeed this was a route taken by Bradford & Bingley building society, when it out-sourced the running of its cash machine network to Moneybox. These machines could then have remained free. Alternatively it could have explored an outright sale of the machines to another provider, with guarantees that the vast majority would remain free.

42. At the time of our hearing Cardpoint indicated that they planned to introduce charges at around 250 of the 816 cash machines. We asked Mr Mills, Cardpoint's Group Chief Executive, whether it was likely that more of these machines would be converted to charging. Mr Mills told us that "If I were to hazard a guess, I would say that probably more will—that was the point of doing the deal".[56] He told us that Cardpoint "will convert as many of them as we can subject to the fact that we will leave free machines where the consumer demand is such that it is viable to operate one profitably", although he added the caveat that "free machines which are profitable are not as profitable as charging machines".[57] Mr Mills indicated that, when the machines were converted to charging, the number of withdrawals went down by around 50%. If we assume that the 250 machines that will be converted to charging are lower volume machines with perhaps an average of 3,000 to 4,000 withdrawals prior to charging, then after conversion the number of withdrawals would be between 1,500 and 2,000 per machine. At £1.50 per withdrawal, the total charges paid by consumers would be between £27,000 and £36,000 per machine. For 250 machines this totals between £7 million and £9 million each year; if around 400 of the machines are in due course converted, then the total fees paid by the consumer could reach £14 million each year.

43. When asked whether he was happy that 250 of the previously free machines had already been converted to charging, Mr Crosby, HBOS's Chief Executive, told us that it was "fundamentally a matter for Cardpoint, but I think that [was] in line with our expectations".[58] However, Mr Crosby pointed out that "well over 80% of the 816 machines were under a contract that was going to come up for renewal by 2006... it is unlikely that in the face of competition we would have sustained the position in an open tender because the dynamics of those machines, particularly those 250, would have changed at that stage."[59] Mr Crosby believed that even if HBOS had not sold these machines their conversion to charging would "almost certainly have happened within a relatively short space of time".[60]

44. The available information indicates that the deal was profitable to HBOS. As noted above, the average selling price per machine was around £60,000, which compares favourably to a cost of purchasing and installing a new machine of around £30,000. Mr Mills indicated that the amount payable to HBOS would be greater, the more machines

56 Q 476

57 Q 492

58 Q 305

59 Q 306

60 Q 308

were converted to charging.[61] The HBOS results for 2004 stated: "Profit on Sale of Fixed Assets: The £23m profit on sale of fixed assets represents the gain arising in the period to 31 December 2004 on the disposal of cash machines situated in locations remote from the Group's bank branches".[62]

45. **The sale of 816 free machines by HBOS and the conversion of around 250 of them to charging is a noteworthy development. Banks and building societies, as with HBOS in this case, will have an incentive in terms of profit-generation to go down this route, with the consequences in terms of higher charges being picked up by the consumer. If others follow suit, there could be conversion of a large number of free ATMs to charging and significantly lower access to free cash withdrawals for many consumers. There may be alternatives to such deals which would result in the continuing availability of free cash withdrawals at some of these locations, although we note comments from Mr Crosby that if HBOS had not sold many of these machines, they would have been forced out of the sites anyway over the next two years.**

Effects of the interchange fee

46. The interchange fee paid by the card issuer to the ATM owner to cover the cost of the services provided is currently set at around 30p for cash withdrawals (with different fees for balance enquiries and rejected transactions). LINK rules mean that, for a cash withdrawal, ATM owners levying a surcharge to the consumer do not receive the interchange fee. Moneybox made a detailed submission regarding the effect of the interchange fee, which they believed was producing "unforeseen distortions and negative anti-competitive consequences". They believed that the interchange fee arrangement had the effect of "setting payments to owners of remote ATMs at a level which make it totally uneconomic to operate a portfolio of remote ATMs with low transaction volumes." They noted that the LINK rules—under which ATM operators either receive the interchange fee or make a direct charge to consumers but not both—mean that, in respect of low footfall machines, "since all these machines are therefore forced to use a charging model, the card-issuing banks get an extra benefit—they pay no interchange fee at all to the ATM owner. Banks therefore profit from the fact that their customers use ATMs [which] charge".[63]

47. The OFT gave us an overview of their consideration of the LINK agreement. They considered that the interchange fee agreements fell within the scope of Chapter 1 of the Competition Act 1998 prohibiting agreements between undertakings which prevent, restrict or distort competition, unless the OFT considers the arrangements might benefit from an individual exemption. An exemption could apply to any agreement which "contributes to improving production or promoting technical or economic progress, while allowing consumers a fair share of the resulting benefit; but does not impose on the undertakings concerned restrictions which are not indispensable to the attainment of those objectives; or afford the undertakings concerned the possibility of eliminating competition in respect of a substantial part of the products in question." In relation to the first test, the OFT considered that a universal network of ATMs may not have been workable without

61 Q 498

62 HBOS, Preliminary results 2004, 2 March 2005, page 18

63 Ev 124 para 2.21

the use of interchange fees because of free rider and technical efficiency effects. In relation to the second test, the OFT considered that "LINK members were able to spread the costs of the provision of ATM services across a larger number of users by providing universal access to cardholders. This meant that they were able to increase the number of ATMs that could be used by cardholders without incurring significant investment costs."[64] The OFT accordingly allowed an exemption for the LINK agreement.

48. Moneybox told us that they believed "the consequence of these agreements has paradoxically been to encourage the major banks and building societies to reduce their ongoing investment in remote ATMs, as there is no longer any commercial benefit in deploying and maintaining machines which generate low transaction volumes. And equally perversely, the methodology of calculating the [interchange fee] has indeed encouraged efficiency savings, but by incentivising banks to prune the numbers of low revenue generating ATM machines, most of them in remote locations." They believed that the current arrangements should be reviewed to "allow interchange fees to be paid to owners of charging machines, subject to the proviso that the total charge to the consumer should be reduced pro rata; and to allow interchange fees to be calculated on a basis which reflects the nature of the location used for withdrawal and, potentially, the circumstances of the individual making the withdrawal." [65]

49. Which? noted that a consequence of the interchange fee arrangement was that, when a free machine was sold by a bank to an independent operator, it was in the bank's interest that the machine was converted to charging. If the machine remained free then the bank would have to pay the interchange fee every time its cardholders used the machine. They noted that "Over time this can amount to a false economy for the seller, eclipsing any gain on the sale. So it's in the seller's interest to ensure that the machines sold are most likely to be converted."[66] Although Mr Crosby, for HBOS, acknowledged this point, he believed that it was "a marginal difference and it is small in relation to the fees that are being charged to make these remote locations sustainable".[67] As it is both a major bank and owner of Hanco (the largest charging machine operator), RBS is uniquely placed to comment on whether charging operators should be allowed both to receive the interchange fee and to impose a surcharge. Mr Higgins told us that "Hanco has not put forward that view. Needless to say, it is a dynamic market, as we have seen over the last few years, so things could change. As it stands today Hanco is not putting that forward".[68] Mr Crosby told us that "I do not think we would support it in practice…"[69]

50. There is a legitimate concern that if the charging operators were allowed to keep both the interchange fee and the customer surcharge, then there would simply be an expansion in their profits. The OFT observed that if ATM owners were able to benefit from both fees then "this could lead to over-recovery of costs and would be detrimental to transparency."[70]

64 Ev 117

65 Ev 125 para 2.24

66 Ev 166 para 7.7

67 Q 336

68 Q 341

69 Q 342

70 Ev 117

Such fears might be addressed in part through a system by which, instead of the interchange fee going to the operator, it was rebated by the bank (in whole or part) to the customer as the withdrawal was made. Such an approach might not, however, be the most efficient way of encouraging the provision of free machines in low-footfall locations—for example, because implementing a blanket requirement for banks to pay the interchange fee (whether to the charging machine operator or the customer) would result in banks paying for transactions undertaken in many areas where there was an existing network of free machines.

51. **The mechanism by which the interchange fee is calculated may give banks an incentive to pursue efficiency savings by reducing the availability of free cash machines in low footfall areas, although there were differences of opinion amongst witnesses about the significance of this incentive. We are not, however, persuaded that allowing the charging operators to receive the interchange fee, in addition to the surcharge, would be an efficient way of addressing the issue.**

The role of the site owner

52. It became apparent during the inquiry that the attitude of the site owner was very important in determining whether a machine was free or charging. Lloyds TSB told us that "there is a market for non-branch based cash machine sites, and cash machine providers compete for these sites. The interests of the site owner are central to this market and should be factored in to any review towards charging. A site owner's decision to remove a [free] cash machine and replace it with a charging one, possibly benefiting from a share of the income from charges and higher rent, usually is outside the control of the cash machine provider."[71]

53. Looking at the decision from the site owner's perspective, there will be a number of factors to consider in deciding whether to install a free or charging machine, illustrated in the box below:

Free Machine	**Charging machine**
The site owner will receive some rental income and a small amount of money per transaction. The free cash machine will act as a strong driver of customer footfall and increase the catchment area of the site. Customers will spend some of the money they withdraw within the site owner's business.	The site owner could receive more money in rental income and will receive a proportion of the revenue from the charge. The machine will be less of a footfall driver and if less money is withdrawn less may be spent in the business. There may also be some negative customer reaction to charges.

54. Cash-reliant businesses (such as casinos, betting shops, bingo halls and amusement arcades) may also have a strong incentive to introduce a machine, as a consequence of the way the clearing system works. If customers use credit or debit cards to obtain cash from these businesses then the business pays a charge to the bank. If, instead, the business acquires a cash machine (which they keep stocked with cash) then the bank will pay them the interchange fee each time a customer uses the machine. If it is a charging machine then the site owner and the operator will share in any surcharge revenue, to the extent specified by the terms of the contract between them.

71 Ev 122

55. Illustrating the significance of the role of the site owner, Barclays observed "It is noticeable that on sites belonging to… Network Rail and London Underground non-charging ATMs are found, whereas other organisations, including the Post Office, have charging ATMs on their premises".[72] Mr Higgins told us that RBS "were very keen to have our remote machines in high footfall sites, we do not want to have them removed. The reason they have been removed is not at our request", but at the decision of site owners arising from their negotiations.[73] **The attitude of the site owner is very important in determining whether a cash machine on their premises is free of charging. In some circumstances site owners will identify a financial advantage in introducing charging rather than free machines. This adds a further concern over the long-term sustainability of a comprehensive free network.**

56. A great many ATM machines are on sites owned by the public sector (or quasi-public sector). During the inquiry, the example of Doncaster mainline station was raised. According to the LINK database, the station contains two cash machines which levy a charge of £1.35 per withdrawal. Mr Crosby told us that "it is unusual to see multiple charging ATMs on the same site. What you see there is very clearly the power of the owner of the site".[74] In respect of contracts for the installation of charging ATMs at stations, the Secretary of State for Transport has stated "The negotiation of contracts for the installation of ATMs is a commercial matter for Network Rail, the train operating companies who lease all but 17 of the stations on the national rail network and the companies wishing to install the machine at the stations."[75] In regard to NHS trusts, the Secretary of State for Health has indicated "National Health Service trusts are free to enter into contracts for the installation of ATMs on their premises. Whether users of ATMs are charged for doing so will depend on the policy of the financial institution providing the ATM".[76] In respect of the Ministry of Defence, out of 268 machines on military bases in Great Britain, Northern Ireland and Germany "257 levy a surcharge, leaving 11 machines that are free to use. The free machines are mainly located where troops are confined to base in some way, either for training or security reasons."[77]

57. **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.**

72 Ev 96

73 Q 344

74 Q 350

75 HC Debates, 21 Feb 2005, col 209W

76 HC Debates, 21 Feb 2005, cols 306-307W

77 HC Debates 26 January 2005 col 331W; this Written Answer also indicated that none of the machines are accessible by officers only.

Conclusions on prospects for the free estate

58. An important part of our inquiry has been to examine the dynamics of the cash machine market and try to assess what the future provision of cash machines might look like. Consumer groups were concerned as to where the trend in the number of charging cash machines would lead. Mr Baxter of Which? told us that it was "not inconceivable to see a situation in the future where virtually all the cash machines in the non-branch network are dominated by these charging independent providers."[78] Ms Perchard from Citizens Advice told us that there were public policy concerns where there is "a collision of a social policy interest with market forces and how do you get a balance between that, when you have consumers [with] different choices open to them and different abilities to pay, and a different experience of the charge proportionate to their transaction? We are perfectly legitimate in raising a concern that this might hit most heavily those people on the lowest incomes";[79] this comment illustrates the linkage between the general question of the case for free access, which we have looked at in this section, and the particular issue of those on low incomes, which we examine more fully in the section of this report on financial iexclusion.

59. In respect of the overall trend, Mr Crosby of HBOS emphasised that, as noted earlier, while 37% of cash machines currently charge, only 3.6% of total withdrawals are made at these charging machines. He told us that the number of charging machines "could be 50 per cent and if it were 50 per cent it would still be less than five per cent of volume… going through it. Arguably that would be more choice for still very little volume. There must be limits to how far it goes beyond that given the number of sites".[80] He believed that "It seems to us that provided the major banks sustain fee free ATM networks you are still going to get, in perpetuity, a very high percentage [of withdrawals from free machines]. It is the flip side of the concern that customers have that they do not want to be charged for it and provided there is sufficient access to the fee-free estate and there is adequate disclosure at the charging [machine] site they will be used purely for convenience."

60. Mr Delnevo, of Bank Machine, agreed that the percentage of withdrawals from charging machines would not go beyond 5% of the total number of withdrawals.[81] Mr Dean, for TRM, told us that "the short answer to the question 'Would you expect the [around 3%] to increase?' is yes, I think it probably will. To what point it is really difficult to say".[82] We asked independent charging operators whether they could envisage a situation developing where the free machines were largely in bank branches and there would be a move to a charging regime elsewhere. Mr McNamara, of Moneybox, told us that "Yes, in a quick word, I would imagine that still the vast majority of transactions at ATMs will remain free, as we have said, around 95%. I imagine there will be a growth of charged ATMs at low footfall locations, because of the economics of our type of deployment."[83]

78 Q 4

79 Q 13

80 Q 360

81 Q 431

82 Q 511

83 Q 458

61. Other witnesses disagreed. Mr Bernau, for Nationwide, noted the evidence suggesting a 5% ceiling, but believed it was a mis-conception and that "as the number of the so-called convenience machines increase you will see that 5% figure breached quite rapidly".[84] Nationwide told us that they were "reassured to hear competitors such as HBOS and RBS Group state so firmly their commitment to keep their own ATMs free. However, we believe that for a free network to remain viable, that commitment needs to extend beyond the promise to keep branch-based machines free. If more banks followed the lead of HBOS and Abbey in selling off some or all of their remote ATMs to charging operators, then ultimately free ATMs could be restricted almost entirely to bank branches. It could become the norm for non-branch ATMs to charge a fee, something which could have a serious impact on those living in communities without a bank branch, particularly those who are less mobile."[85]

62. The Minister told us that it was "very important that people should be able to obtain cash free of charge. I would be very seriously concerned if there was evidence that people, particularly those on low incomes, had no choice but to obtain their cash by paying for it. That is a very important public policy concern".[86] We asked the Minister if there was any point at which the proportion of charging machines would worry the Government. He replied that, as things presently stood, "it does seem to me that the market is working satisfactorily" but that "I think it is possible to envisage a scenario from here where, in a few years time there might be some problems". He noted: "In terms of the share of withdrawals that will come from charging machines, the latest figure is 3.6%. The figure is continuing to grow, although the rate at which it is growing seems to be tailing off somewhat. I am told by people in the industry that they would expect the proportion to stabilise at somewhere between 5 and 10%. I do not know exactly where it is going to be. That figure seems to me to be not inconsistent with a satisfactory state of affairs, but we will need to keep an eye on developments".[87] He told us that his "central concern continues to be whether people on low incomes have free access to their cash. If we saw that being placed in jeopardy as a result of large numbers of free ATMs becoming ATMs that are charged for, that would give me cause for concern."[88]

63. **The large network of free cash machines in the UK provides considerable benefits both to consumers and to the banks. We welcome continued commitments from major banks that they will not introduce charges for any of their machines. Currently, the availability of free machines at bank branches seems assured, although the overall number of bank branches may decline. However, 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.**

64. **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**

84 Q 623

85 Ev 174 para 6

86 Q 747

87 Q 757

88 Q 774

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.[89] 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 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.

65. Close monitoring will require access to accurate and up-to-date information on the number of free and charging cash machines. However, obtaining such information can be difficult. The central source of information is the LINK database, but there is a need for LINK to take steps to improve the quality of information. The database sometimes contains a number of inaccuracies concerning the location and status of cash machines, although more reliable figures can be provided by LINK using transaction data. Looking at how the pattern of cash machine provision has changed over recent years is not possible as LINK does not keep historic copies of its database. Information provided by LINK of the number of cash machines that have been converted from free to charging has occasionally contradicted that provided by the major banks. We have already noted above that it is not possible to assess the extent to which increased numbers of free machines were concentrated in fewer locations. It would also be useful to assess the extent to which undersupply in poorer and rural areas[90] has been met through an extension of free provision and to what extent it has been met by the introduction of charging cash machines.

66. **It would be extremely helpful, to enable government and others adequately to monitor trends in the cash machine market, for the quality of the LINK database to be improved. LINK should regularly publish on their web-site the number of free and charging machines and how the numbers have changed in recent years (indicating the numbers which have been converted from free to charging, and data on concentration of free machines), with information on the number of withdrawals that attract a charge. We also recommend that the OFT payments system taskforce should conduct research into the geographical distribution of cash machines as part of its work into the efficiency of payment systems.**

89 So long as transparency requirements are adequately complied with, an issue we discuss in the next section of this report

90 An issue identified in the Cruickshank Report, para D 4.84, page 293

3 Transparency

The principle of transparency in notification of charges

67. A lack of transparency surrounding cash machine charges can harm consumers in a number of ways. Consumers might unwittingly pay charges when they could have used a free machine near by. A lack of clear information also means that it takes longer for consumers to shop around to determine which machines are free and which charge. A lack of transparency will also hinder competition in the market for charging machines. In some areas there are several charging machines within a very short distance. At present, for the consumer to find out which is cheapest they would have to insert their card into each machine, enter their PIN and select the amount of withdrawal before cancelling the transaction and after testing each machine would then have to go to the cheapest.

68. Which? noted that "the charging machine industry had claimed that the ATM growth is driven by a clear demand from consumers who are prepared to pay the charge. In order for this to be truly the case, consumers would have to be aware that: the machine charges a fee, before they committed to investing time in the machine (queuing for example); the fee charged can be £1.50 to £1.75, amounting to upwards of 17% of the transaction if they are withdrawing £10; and that they have the option of using a bank or building society machine that levies no surcharge, but they have nevertheless chosen to use a surcharging machine."[91] **In areas where there is sufficient access to free cash withdrawals, it is fundamentally a matter of choice whether a consumer uses a charging cash machine. The industry has a duty to provide consumers with sufficient information to enable them to make an informed choice. Poor standards of transparency surrounding ATM charges are detrimental to consumers, in that they result in charges being incurred unnecessarily and make the practice of shopping around to find the cheapest cash machine difficult. They also hinder competition in the cash machine industry. The importance of transparency becomes all the greater as the number of charging machines increases.**

69. The way the LINK interchange arrangements work affects the incentives on charging machine operators to display their charges clearly. Although charging cash machine operators do not receive the interchange fee for a completed cash withdrawal, they do receive an interchange fee of around 18 pence for each balance enquiry and rejected transaction. This may mean that charging operators have an incentive to delay making charges clear to the consumer until just before the transaction is about to be completed. For example, if a consumer approaches a cash machine, but sees a clear warning that charges will be made for cash withdrawals and walks away, then the operator will receive no revenue. If warnings displayed on the machine are unclear and this consumer inserts their card and makes a balance enquiry and then selects a withdrawal but when they find out the charge cancels the transaction, the charging operator will receive a total of 36 pence from the consumer's bank. We asked LINK if this system meant that it was in the interests of cash machine operators to delay notification of the charge until the end of the

91 Ev 167

transaction. Mr Aiken told us that "You could construe that" but that the recent changes to the LINK rules would require them to give up-front notice.[92]

70. LINK have indicated that for each 100 cash withdrawals made at charging machines there is an average of 17.5 cancelled transactions. This means that around one in every seven people using a charging cash machine cancel the transaction before completing it. The figure for free cash machines is that around one in every twenty transactions are cancelled. **The way interchange fees are paid by a customer's bank to the charging machine operator gives the charging machine operator an incentive to delay notification of charges until the last minute. This is clearly against the consumer's interest. This increases the importance of clear and enforceable rules being applied by LINK to ensure that charging machines display clear and prominent warnings concerning the charge before the card is inserted, as we discuss below.**

The current requirements since April 2004

71. Charging machines have always been subject to a requirement that they give the customer an option to pull out of the transaction before completing it. Additional requirements covering the transparency of charges were introduced in April 2004. LINK told us that "to ensure that customers would know whether they would be charged before they insert their card into a cash machine an additional rule was introduced that requires…that all cash machines that charge must also carry a sign (either on-screen or external) that is 'clearly visible to cardholders before a card is inserted". [93] This sign states that

> "This machine may charge you for LINK cash withdrawals".

The Building Societies Association told us that they believed the current LINK requirement was "vague", "bland" and "non-specific".[94] Citizens Advice believed that the warning was "entirely ambiguous and unclear".

72. Which? told us that "some operators appear to be either disregarding or flouting the LINK guidelines by displaying warnings in a way that makes it difficult for [consumers] to spot".[95] The National Consumer Council noted that external labelling on charging ATMs was not always positioned where the service user is most likely to see it.[96] Nationwide believed that "Some operators appear to be flouting the spirit of the agreement by displaying warnings in a way that makes them difficult to spot. For example, notices displayed in extremely small print, considerably smaller than any other print used in signage on the machine; warning stickers or signs that are of the same colour as the machines background; notices are 'hidden' on the side of the machine or low down below eye level."[97] From our own observations of how charging operators were implementing the current requirements for transparency, we noted that some charging cash machines

92 Ev 200

93 Ev 118 para 4

94 Ev 99 para 5

95 Ev 168 para 9.7

96 Ev 132

97 Ev 137 para 19

operated by Cardpoint displayed the warning at knee height, although Mr Mills noted that this was "compliant with the [current] LINK rules".[98] Other operators, including Bank Machine and Moneybox, displayed the warning in tiny letters, sometimes on difficult to read backgrounds. **To provide information about charges at knee height or in hard to read small print is totally unacceptable. That such practices have been allowed to persist reflects badly on LINK and on the industry.**

73. There is also an issue about the wording of the message, which indicates only that the machine 'may' charge for the transaction. LINK told us that this was because "not all cards attract a charge from the cash machine operator".[99] Since LINK rules forbid the cash machine to apply a charge, if a cardholder's bank is also levying a charge for the transaction, then if a consumer uses a *credit* card at a charging cash machine they will only be charged by the credit card issuer, not the charging cash machine. In practice however fewer than 2% of cash withdrawals are made on credit cards, and the vast majority of these charge a cash advance fee of 1.5%, with a minimum of £1.50. **In the overwhelming majority of cases the consumer will be charged as a result of using a machine, whether that charge is levied by the machine or the card-issuer. The notice that the machine "may" charge is disingenuous and does little to inform consumers.**

74. Major high street banks agreed that there was room for improvement. Barclays told us they believed that "charging ATMs could be made more transparent" and that they would "support further changes to the LINK rules" to achieve this.[100] HSBC considered that "some [charging machine operators] do not make the fact that they charge sufficiently clear to the customers as the stickers indicating that machines charge are not always prominent and a warning screen is not necessarily shown at the start of the transaction. [HSBC] would therefore welcome any action by LINK to improve clarity".[101]

75. Ms Perchard, for Citizens Advice, noted that the cash machines "are quite large bits of equipment standing on their own, and it ought to be possible to have [a warning of charges] very clearly on the outside of the machine, in very large, clear letters or numbers."[102] Nationwide believed that "improved transparency is in the interests both of consumers and of the industry. Consumers would clearly benefit from improved transparency and clearer information on charging machines, enabling them to make an informed decision about whether or not to use a charging machine. The industry would also benefit from giving consumers better information: it does the reputation of the financial services industry no good at all to be unclear about charges and fees."[103] They put forward a code of practice for charging cash machines which would build on the LINK agreement on early warnings" and would "help ensure consumer awareness and transparency and would promote fair practice among cash machine providers".[104] Mr Bernau believed that the consumer should have "absolute clarity in relation to the fact they

98 Qq 464-468

99 Ev 121 para 4

100 Ev 96

101 Ev 111

102 Q 22

103 Ev 138 para 22

104 Ev 138

are going to be charged…it is really a question of getting transparency so that the consumer can make a clear, informed choice.”[105] **There was a broad consensus amongst consumer groups and the high street banks and building societies that the requirements currently applicable to LINK members for notification of charges were inadequate and that standards needed to improve.**

New requirements from July 2005

76. Steps have already been taken by the industry to achieve this since (and possibly because of) the beginning of our inquiry. At our evidence session on 21 December 2004, Mr Hardy announced that the LINK Network Members Council had met on the 14 December and agreed a new code of conduct in respect of transparency. They told us that with effect from 1 July 2005, all cash machines that charge will:

- Have an initial on-screen message that shows the amount of the charge. This will be carried on all screens in the ‘idle’ sequence before a card is inserted, stating that “This machine will charge you up to £xx.xx for LINK cash withdrawals’.
- Have external signage on the cash machine itself that says “This machine will charge you for LINK cash withdrawals”. The sign must be within the normal eye line close to the ATM screen, and use a font size that is consistent with that used for similar information and of at least font size 14, and of contrasting colour to the background.
- Where there is signage away from a surcharging ATM that directs towards its presence and/or any other signage of A3 size or greater, the sign must include the words ‘This machine will charge you for LINK cash withdrawals’. The font size used and the colour and the background must be such that the message is clearly visible to anyone reading the sign.

77. Not all of the LINK members supported the new transparency requirements. LINK told us that at the meeting on 14 December 2004, when the new requirements were passed, “five members voted against, presumably on the grounds that they thought the proposals were unnecessary and unduly onerous”. They were not able to supply us with the names of the members as “proceedings at LINK Network Members Council are confidential”.[106] We asked witnesses whether they voted for or against the new transparency requirements. Mr Dean told us that TRM voted for the proposals as they “are very happy for things to be transparent and were keen, therefore to do and to support anything that allows us to move on from this issue”.[107] Mr McNamara told us that Moneybox voted against the proposals. He told us that “all the Independent ATM deployers [despite] having nearly half the ATMs have a total voting power [in LINK] that does not amount to 1%, and, frankly, LINK, owned largely by the banks, is extraordinarily good at imposing transparency on other organisations and not on themselves…I do not believe that the LINK organisation, as presently operating, acts necessarily in the interests of consumers nor of effective competition in the industry”.[108] Mr Mills told us that Cardpoint voted against “on the basis

105 Q 625

106 Ev 120 para 2

107 Q 419

108 Q 421

that they did not seem particularly workable".[109] Mr Delnevo of Bank Machine told us that they voted against as "LINK was simply rushing to react to [the Treasury Select Committee] rather than spending time properly examining all the issues".[110]

78. **We welcome the new improvements to transparency agreed by LINK, which we believe show a welcome recognition by much of the industry of the need to improve standards. It is important, however, that the commitment to improved standards is held, and honoured, right across the industry. It was disappointing to learn that some of the independent charging cash machine operators voted against the limited new transparency requirements. We hope that this does not imply a lack of commitment on their part to the process of raising standards. Their degree of commitment to implementing the new arrangements will enable us to judge.**

Further improvements needed

79. But there are questions about whether the new agreement goes far enough. We received evidence raising a number of areas in which further progress may be needed. Some of these deal with matters contained within the December 2004 agreement, and some raise other issues not covered in the agreement.

Improving the terms of the LINK agreement of December 2004

80. Mr Baxter of Which? told us that "labelling is a critical issue, not only on the screens themselves, but actually physically on the machines, so that consumers can see from a distance, before they start queuing".[111] There is a legitimate question about what size the warning needs to be and at what distance it is useful for consumers to be able to see the warning. Which? believed that the exact distance could be discussed, but they suggested "the vicinity of about 5-10 metres".[112] During our evidence session Mr Crosby of HBOS was unable to read the new warning using the 14 point minimum size, at a distance of a few metres across the Committee table. He told us that "we have all supported the transparency initiative with a view to it being effective, and after it is implemented in July it will be monitored and part of the test will be that it [is] actually getting across. So if it has to be bigger then it should be".[113] Mr Mills, of Cardpoint, initially claimed that he could read the sign in 14 point print, but was not able accurately to tell us what it said.[114] Mr McNamara, of Moneybox, was in favour of setting a minimum size for the on-screen message, telling us that "the message should be a clear size".[115] He noted that "it is also important to have something in the right place, because frankly, you can put a sign saying '£1.50' round the side or on the bottom of the machine, but it is critical that any signage is where the card is used".[116] Mr Higgins of RBS was committed to a font size of 36 point for

109 Q 422

110 Qq 417-419

111 Q 22

112 Ev 175

113 Q 390

114 Qq 522-524

115 Q 513

116 Q 518

Hanco machines.[117] There was not a positive response from all charging operators to our calls for the signs to be made bigger. Mr Delnevo, of Bank Machine, submitted a note after the session claiming that "The Independents did NOT agree to the need for larger signs with the prices on. … there is currently excellent transparency in terms of ATM charges: in fact the finest in the world".[118]

81. The charging operator TRM originally[119] told us: "There has been some suggestion that further clarity could be provided by also displaying the amount of the surcharge on the screen before the customer enters their card or displayed on the marketing materials that are present in the location, for example [Advertising] boards or window stickers. This would be problematic, as any changes to price would require expensive site visits and signage upgrades. Our view is that in a competitive market it is necessary to have minimal barriers to price change so that consumer benefits of reduced prices and innovation can develop. With fixed price display, competition between cash machine deployers in a particular locality could not readily result in reduced surcharge amounts, since the cost of performing these price changes would be prohibitive. Therefore the impact such requirements would in practice cause restriction on the competitive nature of the market".[120] However, it must be arguable whether competition between cash machine deployers in a locality could develop without giving the consumer clear information about the cost of the cash withdrawal.[121] Also, the costs of price changes would not necessarily be prohibitive, since many cash machine providers will regularly visit the retailer to replenish the cash in the machine and any price change could be made then. For other operators who rely on the retailer to replenish the machine, it would be possible to send the retailer the sticker through the post with instructions to attach it. Mr Dean told us that "the large sticker probably does not cost very much, but the visit of a skilled and trained engineer to go and attach it does".[122] He told us that he had been very enthusiastic about supporting the changes to transparency: "All I am trying to maintain is a position where we can alter prices quite quickly. I just thought as a basic principle in any market being able to alter prices quickly is a good thing".[123]

82. Which?, commenting on the new LINK proposals, concluded "While some of these proposals are helpful we are concerned that they do not come near the steps that are needed to address the disclosure and transparency issues…identified in the hearings on cash machine charges". They welcomed the inclusion of the amount of the surcharge in an initial on-screen message but concluded that this was "not sufficient unless accompanied by physical signage", and believed that "the amount of the surcharge should be clearly labelled on the machine itself and visible from a distance". We asked Nationwide to what extent the new LINK requirements met the objectives that they had put forward in their cash machine code of practice. Mr Bernau believed "The LINK agreement does go some

117 Q 398

118 Q 618

119 This evidence was submitted before the LINK agreement of 14 December 2004 at which it was agreed that the amount of the surcharge would be displayed on the screen before the customer enters their card.

120 Ev 154

121 See letter from Office of Fair Trading, Ev 177

122 Q 543

123 Q 546

way. It will strengthen the notices not just on the machine when you are doing the transaction, but it will make sure that the warnings about charging are at the right level. It is laying down a set size. We do not believe that [the] size [of the warning] is large enough."[124] The Minister told us that "people should know what charge they are going to incur by using a given machine and that they should know it soon enough to decide sensibly whether or not to use that machine…it needs to be up-front as it sensibly can be." He told us that "anything that can be done to make the [charging] information clearer and more legible I would very much welcome".[125]

83. **The new improvements 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 recommend that the amount of the surcharge should be clearly indicated on external signage and any signs that advertise the presence of the machine. A larger minimum font size should be set for these warnings so the sign is visible from a distance.**

Improvements in areas outside the December 2004 agreement

84. If consumers are going to make an informed choice over whether to use a free or charging machine, then there may also be a need to improve the labelling of free machines. Some banks have already began to do this. Barclays submitted evidence indicating that their machines clearly indicated that "Barclays will not charge you for using this cash machine."[126] **We welcome continuing moves by banks to indicate clearly that their cash machines do not impose a surcharge on consumers, and would encourage all ATM operators to do this for their non-charging machines.**

85. Going further still, Which? proposed that a type of standardised labelling system that could be adopted by the industry. They told us that "All cash machines in the UK could be equipped with a universal symbol that can be clearly seen and instantly understood". They gave examples of how such labelling could look, suggesting a '£0' within a traffic sign-style green circle to denote no surcharge, with surcharging machines having a red triangle encompassing the amount of the charge itself (as either an amount or, should a sliding scale be adopted, a percentage).[127] **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.**

86. Many charging machines prominently advertise the ability of consumers to check their balance free of charge. This is typically displayed on the screen or on the machine itself and on external signage and advertising boards outside the shop. Wording such as "free balance enquiries", "Obtain a free balance enquiry" or "Check your balance for free" are often used. It could be argued that these signs are sometimes displayed in an attempt to confuse consumers, for example by using larger lettering for the word free, or running phrases closely together (such as "Take your cash out here. Free balance enquiries"). We asked

124 Q 634

125 Q 750

126 Ev 97

127 Ev 175

consumer groups whether they believed that the use of the word 'free' was deliberately misleading. Mr Baxter of Which? told us this was "most definitely" the case.[128] Mr Cullum of the National Consumer Council thought that displaying a sign saying 'You can check your balance for free' was a "slightly disingenuous way of putting it".[129] This view was also shared by several members of the public who responded to our inquiry. RBS agreed with the consumer groups, with Mr Higgins telling us that using the word 'free' "could be misleading". When asked if there was a case for banning the word 'free' from charging machines, Mr Higgins answered "absolutely".[130] **Prominently advertising 'free' balance enquiries can be a deliberate attempt to confuse consumers. We believe the word 'free' should not be permitted on any cash machine that levies a surcharge to the consumer. The word 'free' should also not be permitted on any marketing or advertising material informing consumers of the presence of the charging cash machine.**

87. The new version of the Banking Code requires banks to notify customers when they close the last bank branch within a one mile radius in an urban area and within a four mile radius in a rural area. We asked banks whether they would be in favour of bringing in similar requirements for notification when withdrawing the last free machine within a certain area, or changing the machine from free to charging. Mr Higgins told us that RBS "would be happy to go along with that".[131] We asked Mr Crosby if HBOS would be notifying customers living nearby if some of the 65 cash machines sold to Cardpoint that did not have another free cash machine within 2 miles were converted to charging. Mr Crosby told us that this should be included in the Code and they would be notifying customers if the machines were switched over to charging.[132] There remains the question as to what form the notification should take. Requiring banks to contact customers when closing branches involves writing to customers with accounts registered at that branch. For a free cash machine, banks would only have the details of their own customers that had used the machine; they would not have details of any other bank's customers that had used the machine. In many locations the majority of the customers using the machine would not be customers of the bank that owned the machine.

88. In their proposed code of practice for cash machines, Nationwide called for operators to display "a clear and prominent warning at least 30 days in advance" where a machine which was previously free is to become charging so that consumers would be aware that a change was about to take place.[133] This action was also supported by consumer groups. Giving such a notice period would enable consumers to locate the nearest free machine and to avoid incurring charges unnecessarily. HBOS wrote to us to tell us that they had listened to concerns that "insufficient notice is given to customers prior to bank owned machines changing hands and their new owners surcharging customers…[HBOS will be] placing notices on the machines that we transfer to Cardpoint. The notices will alert customers that cash withdrawals may no longer be free at that machine. From [18 January]

128 Q 24

129 Q 8

130 Qq 405–406

131 Q 378

132 Qq 379–381

133 Ev 138

all the ATMs that are transferring to Cardpoint are being labelled; we are aiming to give thirty days notice to customers”.[134]

89. **When a machine is converted from free to charging it is important to give consumers advance notice of the change. We recommend that the LINK rules should be amended to require a clear and prominent warning at least 30 days in advance where a machine which was previously free is to be replaced by a charging machine. We welcome the move by HBOS to place such notices on the machines that it is transferring to Cardpoint. We believe that such a notice should be required under the LINK rules. We note the requirements in the Banking Code for banks to notify customers when closing the last branch within a specified distance. We believe that similar requirements should be introduced when removing the last free cash machine within a specified distance. We ask the BCSB to develop proposals for this before the end of 2005.**

Enforcement

90. To be effective, it is important that compliance with voluntary regulation is adequately monitored and enforced. It became apparent that LINK did not have any systematic programme of monitoring and enforcement in place. LINK told us that they “ask our staff and members of LINK to report to us any cash machine that they see that is not properly signed. In total thirteen such instances have been reported to us (and in every case we have taken action to ensure that the situation is corrected)”.[135] The BCSB noted that “There is not the same monitoring and enforcement regime governing LINK rules that exists under the Banking Code and the Business Banking Code.”[136] We asked LINK whether they were confident that all of their members were compliant with the rule that had been introduced in April 2004. Mr Aiken told us that “I do not think they are, but we notice machines that are not properly labelled and we bring it to the attention of the member”.[137] In a small survey conducted by Birmingham trading standards only 50% of the machines surveyed “actually had either a sticker or an initial on-screen warning that a charge would be made”.[138] **We are concerned that a small recent study suggested that amongst the charging machines surveyed there was only 50% compliance with the LINK requirements. If voluntary regulation is to be effective, it is essential that there is an adequate programme of monitoring and enforcement in place to identify failings. The LINK process of enforcement has been ad hoc and inadequate to protect consumer interests.**

91. Since we started our inquiry LINK have promised some improvement in the monitoring and enforcement process. The meeting on 14 December 2004 committed LINK to “undertake periodic sample surveys of all ATM signage and idle screens in randomly selected geographical areas, and report incidences of non-compliance; such surveys be commenced as soon as is practicable to determine compliance with all the rules

134 Ev 109

135 Ev 119

136 Ev 99

137 Q 104

138 Letter from Birmingham City Council Regulatory Services (unprinted; see p.71 below)

on ATM signage (i.e. not limited to warnings about charging) applicable at the time; [and] in the case of a persistent non-compliance, sanctions such as fines, a refusal to allow the Member to install any more ATMs, disconnection of the non-compliant ATMs, or all the Member's ATMs to apply."[139] **We welcome moves by LINK to strengthen its capability to monitor and enforce the requirements for transparency of cash machine charges. LINK should, before the end of this year, publish details of the way it has monitored and enforced its transparency rules, so that the effectiveness of these rules can be judged.**

Consumer awareness of charges

92. We were provided with evidence concerning the awareness of consumers of which machines charge. Mr Baxter told us that "research that Which? conducted said that fewer than one in five consumers know which machines are charging and which are not, and that clearly indicates that labelling is not working."[140] Nationwide told us that of the people surveyed that had used a charging machine "a quarter of those (23.5%) had not seen any early warning before requesting their cash. 97% of those surveyed thought that the visibility of warnings should be improved".[141] The charging operators put forward a different view. Mr Delnevo told us that "the vast majority of these people using these [charging] machines use them week in week out… they are aware they are going to pay for it".[142] **Different views were put forward concerning consumer awareness of charges. Independent research into consumer awareness of charges and the factors that drive consumer behaviour when deciding which cash machines to use would be beneficial. We recommend that this should be undertaken by LINK in conjunction with the consumer groups and published in full. The research should also examine the approaches taken by the charging cash machine operators to implementing the new LINK transparency requirements and make recommendations for change.**

139 Ev 114

140 Q 18

141 Ev 138 para 21

142 Q 540

4 Regulation

The LINK Network

93. The cash machine network is subject to a form of voluntary regulation governed by the LINK network. LINK is divided into two parts: a commercial company which facilitates the technology and settlement of cash machine transactions and the 'card scheme' which sets the rules surrounding the cash machine network. Mr Hardy, the Chief Executive of LINK, told us the "card scheme…is essentially a member-owned organisation. It is an association, if you like, governed by a vast body called the Network Members Council, which I think at the moment has 53 members on it, and which debates the terms of trade, if you like, the rules applying [to cash machines]."[143] Mr Aiken, Director of the LINK card scheme, confirmed that "the members write the rules" but that the Office of Fair Trading regulates the LINK card scheme under competition law.[144]

94. LINK's web-site notes that it has "vast experience and detailed understanding with regard to the establishment and growth of shared ATM networks by balancing the needs of consumers, acquirer banks and card issuers." Asked how LINK took account of the interests of the consumer in its policy development, Mr Hardy confirmed that they did not have any consumer representation on their board and did not invite consumer groups along to the LINK meetings when they were discussing relevant consumer issues such as early warning of charges. He told us that LINK "had spoken to consumer groups on numerous occasions" and while he had no objection to inviting consumer representatives along to LINK meetings it would ultimately be up to the members of LINK to determine whether they were in favour of consumer representatives attending the meetings.[145] Mr Crosby told us that while there may be questions about them attending all meetings, "it would not be unusual for a commercial organisation that wanted to get close to what its customers thought of its services to have [consumer representatives] present their opinions and I would certainly be keen to encourage LINK to do that."[146] Votes taken among LINK members on consumer issues (as for example with the new rules governing transparency agreed in December 2004) are not published. **LINK should take steps to improve consumer representation within its organisation. Consumer groups could be invited to attend relevant meetings of LINK or invited to sit on working groups, so that their views can be taken into account. Openness would also be improved if the details of how member organisations had voted on consumer issues were made known.**

95. It is important if there is to be voluntary regulation that the rules set down are properly monitored and enforced. As noted earlier, LINK's process for enforcement of its own requirements in respect of transparency has been inadequate to protect consumer interests. **The approach by LINK to self-regulation in respect of enforcement, as illustrated by the absence of a systematic mechanism for enforcement of its transparency requirements (already discussed above), is totally inadequate for a part of the financial services**

143 Q 68

144 Q 77

145 Q 72

146 Q 268

industry used by millions of consumers each year. An absence of effective self-regulation beyond this year would not be acceptable.

The Banking Code

96. One approach to improving regulatory supervision of the ATM market and industry would be to bring it within the Banking Code. The Banking Code is a voluntary Code "followed by banks and building societies ('subscribers') in their dealings with personal and small business customers in the UK. They set standards of good banking practice and aim to allow competition and market forces to operate and encourage higher standards of banking practice for the benefit of customers."[147]

97. The Banking Code Standards Board told us that operators of charging cash machines which are not banks or building societies are outside the Code. "Furthermore, a [charging] cash machine operator that is a subsidiary of a Code subscriber is not automatically subject to Code requirements".[148] This means that Hanco (the largest charging machine operator) is not subject to the requirements of the Code, even though it is owned by RBS. We asked RBS if they would support an amendment to the Banking Code so that subsidiaries such as Hanco were automatically subject to the requirements of the Code. Mr Higgins told us that "in principle" he would have no objection to that.[149] **We recommend that the Banking Code be amended to ensure that it applies automatically to any of the main subscribers' subsidiaries which are engaged in banking-related businesses.**

98. There was widespread support amongst consumer groups for charging cash machine operators to be brought within the scope of the Banking Code. Mr Baxter told us that Which? would like to see the independent ATM operators signing up to the Banking Code because they are providing a banking service.[150] Ms Perchard, of Citizens Advice, told us that the Banking Code was probably the best of its type and that if charging cash machines were brought within the scope of the Code then that "also brings with it the auditing system that is run by the Banking Code Standards Board, which has been incredibly helpful in highlighting issues about compliance with the Banking Code".[151] Major banks were also supportive of bringing cash machines within the scope of the Code. Mr Crosby told us that HBOS would support "ATMs and ATM-related services being brought within the Banking Code because it makes good sense".[152] Mr Higgins of RBS told us that he would have no objection to ATMs being brought under the Code.[153]

99. The response of the charging cash machine operators was mixed. Mr Delnevo, of Bank Machine, said "he would support signing up to the Banking Code if it assisted transparency", but that "this remained to be established".[154] Mr Mills, of Cardpoint,

147 Ev 97

148 Ev 98

149 Q 272

150 Q 29

151 Q 30

152 Q 269

153 Q 270

154 Q 618

claimed that the Banking Code would mean "less stringent" regulation than that provided by LINK[155]—though this of course would not be the case if the LINK requirements were incorporated into the Banking Code. Mr McNamara, of Moneybox, told us that he would have "no problem" signing up to the Banking Code and "would make requests for equivalent levels of transparency and a more equitable LINK arrangement about enforcement than presently exists".[156]

100. The Minister told us that he thought "the Banking Code is an excellent example of self-regulation…The Banking Code is, of course, much broader than ATMs in its coverage, so there may well be some issues about what exactly it would mean for purely an ATM operator to sign up to the Banking Code, but in principle it sounds to me like a welcome step".[157] **The Banking Code is a good model of self-regulation. It is independently reviewed taking into account the views of consumer groups, industry and government. The Banking Code Standards Board conducts a systematic programme of monitoring and enforcement. We believe that negotiations should begin immediately for the Banking Code to be extended to cover all charging cash machine operators, with a view to the negotiations being concluded before the end of the year. The Code should be amended to include the new transparency requirements agreed at the LINK meeting on 14 December 2004. All charging cash machine operators should sign up to the Banking Code, and become subject to its processes of monitoring and enforcement.**

Governmental regulatory authorities

101. There will always, however, be a need for government and statutory regulatory authorities to stand behind the industry's self-regulatory bodies. We have already referred to the role of the OFT in the approval of the basic LINK agreements governing the interchange fee.

102. One further specific issue brought to our attention[158] concerns the length of the contracts between site owners and charging machine operators. In the case referred to us, a contract required the site owner (the owner of a small business) to give 7 years written notice of cancellation, while the charging machine operator had the right to remove the machine without notice. The owner wished to end the contract because he was receiving no commission as a result of the level of usage not reaching the required contract threshold. It is of course possible that contracts of this length may have been decided by the market and may be efficient. For example, where a charging machine operator incurs significant up-front installation costs (as perhaps with a through-the-wall machine requiring significant building work) such long term contracts would enable efficient risk-sharing between the retailer and the charging machine operator. For a free standing or so called convenience machine with a far more simple and less permanent method of installation it may be more difficult to justify such a long contract length. **Excessive notice periods for the removal of a free-standing charging machine and unduly long contracts could be hindering competition. We recommend that the OFT conduct a short**

155 Qq 559–562

156 Q 563

157 Q 572

158 Memorandum not reported

investigation into the length of contracts between small business owners and charging cash machine operators to determine whether they are 'hindering, restricting or distorting' competition.

5 Financial Exclusion

Cash machine charges and financial exclusion

103. Financial exclusion can refer to a general lack of access to a range of financial services or to more specific circumstances such as exclusion from a particular financial service, geographical exclusion, exclusion on grounds of prohibitive pricing, or exclusion from marketing efforts. These aspects are not mutually exclusive and will overlap and reinforce each other, resulting in individuals, households and communities having little or no connection to mainstream banking and financial services. Citizens Advice noted that "poverty and financial exclusion come together when people on the lowest incomes often pay more than they should to access goods and services".[159]

104. Two main concerns were expressed surrounding the effect of cash machine charges on financial exclusion. First, in low income and deprived areas there may be less availability of bank branches and free cash machines, or consumers may be limited to cash as they only have a basic bank account and do not have a debit or credit card. Secondly, the amount of any charge may be disproportionate for low income households and those on benefits who may only be making small value withdrawals.

105. Citizens Advice told us that the spread of charging machines is "particularly significant to people on low incomes and those living in deprived areas. For these people, affordable credit, bank counter and bank ATM withdrawal of cash and cash back facilities are often far less easily available, due to the recent programmes of bank branch and post office closures".[160] The National Consumer Council noted that "Government policies, including the move to Direct Payment of benefits and the push for greater financial inclusion, have resulted in many low-income and vulnerable consumers having access to cash machines for the first time. If these policies are to succeed it is important that these groups of consumers do not incur financial penalties as a result of being involved in the banking system."[161] Nationwide told us that "It seems intuitive that with the proportion of machines which charge growing so rapidly, the burden would fall most heavily on people without debit or credit cards, who are most reliant on cash and on using ATMs to access their cash. This would include young people aged 11-16 as well as individuals with poor credit scores who may only be eligible for a Basic Bank Account."[162] Mr Baxter told us that "people on lower incomes tend to use cash disproportionately more than other people. They tend to take out smaller denominations of cash, but they usually have no choice but to use cash because, for example, basic bank accounts do not have debit cards…and they do not qualify for credit cards".[163]

106. **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**

159 Ev 105 para 1.4

160 Ev 106 para 2.2

161 Ev 132

162 Ev 138 para 29

163 Q 38

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.

Areas with concentrated financial exclusion

107. We asked banks whether they thought they had an obligation to provide free cash machines away from existing branches as part of a financial inclusion agenda. Mr Crosby of HBOS told us "Where we can in practical terms and economically we are committed to doing so…Clearly in certain sites it is just not practical in this environment because the retailer calls the shots. So there are limitations on that".[164] Mr Higgins of RBS told us that "if one ranks by socio-economic grouping or affluence the 3,500 postal districts in the UK, we find that in the bottom 20% we have a higher number of free to use ATMs per head than in the 80% above, so…we have a higher penetration of free to use ATMs in the most disadvantaged areas".[165] We note however that many disadvantaged areas are in city centres and commercial districts, which typically have large numbers of free cash machines. These areas would substantially pull up the 'average' number of cash machines across deprived areas as a whole, and the figures do not mean that there is sufficient access to free cash withdrawals in all deprived areas.

108. Several examples of deprived areas with limited free cash machine provision were received. Ms Jenny Hickson, Financial Skills Tutor at Speke Citizens Advice Bureau, told us about the situation in an area of Speke (Liverpool) with a population of around 15,000, of which two-thirds would be on benefits.[166] There were several charging cash machines within the Speke estate, charging between £1.25 and £1.50. The nearest free cash machine was in a bank branch, around one mile from the centre of the estate, and up to 1.5 miles from some sections of the estate. Bank Machine told us "The financial institutions ceased to provide a worthwhile service in many areas a long time ago. In the case of Speke the last bank (and it did not even have an ATM) closed during the 1990s".[167] Other examples of deprived areas provided to us included Batchley in Redditch (Worcestershire), where the nearest free machine was over 1 mile away and the local post office had recently closed.

109. The Minister told us: "I think it is very important that people should be able to obtain cash free of charge. I would be seriously concerned if there was evidence that people, particularly on low incomes, had no choice but to obtain their cash by paying for it. That is a very important public policy concern".[168] **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**

164 Q 363

165 Q 364

166 Qq 34–38, 43–51

167 Ev 94

168 Q 747

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.

110. The Treasury document *Promoting Financial Inclusion*, issued alongside the 2004 Pre-Budget Report, contained some analysis[169] of the geographical distribution of financial exclusion, indicating its concentration in certain areas of the country:

- 68% of the financially excluded live in the 10% most financially excluded postcodes.
- 25% of the financially excluded live in the three per cent of post codes with the highest concentrations of financial exclusion. These postcodes are concentrated in areas including parts of East and South-East London, Middlesbrough, Manchester, Bradford, Birmingham, Glasgow and Liverpool.

111. The Treasury indicated they were unable to send us a list of these postcodes so that we could examine whether people living in those areas had sufficient access to free cash withdrawals, telling us: "The terms of our contract with the company that provided the information mean that [we] are unable to share the raw data with any third party".[170] The Post Office—which, as we discuss below, has potentially a significant role to play in addressing financial exclusion—told us that "HM Treasury have not shared with us their list of postcodes where there is concentrated financial exclusion".[171] **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.**

The level of ATM charges

112. Concern was expressed that the level of some cash machine charges could impact disproportionately on those with low incomes. Which? told us that they thought "current fixed surcharges of £1.50-£1.75 (in some cases as much as £5), costing consumers as much as 17% of the money withdrawn is excessive and unfair".[172] Citizens Advice told us that "charges are often levied at £1.50 regardless of whether a transaction sum is £10 or £100. By definition the proportion of an individual's money which is spent on the charges will be higher if they tend to take out smaller amounts of money".[173] Ms Hickson illustrated the impact of this in Speke where communities "are on very low incomes. They may only have £10 or £12 in their account, and they need £2 or £3 for the children's dinner money, but

169 HM Treasury, *Promoting Financial Inclusion*, page 14

170 Ev 171

171 Ev 146

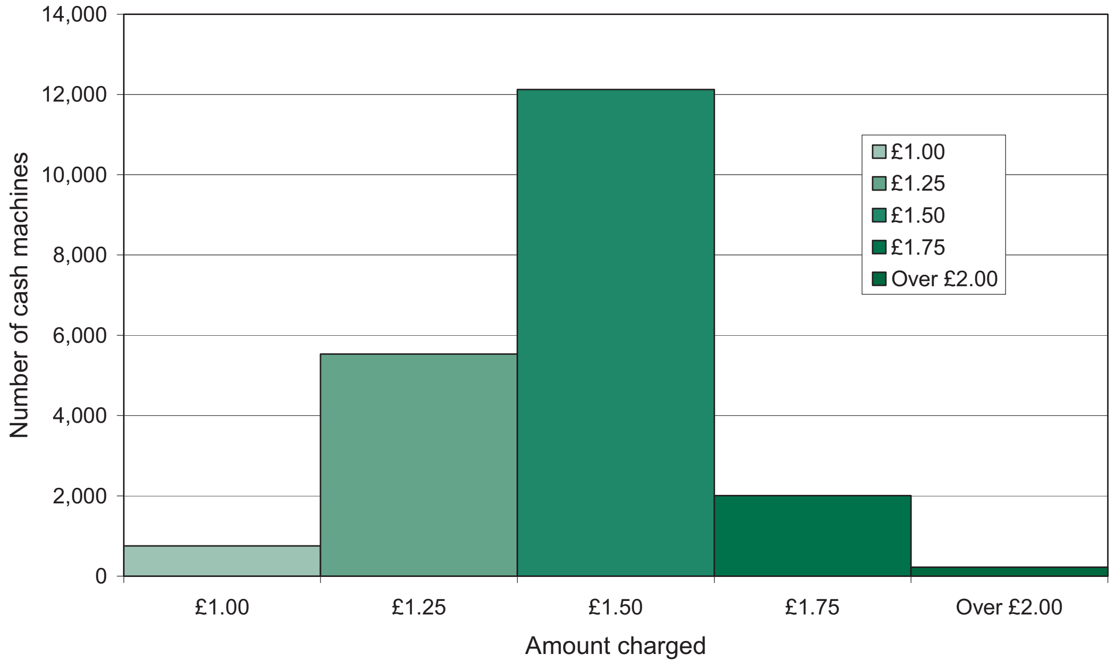
172 Ev 166

173 Ev 106

they have to take the whole £10 and use the ATM and they are losing £1.50 of their money".[174]

113. Chart 5 below shows the different amounts charged by cash machines, by number, based on information from the LINK database. The average charge is just under £1.50. Over 58% of charging cash machines charge exactly £1.50, with a large number of machines charging £1.25 and £1.75. Over 250 machines charge £2.00 or more per withdrawal, and there are five machines that charge £5 per withdrawal.

Chart 5 : Number of cash machines that charge different amounts



Source: LINK database. For simplicity we have rounded the small number of cash machines charging uneven amounts to the nearest pricing point (e.g machines charging £1.55 are included in the numbers charging £1.50).

114. Which? called for "The surcharge to be calculated on a floating rather than a fixed basis so that the fee is proportional to the amount withdrawn".[175] Mr McNamara of Moneybox told us that there was "a very high fixed element in each transaction that takes place, and the question is how you cover the cost of that fixed component of the transaction. Obviously one of our suggestions is the interchange fee would reduce that component, but there is no reason thereafter why you could not make a variable transaction to cover those outturns".[176] Mr Mills, for Cardpoint, told us: "It is technically feasible, but…the starting point is actually quite high, so how much of an advantage would there be?".[177] **We note calls for the surcharge to be calculated on a variable rather than fixed basis. Although this might be fairer to consumers withdrawing small amounts, we note that due to the high fixed costs of a cash machine any sliding scale would start at a high level. We also note that a sliding scale (unless calculated on the same basis across**

174 Q 38

175 Ev 166 para 8.2

176 Q 609

177 Q 610

the industry) might reduce transparency as consumers would have difficulty knowing how much they were going to be charged before using the machine. The fact that fixed surcharges can impact disproportionately on those on low incomes enhances the importance of ensuring that such groups have sufficient access to free cash withdrawals.

115. Consumer groups and Nationwide Building Society called for a cap on charges. Which? believed that a "surcharge cap of about 7% to a maximum of £1 is reasonable and should be set".[178] Nationwide called for a cap on charges of "£1.50" which could be index-linked, so that it increased each year. The Treasury told us that "charges are a commercial matter for ATM operators. Direct regulation of retail prices should only ever be a last resort, implemented where it has been very clearly established that competition is not feasible, or where a monopoly supplier would be the most efficient option. There is good reason for this. Regulators face severe difficulties in assessing the correct level of prices, as those they regulate have an information advantage about, for example, their own costs. Also, price regulation can itself inhibit or prevent competition. For example, regulatory price caps can become a 'focal point' for pricing, assisting the formation and maintenance of cartels".[179] **Competition between operators should ensure there is no need for a cap on pricing, provided there are sufficient numbers of free machines and there is clear signage concerning the level of charges.**

The Post Office

The context

116. The Post Office has an important role to play in tackling financial exclusion. The large network of branches gives the Post Office a unique opportunity to be at the forefront of tackling financial exclusion and of providing a method of free cash withdrawal where many people would otherwise have to use charging cash machines. The Post Office told us that "Over 93% of the population of the UK live within one mile of a Post Office branch. In urban areas this rises to 99% within one mile, and in rural areas 84% of the population live within a mile of a Post Office branch. Only 4% of villages have a bank or building society, yet 60% have a post office"[180] Research conducted for us by LINK in one constituency indicated that "In terms of cash withdrawals at post offices…there is a clear pattern that shows that the more deprived an area is the greater the number of cash withdrawals".[181] There has also been a significant increase in the number of post offices branches containing cash machines. The Post Office told us that "There are 2,493 ATMs within Post Office branches…of which 1,856 charge a fee direct to the consumer".[182] This means that 75% of the cash machines in Post Offices charge a fee to the consumer.

117. Citizens Advice were concerned at "the number of fee-charging cash machines situated in the Post Office network…Although this provides additional income for the Post

178 Ev 166 para 8.2

179 Ev 113 para 2.10

180 Ev 146 para 2

181 LINK research on Dumbarton constituency (memorandum not reported)

182 Ev 142 para 2

Office network, significant costs are being displaced to Post Office users. We are concerned that the growth of convenience cash machines in Post Offices is contrary to the Government's policy goal of free cash withdrawal from Post Offices".[183] The National Federation of Sub-Postmasters had "concerns about charging the public to use cash machines situated in post offices…Since most [benefit] claimants and a significant proportion of all post office customers are people with low incomes, charges on post office based cash machines are likely to hit those using them particularly hard".[184]

118. Ms Perchard summed up the choices faced by some benefit recipients – "[There is a charging cash machine] in the post office, and I have just been encouraged by the DWP to have my benefit paid into a bank account, and I can take cash out at the post office. There are huge queues, and it is of benefit to the post office for me to get my cash out from this machine, but I get quite a hit in the charge if I am taking out a small amount, as the DWP advocate 'Don't take it all out in one lump; take it out in two or three lumps a week because it will be safer, madam' – and I am paying maybe £1.50, maybe £1.80 a time".[185] She told us that "From our perspective at Citizens Advice, we really think the DWP and the Post Office should sort something out about the charges on these machines so that people using them in post offices, who predominantly withdraw benefit, are not paying a charge to do so".[186]

119. The Prime Minister told the House of Commons on the 29 March 2000:

> "We remain fully committed to the network of nationwide post offices and we want to see them thrive. For that very reason, we have worked with the Post Office to install some 3,000 cash machines nationally at post offices in smaller towns and villages. The first 400 will be installed this summer. We are also working with the Post Office for a longer-term strategy to make sure that we can carry on with the sensible changes to and modernisation of the Post Office that allows those post offices to remain central to local communities."[187]

We asked the Financial Secretary whether it was always expected that over 75% of the machines that were being installed would charge consumers (including benefit recipients) up to £1.50 to withdraw their money. The Minister told us: "I do not recall what the expectation was at that time. I think the ability to get money free at the Post Office over the counter has always been an absolutely essential feature of the Direct Payment arrangements. Being able to get it as well through an ATM, either a free one or a paying ATM, is an extra. The key point is that you can get money free over the counter."[188]

120. We also asked the Post Office whether it was always intended that such a large number of the cash machines that the Prime Minister announced would be installed in Post Offices would charge consumers. Mr Halliday, the Post Office's Director of Banking and Financial Services, told us: "When the Post Office was establishing its banking strategy one of the things it considered at the time was that it was desirable to have a network of

183 Ev 106 para 2.6

184 Ev 134

185 Q 11

186 Q 14

187 HC Debates 29 March 2000, col 340

188 Q 804

ATMs situated alongside the banking business that we do…The 3,000 figure was an aspiration…and the only way that the Post Office and the sub-postmasters were going to achieve that aspiration was to reflect what was happening in the industry”.[189] An alternative to the Post Office seeking arrangements with independent ATM deployers would have been for the Post Office to purchase and operate its own machines. Mr Halliday told us that they had to make arrangements with independent operators as “on top of the money that [the Post Office] were investing in banking services, which we had to invest in to ensure that there was a service in all post offices, we quite simply did not have the capital to invest in the further network of ATMs across our network”.[190] **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; it would be helpful to know when the decision was taken by the Post Office, what other options were considered and why they were rejected.**

The relationship between the Post Office, subpostmasters, and ATM operators

121. From the evidence, it became clear that it is the independent ATM deployers which decided whether to install a charging machine or a free machine in a particular post office. Mr Halliday told us that ATM deployers assessed the footfall and the potential in each location and “put in the machine with the sub-postmaster’s agreement that is most viable for that particular location. In a number of locations clearly they are charging machines”.[191] In their supplementary submission the Post Office confirmed that “The machine provider determines whether or not they are prepared to place an ATM in a branch, and if so whether this will be a free or surcharging machine … No subpostmaster is forced to have an ATM installed. We acknowledge subpostmasters do not have the option to request the removal of a machine if the supplier decides that it is no longer viable to continue to operate it on a free to customer basis”.[192] We asked the Post Office if, when they were deciding whether to install a free machine or a charging machine, they took account of deprivation in a particular area. Mr Halliday reiterated that “We do not decide which type of ATM goes into a particular area”.[193]

122. What is in the interests of the ATM suppliers may not always be in the interests of the individual sub-postmaster or indeed the local community. Cash machine suppliers will be interested in maximising the profit from the individual cash machine. Sub-postmasters will be more interested in the overall commercial viability of their business; they might be willing to make slightly less profit from the cash machine by keeping it free, benefiting instead from the additional footfall and customer spend that a free machine would generate. In addition to this, there may be some cases where it would be commercially

189 Q 649

190 Q 670

191 Q 648

192 Ev 145 para 10

193 Q 717

viable for a charging machine operator to install a free machine, but it would make the charging operator significantly higher profits to install a charging machine.[194]

123. A key factor appears to be the contract between the sub-postmasters and the Post Office. Postmaster network told us: "The existing contract between Post Office Ltd and sub-postmasters restricts the ability of sub-postmasters from carrying out independently many types of business services that POL has reserved for itself…postmasters have no alternative in supply to that provided by POL".[195] For the Post Office, Mr Miller confirmed that cash machines were one of these products. He told us that the Post Office seeks "to ensure that we have a nationwide network of post offices. We would be concerned, if those restrictions were not there, [suppliers] would be able to cherry pick. I think we would find that a relatively small number of post offices would be favoured by suppliers and that we would have less post offices as a result".[196] Postmaster network told us that "with the freedom to choose a cash machine, sub-postmasters would be able to offer the appropriate cash service for their store and their community. The sub-postmaster would be able to determine whether there would be no charges for cash withdrawal or what level they would be depending on the needs of the local community".[197]

124. In recent months the example of a sub-postmaster near Garmouth (Inverness) has been reported in the press. A cash machine had been installed in his premises during 2002. For two years no charges were made for the machine as the sub-postmaster wanted to provide a customer service for the community and recognised the business benefits the customer flow generated. In August 2004, the sub-postmaster received a letter from the Post Office indicating that the ATM operator would be charging £1.50 per transaction from October 2004. In spite of the complete opposition of the sub-postmaster, the charge was imposed. The introduction of the charge generated negative customer reaction and reduced sales. While the charge levied by the machine was £1.50, the sub-postmaster received less than 5p. The nearest free cash machine was over 5 miles away. Postmasternetwork told us that the Post Office (in practice the charging cash machine operator) "centrally determines ATM charging policy for ATMs located in independent retailers' stores, with no reference to the impact on those retailers' business. We believe this is unfair and anti-competitive and puts at risk easy access for all to community services available from stores with sub-post offices. Without commercial freedom most sub-post offices have a very questionable future".[198] The Association of Convenience Stores believed the Post Office's restrictions in their contract with sub-postmasters was "an unjustifiable restriction on retailer choice".[199]

125. **The Post Office has given control over the terms on which ATMs are deployed in post offices to the independent ATM deployers. This is leading to greater numbers of charging machines in post offices than would otherwise be the case, exacerbating problems of financial inclusion. We are concerned that, where a machine is installed,**

194 As noted earlier, free machines which are profitable are not as profitable as a charging machine (Mr Mills, Cardpoint, Q492)

195 Ev 140 para 2

196 Q 650

197 Ev 141–142

198 ibid.

199 Ev 93

the Post Office negotiates and imposes the terms of the agreement without allowing sub-postmaster competitive freedom to negotiate either a viable contract for a non-charging machine or the terms for a charging machine.

126. The Post Office have indicated that there are around 600,000 withdrawals from charging cash machines in post offices every month, meaning there are around 7.2 million withdrawals made each year for which a charge is levied. The LINK database indicates that the average charge for a charging cash machine in the Post Office is around £1.40, so that over £10 million is being paid annually by customers to withdraw their money from charging cash machines in the Post Office. However, the Post Office told us that they "do not make a profit from charging ATMs".[200] When asked who was making money out of charging ATMs in Post Offices, Mr Halliday told us "that is a question that needs to be addressed to the deployers of the machines".[201]

127. **Under the present arrangements, post office users are incurring significant costs (over £10m) in the form of ATM charges, thereby threatening efforts at addressing financial exclusion—with apparently little contribution being made to the viability of individual sub-post offices or the Post Office network. The Post Office could have entered into different arrangements to ensure cash machine provision, such as contracting out cash machines provision while keeping control over charging policy.**

Information for customers about free counter withdrawals

128. Under the arrangements setting up universal banking services in 2003, the public can gain access to cash drawn from a current account held with most (but not all) of the major banks and building societies, and from any basic bank account, free of charge over a post office counter. If the alternative is a charging ATM, then in areas of financial exclusion this can be a valuable service. However, as the Minister told us, "people going into post offices do need to know that they can get their money free over the counter and they may have to pay at an ATM".[202]

129. We examined whether this was in fact the case, using information provided to us by LINK. This showed that at the post office in Speke in December 2004 there were 802 LINK cash withdrawals made over the counter and 323 cash withdrawals made at the charging ATM within the premises,[203] so nearly 30% of the withdrawals were taken from the surcharging ATM. Presumably, people used the surcharging ATM instead of over-the-counter services either because they were unaware that they could withdraw cash free from the counter or because there may have been a long queue. Analysis of these figures by LINK showed that *at least* 38% of the transactions, and possibly many more, could have been completed over the counter free of charge.[204] We put this figure to the Minister, who

200 Qq 644–656

201 ibid.

202 Q 800

203 These figures do not include any withdrawals made through Post Office Card Accounts, as these are not sent through the LINK network. Post Office Card Account holders are only able to withdraw cash over the counter and are not able to use any type of cash machine.

204 38% of the transactions were by account holders at one of the institutions allowing free over the counter access at post offices; of the rest, any which were drawn on basic bank accounts could also have been undertaken free of charge at the counter (Memorandum from LINK not reported)

told us: "There does need to be more done to draw people's attention to the facilities for free cash withdrawal over post office counters."[205] We asked the Post Office whether it would be possible to place a sign on the charging cash machines, informing customers clearly that many of them could get cash free over the post office counter. The Post Office told us that "they did not agree with the view expressed by some members of the Committee that we have failed to communicate adequately the message of access to free cash over the counter".[206] However, they said they would look at what further measures they could take "to ensure that all of our customers can get access to cash for free at the counter…However, as we do not own the ATMs we do not have the right to put any kind of label on the machine advertising cash withdrawals over the counter, although we are looking at whether we can put up signs near to machines".[207]

130. **We note that at least 38% of people using a charging cash machine in one post office in a low income area could have made a free cash withdrawal over the counter. There is a need for the Post Office to make additional efforts, by placing signs next to the charging cash machines, to inform customers of some banks that they can make free cash withdrawals at the post office counter.**

131. We also looked at the basic rationale for including charging cash machines in post offices. As we noted earlier, no other bank or building society would consider installing a charging machine in a branch while keeping the transactions done over the counter free. This is because a transaction carried out over the counter is more costly for the bank and will require the customer to queue. Given that the Government is currently trying to enhance the efficiency and quality of public services, it seems strange that the policy of the Post Office is encouraging the public to undertake a transaction at the counter, which is less efficient than one carried out at a cash machine, and is providing a lower quality of service if the customer has to queue. **While we recognise that it is a benefit that consumers (of some banks) can obtain cash free of charge over the counter, members of the public may question why they may have to queue for a service that would be far more efficiently delivered through a free cash machine. We note evidence that no other financial institution would consider installing charging cash machines in their branches as this would result in increased queues and increased cost. No bank does this. We also note that requiring consumers to undertake a less convenient and less efficient transaction at the counter goes against attempts to improve the quality and efficiency of public services.**

Increasing access to current accounts at post office counters

132. Under the universal banking arrangements, UK post offices provide the public with free access to their basic bank accounts and some current accounts over the counter. However, the National Federation of Sub-Postmasters were concerned that "post office access to bank accounts is in fact very limited";[208] this reflects the fact that while all basic

205 Q 792

206 Post Office put forward numbers showing that, overall, 2% of cash withdrawals made at the post office in question in Speke, were conducted at the surcharging machine; however their figures include withdrawals made by Post Office Card Account holders, who are unable to use cash machines. The key figure is the number of withdrawals made from the charging machine that could have been made free over the counter

207 Ev 145 para 14

208 Ev 133

bank accounts provide free access at post offices, three major banking groups—HSBC, HBOS and RBS—do not offer any post office access to their current accounts. These three groups account for around 40% of the current account market. The Post Office told us that "our efforts [to provide universal banking services] are made harder by the difficulty of communicating to consumers the fact that not all banks have entered into agreements with us, and therefore we can provide cash only to customers of selected institutions".[209] For HBOS, Mr Crosby told us that the barrier to an agreement with the Post Office was "purely cost", saying "in negotiations we have had in the past they have been asking to charge us significantly more per transaction than the same transaction would cost inside our branches…if customers told us that [they really want access through Post Offices], and/or the Post Offices gave us a more economic proposition, we would be there".[210] For RBS, Mr Higgins told us that "a basic issue here is that the Post Office is in competition with us".[211] We believe this was referring to the agreement between Bank of Ireland and the Post Office for the supply of financial products through Post Office branches.

133. **We note that some major banks have not yet signed up to allow their current account customers to withdraw cash free over post office counters, a state of affairs which does not help promote access by the financially excluded to their accounts. We also note that while some banks have problems regarding the cost of such access, which presumably can be overcome through negotiations, for others it is a fundamental principle that the Post Office is a competitor in the sale of financial products. We hope these problems can be overcome and that HSBC, RBS, and HBOS will soon allow their current account customers to withdraw cash over the post office counter. This would convince us of their commitment to tackling financial exclusion.**

The Direct Payment programme for benefits

134. Under the 'Direct Payment' programme, the benefit book system is being replaced by the method of direct payment into recipients' bank accounts. Recipients can choose to have payments made into their current or basic bank account, or open a Post Office Card Account (an account designed for the payment of benefits that can only be accessed at the post office). As noted by APACS, the system of direct payment will result in increased cash machine usage by those recipients who previously collected their benefits from the Post Office.[212]

135. In response to a parliamentary question asking what assessment had been made of the impact of ATM charges on (a) financial inclusion and (b) low incomes, the Treasury stated "no such assessment had been made".[213] Following this, the Minister told us that "if there was to be a problem, the Department of Work and Pensions would be aware of it and then there would be a need for action". When asked whether he would know if there was a

209 Ev 143

210 Q 411

211 Q 412

212 Ev 88 para 5

213 HC Deb 8 Feb 2005, col 1398W

problem, if the Treasury had not made any assessment of the issue, he responded "if there was a problem we would be aware of it".[214]

136. In a subsequent letter the Minister made reference to research undertaken by the DWP and told us: "Customers were specifically asked to list the disadvantages of Direct Payment. Being charged to access their cash was not listed as a disadvantage, supporting DWP's view that their customers are able to access their cash free of charge without having to pay ATM charges."[215] On examining the research we note that benefit recipients were not asked whether they had incurred cash machine charges when accessing their benefits. The research did ask consumers which methods they used to withdraw their benefit. The most common method was using a cash machine at the bank or building society (used by 45% of customers). However, 27% of benefit recipients used cash machines at the supermarket or other shops and 8% used cash machines at the post office. Given the prevalence of charging cash machines in these locations, it is likely that some of those making these withdrawals will have been charged to access their benefits, though in the absence of more detailed information it is impossible to conclude what proportion of benefit recipients have paid charges or how much in total they have paid.

137. The sort of problems that might be faced by benefit recipients with charging cash machines were illustrated by a letter we received from a pensioner. [216] There were no banks in his local area and his current account did not allow access at the Post Office. He was faced with the choice of having his pension paid into his bank account and paying to travel to the bank to get living expenses, or to pay £1.75 for each withdrawal at a local cash dispensing machine, from a pension of just over £80 a week. He could open a basic bank account or Post Office Card Account, but this would involve a lot of trouble and would be a downgrade in quality compared to his existing bank account.

138. It is therefore likely that some benefit recipients, despite the alternatives theoretically available, will have found themselves using the charging cash machines located inside post offices to withdraw their benefits. The Minister did not know how many of the 600,000 withdrawals from charging machines in Post Offices were undertaken by benefit recipients.[217] **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 the switch to direct payment of benefits does not disadvantage recipients in the way they access their cash.**

139. We examined some of the guidance provided to benefit recipients when they are transferred to Direct Payment.[218] Although the relevant DWP leaflet lists basic bank accounts and current accounts that "you can use at the Post Office without charge" and the

214 Q 789

215 Ev 171

216 Memorandum not reported

217 Qq 669-670

218 A guide to Direct Payment, Department for Work and Pensions: www.dwp.gov.uk/directpayment/pdfs/direct.pdf

characteristics of certain accounts including "free cash withdrawal", it does not contain any mention that some cash machines (including many in post offices) will make a charge for cash withdrawals. The Minister conceded that "it may well be" reasonable for some sort of information about the extent of charging cash machines to be included within the DWP guidance.[219] **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.**

Post Office: general conclusion

140. **The large network of the Post Office and its presence in many locations without a bank branch gives it a unique opportunity to tackle financial exclusion. The Post Office needs fundamentally to re-examine its policy concerning charging cash machines. Delegating all decisions regarding cash machine charges to the independent operators will not provide the result that is in the best interests of the local community or the sub-postmaster. Given the role of the Post Office both in the delivery of benefits and in sustaining local communities, it has a particular responsibility to ensure that (if commercially viable) a free machine is installed in areas that lack access to free cash withdrawals.**

219 Q 799

6 Conclusions

141. The evidence we have received has shown that there are significant issues arising from the current state of the ATM market. Our inquiry has been timely. We have made a range of recommendations about steps which need to be taken. The key areas in which action is required from Government, regulators and the industry are set out below.

- **Growth of charging machines***:* The number of charging cash machines has grown strongly in recent years. While these may have increased consumer choice in some areas, it is important they do not displace consumers' free access to cash. All witnesses agreed that the number of charging machines will grow further, though opinion differed as to how far the trend would go. There would be important public policy concerns if, away from existing branches, free access to cash withdrawals declines as banks sell or close their existing network and the remaining machines are concentrated in fewer locations. The Government needs to keep developments under review.

- **Transparency and clear signage**: To make an informed choice, consumers need a clear and prominent indication of whether machines charge, and the amounts charged, before they begin to use the machine. Improvements have been made in the requirements set down by LINK, but more needs to be done. In particular, LINK should set larger minimum font sizes for this information so that it is clear. Advertising 'FREE balance enquiries' can be deliberately misleading and should not be permitted.

- **Regulation and the Banking Code:** There is a lack of openness about the way LINK rules are decided and there is no comprehensive enforcement of the LINK rules on transparency. Charging cash machines need to be brought within the Banking Code so that the system of voluntary regulation is responsive to the needs of consumers and is effectively enforced.

- **Financial exclusion**: Cash machine charges may have a disproportionate impact on low-income consumers. If free machines are withdrawn from areas without bank branches then this may exacerbate existing financial exclusion.

- **The role of the Post Office**: 75% of cash machines in post offices charge a fee, and consumers are paying over £10 million a year to use these machines. A number of factors may have been involved (including the Direct Payment programme). This runs counter to the Government's policy goals of tackling financial exclusion and improving the quality and efficiency of public services. There is a need for a fundamental change of strategy: the current arrangements are not in the best interests of sub-postmasters, benefit recipients or the local community.

Conclusions and recommendations

Cash machines in the UK

1. Cash machines are the most important method of cash withdrawal in the UK and are used by millions of consumers every week. Projections from APACS indicate that cash machines will continue to be an important source of cash for many people for the foreseeable future. The move to Direct Payment of benefits will result in many benefit claimants using cash machines to access their benefits. (Paragraph 9)

2. Cash machines are not a service from which only the consumer is the beneficiary. They also help banks by providing a cheaper alternative to bank counters or branches for the provision of access by customers to their accounts (Paragraph 15)

The principle of charging

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)

Trends in the ATM network and prospects for the future

4. The number of charging cash machines has grown strongly in recent years, reaching 37% of the total number of cash machines in the UK. Although only accounting for around 3.6% of total cash withdrawals in October 2004, it is estimated that over the past twelve months consumers have paid around £140 million in cash machine charges. The number of free machines has also increased in recent years. But while this should represent an increase in consumer choice of non-charging locations for cash withdrawals, there is some question—because of such factors as increased concentration of machines—of how far this is actually the case. There is a need for LINK to conduct research to assess the extent to which the growth in free machines has increased access to free machines in terms of the number of generally available and genuinely different sites. (Paragraph 28)

5. The number of free cash machines located in bank and building society branches has remained broadly constant in recent years. Given the continuing numbers of branch closures, it is likely that this has resulted in an increased concentration of the remaining free machines inside a lower number of branches. Provided the LINK agreement remains in force and banks continue to offer free banking for personal customers, at present there seems little threat to continued free access to all cash machines located in bank and building society branches. (Paragraph 32)

6. The independent charging operators are engaged in a commercial attempt to expand their business. While this will result in cash machines in previously unserved or "greenfield" locations, it will also result in a trend of free machines being forced out of sites and replaced with charging machines. There was a consensus that the trend of free machines being forced out by charging ATMs would continue, although there were different views as to how far. Quieter low volume locations, with no other free ATMs or bank branches nearby, may be at particular risk of conversion to charging. (Paragraph 37)

7. The sale of 816 free machines by HBOS and the conversion of around 250 of them to charging is a noteworthy development. Banks and building societies, as with HBOS in this case, will have an incentive in terms of profit-generation to go down this route, with the consequences in terms of higher charges being picked up by the consumer. If others follow suit, there could be conversion of a large number of free ATMs to charging and significantly lower access to free cash withdrawals for many consumers. There may be alternatives to such deals which would result in the continuing availability of free cash withdrawals at some of these locations, although we note comments from Mr Crosby that if HBOS had not sold many of these machines, they would have been forced out of the sites anyway over the next two years. (Paragraph 45)

8. The mechanism by which the interchange fee is calculated may give banks an incentive to pursue efficiency savings by reducing the availability of free cash machines in low footfall areas, although there were differences of opinion amongst witnesses about the significance of this incentive. We are not, however, persuaded that allowing the charging operators to receive the interchange fee, in addition to the surcharge, would be an efficient way of addressing the issue. (Paragraph 51)

9. The attitude of the site owner is very important in determining whether a cash machine on their premises is free of charging. In some circumstances site owners will identify a financial advantage in introducing charging rather than free machines. This adds a further concern over the long-term sustainability of a comprehensive free network. (Paragraph 55)

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)

11. The large network of free cash machines in the UK provides considerable benefits both to consumers and to the banks. We welcome continued commitments from major banks that they will not introduce charges for any of their machines. Currently, the availability of free machines at bank branches seems assured, although

the overall number of bank branches may decline. However, 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. (Paragraph 63)

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 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)

13. It would be extremely helpful, to enable government and others adequately to monitor trends in the cash machine market, for the quality of the LINK database to be improved. LINK should regularly publish on their web-site the number of free and charging machines and how the numbers have changed in recent years (indicating the numbers which have been converted from free to charging, and data on concentration of free machines), with information on the number of withdrawals that attract a charge. We also recommend that the OFT payments system taskforce should conduct research into the geographical distribution of cash machines as part of its work into the efficiency of payment systems. (Paragraph 66)

Transparency of charges: the present situation

14. In areas where there is sufficient access to free cash withdrawals, it is fundamentally a matter of choice whether a consumer uses a charging cash machine. The industry has a duty to provide consumers with sufficient information to enable them to make an informed choice. Poor standards of transparency surrounding ATM charges are detrimental to consumers, in that they result in charges being incurred unnecessarily and make the practice of shopping around to find the cheapest cash machine difficult. They also hinder competition in the cash machine industry. The importance of transparency becomes all the greater as the number of charging machines increases. (Paragraph 68)

15. The way interchange fees are paid by a customer's bank to the charging machine operator gives the charging machine operator an incentive to delay notification of charges until the last minute. This is clearly against the consumer's interest. This increases the importance of clear and enforceable rules being applied by LINK to ensure that charging machines display clear and prominent warnings concerning the charge before the card is inserted, as we discuss below. (Paragraph 70)

16. To provide information about charges at knee height or in hard to read small print is totally unacceptable. That such practices have been allowed to persist reflects badly on LINK and on the industry. (Paragraph 72)

17. In the overwhelming majority of cases the consumer will be charged as a result of using a [charging] machine, whether that charge is levied by the machine or by the card-issuer. The notice that the machine "may" charge is disingenuous and does little to inform consumers. (Paragraph 73)

18. There was a broad consensus amongst consumer groups and the high street banks and building societies that the requirements currently applicable to LINK members for notification of charges were inadequate and that standards needed to improve. (Paragraph 75)

Transparency of charges: improvements needed

19. We welcome the new improvements to transparency agreed by LINK, which we believe show a welcome recognition by much of the industry of the need to improve standards. It is important, however, that the commitment to improved standards is held, and honoured, right across the industry. It was disappointing to learn that some of the independent charging cash machine operators voted against the limited new transparency requirements. We hope that this does not imply a lack of commitment on their part to the process of raising standards. Their degree of commitment to implementing the new arrangements will enable us to judge. (Paragraph 78)

20. The new improvements 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 recommend that the amount of the surcharge should be clearly indicated on external signage and any signs that advertise the presence of the machine. A larger minimum font size should be set for these warnings so the sign is visible from a distance. (Paragraph 83)

21. We welcome continuing moves by banks to indicate clearly that their cash machines do not impose a surcharge on consumers, and would encourage all ATM operators to do this for their non-charging machines. (Paragraph 84)

22. 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. (Paragraph 85)

23. Prominently advertising 'free' balance enquiries can be a deliberate attempt to confuse consumers. We believe the word 'free' should not be permitted on any cash machine that levies a surcharge to the consumer. The word 'free' should also not be permitted on any marketing or advertising material informing consumers of the presence of the charging cash machine. (Paragraph 86)

24. When a machine is converted from free to charging it is important to give consumers advance notice of the change. We recommend that the LINK rules should be amended to require a clear and prominent warning at least 30 days in advance where a machine which was previously free is to be replaced by a charging machine. We welcome the move by HBOS to place such notices on the machines that it is transferring to Cardpoint. We believe that such a notice should be required under the LINK rules. We note the requirements in the Banking Code for banks to notify customers when closing the last branch within a specified distance. We believe that similar requirements should be introduced when removing the last free cash machine within a specified distance. We ask the BCSB to develop proposals for this before the end of 2005. (Paragraph 89)

25. We are concerned that a small recent study suggested that amongst the charging machines surveyed there was only 50% compliance with the LINK requirements. If voluntary regulation is to be effective, it is essential that there is an adequate programme of monitoring and enforcement in place to identify failings. The LINK process of enforcement has been ad hoc and inadequate to protect consumer interests. (Paragraph 90)

26. We welcome moves by LINK to strengthen its capability to monitor and enforce the requirements for transparency of cash machine charges. LINK should, before the end of this year, publish details of the way it has monitored and enforced its transparency rules, so the effectiveness of these rules can be judged. (Paragraph 91)

27. Different views were put forward concerning consumer awareness of charges. Independent research into consumer awareness of charges and the factors that drive consumer behaviour when deciding which cash machines to use would be beneficial. We recommend that this should be undertaken by LINK in conjunction with the consumer groups and published in full. The research should also examine the approaches taken by the charging cash machine operators to implementing the new LINK transparency requirements and make recommendations for change. (Paragraph 92)

Regulation of the ATM industry

28. LINK should take steps to improve consumer representation within its organisation. Consumer groups could be invited to attend relevant meetings of LINK or invited to sit on working groups, so that their views can be taken into account. Openness would also be improved if the details of how member organisations had voted on consumer issues were made known. (Paragraph 94)

29. The approach by LINK to self-regulation in respect of enforcement, illustrated by the absence of a systematic mechanism for enforcement of its transparency requirements (already discussed above), is totally inadequate for a part of the financial services industry used by millions of consumers each year. An absence of effective self-regulation beyond this year would not be acceptable. (Paragraph 95)

30. We recommend that the Banking Code be amended to ensure that it applies automatically to any of the main subscribers' subsidiaries which are engaged in banking-related businesses. (Paragraph 97)

31. The Banking Code is a good model of self-regulation. It is independently reviewed taking into account the views of consumer groups, industry and government. The Banking Code Standards Board conducts a systematic programme of monitoring and enforcement. We believe that negotiations should begin immediately for the Banking Code to be extended to cover all charging cash machine operators, with a view to the negotiations being concluded by the end of the year. The Code should be amended to include the new transparency requirements agreed at the LINK meeting on 14 December 2004. All charging cash machine operators should sign up to the Banking Code, and become subject to its processes of monitoring and enforcement. (Paragraph 100)

32. Excessive notice periods for the removal of a free-standing charging machine and unduly long contracts could be hindering competition. We recommend that the OFT conduct a short investigation into the length of contracts between small business owners and charging cash machine operators to determine whether they are 'hindering, restricting or distorting' competition. (Paragraph 102)

Financial exclusion: general

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)

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)

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)

36. We note calls for the surcharge to be calculated on a variable rather than fixed basis. Although this might be fairer to consumers withdrawing small amounts, we note that due to the high fixed costs of a cash machine any sliding scale would start at a high level. We also note that a sliding scale (unless calculated on the same basis across the industry) might reduce transparency as consumers would have difficulty knowing how much they were going to be charged before using the machine. The fact that fixed surcharges can impact disproportionately on those on low incomes enhances the importance of ensuring that such groups have sufficient access to free cash withdrawals. (Paragraph 114)

37. Competition between operators should ensure there is no need for a cap on pricing, provided there are sufficient numbers of free machines and there is clear signage concerning the level of charges. (Paragraph 115)

Financial exclusion: the role of the Post Office

38. 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; it would be helpful to know when the decision was taken by the Post Office, what other options were considered and why they were rejected. (Paragraph 120)

39. The Post Office has given control over the terms on which ATMs are deployed in post offices to the independent ATM deployers. This is leading to greater numbers of charging machines in post offices than would otherwise be the case, exacerbating problems of financial inclusion. We are concerned that, where a machine is installed, the Post Office negotiates and imposes the terms of the agreement without allowing sub-postmaster competitive freedom to negotiate either a viable contract for a non-charging machine or the terms for a charging machine. (Paragraph 125)

40. Under the present arrangements, post office users are incurring significant costs (over £10m) in the form of ATM charges, thereby threatening efforts at addressing financial exclusion—with apparently little contribution being made to the viability of individual sub-post offices or the Post Office network. The Post Office could have entered into different arrangements to ensure cash machine provision, such as contracting out cash machines provision while keeping control over charging policy. (Paragraph 127)

41. We note that at least 38% of people using a charging cash machine in one post office in a low income area could have made a free cash withdrawal over the counter. There is a need for the Post Office to make additional efforts, by placing signs next to the charging cash machines, to inform customers of some banks that they can make free cash withdrawals at the post office counter. (Paragraph 130)

42. While we recognise that it is a benefit that consumers (of some banks) can obtain cash free of charge over the counter, members of the public may question why they may have to queue for a service that would be far more efficiently delivered through a free cash machine. We note evidence that no other financial institution would consider installing charging cash machines in their branches as this would result in increased queues and increased cost. No bank does this. We also note that requiring consumers to undertake a less convenient and less efficient transaction at the counter goes against attempts to improve the quality and efficiency of public services. (Paragraph 131)

43. We note that some major banks have not yet signed up to allow their current account customers to withdraw cash free over post office counters, a state of affairs which does not help promote access by the financially excluded to their accounts. We also note that while some banks have problems regarding the cost of such access, which presumably can be overcome through negotiations, for others it is a fundamental principle that the Post Office is a competitor in the sale of financial products. We hope these problems can be overcome and that HSBC, RBS, and HBOS will soon allow their current account customers to withdraw cash over the post office counter. This would convince us of their commitment to tackling financial exclusion. (Paragraph 133)

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)

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)

46. The large network of the Post Office and its presence in many locations without a bank branch gives it a unique opportunity to tackle financial exclusion. The Post Office needs fundamentally to re-examine its policy concerning charging cash machines. Delegating all decisions regarding cash machine charges to the independent operators will not provide the result that is in the best interests of the local community or the sub-postmaster. Given the role of the Post Office both in the delivery of benefits and in sustaining local communities, it has a particular responsibility to ensure that (if commercially viable) a free machine is installed in areas that lack access to free cash withdrawals. (Paragraph 140)

Formal minutes

Tuesday 15 March 2005

Members present:

Mr John McFall, in the Chair

Mr Nigel Beard	John Mann
Mr Jim Cousins	Mr George Mudie
Angela Eagle	Mr James Plaskitt
Mr David Heathcoat-Amory	

The Committee deliberated.

Draft Report (Cash machine charges), proposed by the Chairman, brought up and read.

Ordered, That the Chairman's draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 and 2 read, amended and agreed to.

Paragraphs 3 and 4 read and agreed to.

Paragraphs 5 to 7 read, amended and agreed to.

Paragraphs 8 to 13 read and agreed to.

Paragraph 14 read, amended and agreed to.

Paragraphs 15 and 16 read and agreed to.

Paragraphs 17 and 18 read, amended and agreed to.

Paragraphs 19 and 20 read and agreed to.

Paragraph 21 read, amended and agreed to.

Paragraphs 22 to 31 read and agreed to.

Paragraph 32 read, amended and agreed to.

Paragraphs 33 to 54 read and agreed to.

Paragraph 55 read, amended and agreed to.

Paragraph 56 read and agreed to.

Paragraph 57 read, amended and agreed to.

Paragraphs 58 to 63 read and agreed to.

Paragraph 64 read, amended and agreed to.

Paragraphs 65 to 69 read and agreed to.

Paragraph 70 read, amended and agreed to.

Paragraphs 71 and 72 read and agreed to.

Paragraph 73 read, amended and agreed to.

Paragraphs 74 to 77 read and agreed to.

Paragraph 78 read, amended and agreed to.

Paragraph 79 read and agreed to.

Paragraphs 80 and 81 read, amended and agreed to.

Paragraphs 82 to 84 read and agreed to.

Paragraphs 85 and 86 read, amended and agreed to.

Paragraphs 87 to 89 read and agreed to.

Paragraphs 90 and 91 read, amended and agreed to.

Paragraphs 92 to 94 read and agreed to.

Paragraph 95 read, amended and agreed to.

Paragraphs 96 to 99 read and agreed to.

Paragraph 100 read, amended and agreed to.

Paragraphs 101 to 114 read and agreed to.

Paragraph 115 read, amended and agreed to.

Paragraphs 116 to 132 read and agreed to.

Paragraph 133 read, amended and agreed to.

Paragraphs 134 to 137 read and agreed to.

Paragraph 138 read, amended and agreed to.

Paragraphs 139 to 140 read and agreed to.

Paragraph 141 read, amended and agreed to.

Summary read, amended and agreed to.

Resolved, That the Report be the Fifth Report of the Committee to the House.

Ordered, That the Chairman do make the Report to the House.

Several papers were ordered to be appended to the Minutes of Evidence.

Ordered, That the Appendices to the Minutes of Evidence taken before the Committee be reported to the House.

Several papers were ordered to be reported to the House.

Ordered, That the provisions of Standing Order No. 134 (Select committees (reports)) be applied to the Report.

[Adjourned till Monday 21 March at 3.00 pm

Witnesses

List of written evidence

List of unprinted written evidence

Additional papers include the following, which have been reported to the House. To save printing costs they have not been printed and copies have been placed in the House of Commons Library where they may be inspected by Members. Other copies are in the Record Office, House of Lords and are available to the public for inspection. Requests for inspection should be addressed to the Record Office, House of Lords, London SW1 (Tel 020 7219 3074); hours of inspection are from 9:30am to 5:00pm on Mondays to Fridays. (Alternatively, inquiries may be made on 020 7219 1975.)

Birmingham City Council
LINK

Oral evidence

Taken before the Treasury Committee

on Tuesday 21 December 2004

Members present:

Mr John McFall, in the Chair

Mr Nigel Beard	Mr David Heathcoat-Amory
Angela Eagle	John Mann
Mr Michael Fallon	Mr James Plaskitt

Witnesses: **Mr Laurence Baxter,** Senior Policy Adviser, *Which?,* **Mr Philip Cullum,** Deputy Chief Executive, National Consumer Council, **Ms Teresa Perchard,** Policy Director, Citizens' Advice Bureau, and **Ms Jenny Hickson,** Financial Skills Tutor, examined.

Q1 Chairman: Good morning. Welcome to this first evidence session on the cash machine charges inquiry. What is your organisation's position on the strong growth of charging cash machines that we have seen in 1999–2000, and has this development been advantageous for the consumer given that there is a growth in areas where there is a convenience machine and people have the opportunity to get a hand?

Ms Perchard: Looking at the evidence, particularly the evidence put forward by *Which?,* which I think is very helpful in giving us a factual context for some of the views that we have put forward and the views that NCC have put forward, I think overall mixed feelings on the impact for consumers of the growth in these machines. On the one hand, they are introducing a facility for access to cash in areas that either have been left by the banks or where consumers did not have easy access to cash, perhaps in a more secure environment, in a shop or a post office, where people have become quite fearful in some areas about using cash machines on the street, but on the other hand, where these machines are and who may be using them or for whom they may be intended carries a price, which people on low incomes will be ill able to afford. So I think in terms of overall views on the strong growth, they are mixed, and I think worrying about where we might end up with charging machines.

Mr Cullum: I absolutely share that view. I think there are some situations where it has been helpful; it has extended people's access and given them choice in some circumstances. I think we are quite concerned about this term "convenience", which I am not sure really captures the range of experience that people have. There are, I think, circumstances where there are lots of high streets in London which have lots of banks which are free. If you are in a shop or a pub or a shopping centre and you think, "Do I want to pay £1.50 and use the machine that is nearby or do I want to walk a couple of hundred metres down the road?" that is clearly a matter of convenience and that is a useful option for consumers to have. I think when we are talking about areas where there are not any banks and the charging machines are the only ones which are there, whether that is a low-income area or a rural area, there are much more severe issues, and I think it is unhelpful to talk about those as being convenience; that is about access. We are concerned about the extent to which there is a kind of blurring of the free machine market and the paid for machine market, particularly with people like Royal Bank of Scotland owning Hanco, who provide a lot of the paid for machines. What does that say about the way some of the banks think about cash machines? Is it about service or is it just about trying to make money out of a particular service?

Q2 Chairman: Given the Royal Bank of Scotland situation and Hanco, and also the 800 cash machines owned by HBOS, are you worried about any trend that is building up here?

Mr Cullum: We are worried about it, and the question is what does that say about the mindset of the banks? Would that put them off trying to extend their network? We would argue that there are areas which are not well served at the moment that the banks should be trying to get into and provide a free service. Clearly, if there is an imperative where they say, "Our other arm can provide this and we can earn money from it," that would suggest that they might not provide that sort of service.

Q3 Chairman: Laurence Baxter, you have given us the most detailed submission of all. Is there not a lot of brouhaha here for nothing? What are your main concerns regarding the growth of charging cash machines? Surely it must be good for the consumer?

Mr Baxter: In a sense, yes, but on the other hand, it could be potentially bad for consumers. *Which?*'s position on charging cash machines is that we think all consumers should not be denied free access to their own money. It is that simple. We have no particular concern with the principle of convenience machines, provided they meet three conditions: first, we think that all ATMs, both free and charging, should be suitably labelled as such. This is not happening, and *Which?* has developed a solution to this which we would like to share with you this morning. Second, we think that charging machines should not threaten consumers' free access to their own money, no matter how well labelled they are. We are concerned that many consumers simply cannot make the choice of using a free or charging machine, even if they want to, owing to the rather aggressive growth of charging machines in the last few years. Finally, we think the charge itself is disproportionate to the actual cost of the transaction. This is not really reflective of a situation that benefits consumers at all.

Q4 Chairman: So you are looking for a sliding scale?
Mr Baxter: We would like both a sliding scale and a cap, and I would like to get on to that later this morning. The growth of charging machines could constitute a threat to consumers. We are seeing a fast growth in the last few years as charging machines right now, already, constitute the majority of all the ATMs away from branches. Yes, indeed, there is a 3% growth in free machines, and I am the first to say that, but charging machines have been growing much faster and it is not inconceivable to see a situation in the future where virtually all the cash machines in the non-branch network are dominated by these charging, independent providers, and those would threaten the free machines that do still exist.

Q5 Chairman: If I can get the gist of your answers, are you concerned from a public policy point of view regarding the future of free and charging cash machines? Is that the issue here?
Mr Baxter: Absolutely.

Q6 Mr Fallon: I am struck by the fact that it is the same consumers' lobby that was fretting a few years ago about bank branch closures that is now fretting about the fact that machines have popped up to take their place. Is it not a little naïve to worry about consumers having free access to their money when the cost of them having access to that money through inefficient bank branches was, of course, greater? There is no such thing as free access to your money, is there? There is a cost to running a branch, a banking network, whether it is a machine or whether it is a branch.
Mr Baxter: Of course, you have to consider the operating costs of bank branches or machines.

Q7 Mr Fallon: It cannot be free in any case; it is a rather misleading term to use, is it not?
Mr Baxter: Non-surcharging. Free not to use, to actually withdraw your money. I must also emphasize that cash machines have become more efficient in the last few years. The LINK interchange fee, which is basically the cost of transactions between the free cash machines operated by the banks and building societies, was about 38–39p per transaction about four years ago. It is down to 31p now. This shows that the cost of the transactions is actually coming down. The LINK interchange fee seems to work very well for consumers, and it encourages banks to be more efficient about the way they site their machines. What is skewing this equation here is the entry of these charging machines that are able to charge £1.50 or £1.75—basically what they want—and threaten that free access.

Q8 Mr Fallon: Who are you to decide what the test of convenience is? You began by saying you were not sure that some of these locations really were convenience locations. If they are inconvenient, and the charges are clear, consumers will decide for themselves whether to not to pay, will they not? The test, surely, is transparency, whether the charges are clear or not.
Mr Cullum: You are right in identifying that one issue. It feels like there is a groundswell of opinion, both on the consumer side and increasingly in the industry, that there does need to be clarity of labelling. It is not very clear at the moment. "You can check your balance for free" is a slightly disingenuous way of putting it. It is a bit like food being 92% fat-free. But I think there are issues about the location of the machines and whether people are really getting a choice. To go back to the point I was trying to make, it is fine if you are in an area where there is a choice of free machines and not free machines. If you are in an area where there is only one that charges, that is not a choice and it is not really a question of convenience. That is about access and getting a service.

Q9 Mr Fallon: It is also about central planning. Have you written the same sort of paper telling people where to put their petrol stations?
Mr Cullum: What we have done is looked at areas like—and there are rules on it—post offices and the location of post offices. There is a procedure. Some of these services are essential. One of the points, going back to the charging issue, is that arguably, we have already paid for all of this. One could envisage an entirely different banking system in Britain which is more equivalent to other countries, where you pay per transaction, you pay for each direct debit, you do pay every time you withdraw money, and you have a higher interest rate because you pay as you use the system. That was a perfectly imaginable system; it is just not the one we have, but it does feel like the institutions are increasingly trying to have their cake and eat it. They are trying to run the service with a fairly low or often no interest rate on the premise that we then get everything thrown in for free, but then they are starting to charge for individual items. We are uncomfortable with that.

Q10 Mr Fallon: Processing individual items has always had a cost to it. It cannot be free in any case.
Mr Cullum: No, it cannot be, and that is why consumers are effectively paying for it already, as I say, by the fact that they are foregoing the interest rate that they would get in another situation.

Q11 Mr Fallon: You have said this morning that this is potentially bad; that it could constitute a problem. Are you here to actually present us with a problem or not?
Ms Perchard: This issue really crystallises: here we are in SW1. There is one of these machines in the QEII Centre, round the back, near the cloakroom, but then there are some bank ATMs within a few hundred yards' walk. If I do not want to use that one, I can nip outside, go up Victoria Street, and try

a series of ATMs for free. But if I live in North Speke, which is where Jenny, my colleague, comes from, all I have is convenience cash machines, and they are miles apart. One of them is in the post office, and I have just been encouraged by the DWP to have my benefit paid into a bank account, and I can take cash out at the post office. There are huge queues, and it is of benefit to the Post Office for me to get my cash out from this machine, but I get quite a hit in the charge if I am taking out a small amount, as the DWP advocate—"Don't take it all out in one lump; take it out in two or three lumps a week because that will be safer, madam"—and I am paying £1.50, maybe £1.80 a time. Coupled with that, this is often presented in a way that you may see "Free balance inquiry", it is quite a way into the transaction, and you have queued up to use the machine before you realise what the charge is, and it is quite embarrassing to pull away, and you do not have a bank ATM that is not going to charge you within a few hundred yards' walk; you have got a bus ride. I do not know if Jenny would like to say any more about that.

Q12 Chairman: Did you say there are no free machines in Speke?
Ms Hickson: Our office is centrally based in the Parade. The nearest one is a one and a half mile walk. The second nearest one is three miles. There are two or three charging ones within the Speke estate. The Speke estate is actually quite isolated.

Q13 Mr Fallon: It follows from that that you would like to see the banks obliged to provide free machines by law in disadvantaged areas. That is what you want.
Ms Hickson: I think it would make a vast difference, yes.
Ms Perchard: John was right when he said this raises a public policy concern. We have the collision of a social policy interest with a market, market forces, and how do you get the balance between that, when you have consumers and different choices open to them and different abilities to pay, and a different experience of the charge proportionate to their transaction? We are perfectly legitimate in raising a concern that this might hit most heavily those people on lowest incomes.

Q14 Mr Heathcoat-Amory: I understand that consumer organisations always want everything to be free, but these are real costs that have to be borne by someone. It seems to me that it is a rather healthy development that the independents, IADS, have come into the market to provide charging machines in the areas which the others have not reached. I understand the free machines are still increasing in number, though slowly, but what we have really seen is the growth of these independent charging machines. Certainly in my area, in Somerset, the convenience stores have come to rely on those as bringing customers in. I have not actually had any complaints from either side about the charging. Are you asking for a cross-subsidy here? Let us be clear what you want. You want to interfere with the market and make them all free, and transfer the cost somewhere else. Is that your request?
Mr Baxter: I would like to answer that.
Ms Perchard: We all have slightly different views on this issue. We all want very clear labelling on the outside, before you start, so you do not get sucked in. Certainly, from our perspective at Citizens Advice, we really think the DWP and the Post Office should sort something out about the charges on these machines so that people using them in post offices, who predominantly withdraw benefit, are not paying a charge to do so. That obviously involves some kind of subsidy, or who is paying basically is the issue. At the moment, the costs are being displaced on to the consumer. Perhaps they should be met, if not in full, possibly in part by the Government, which is promoting banking, and post offices, which are getting a queue-busting device in the post office. What Laurence's evidence highlights is some good questions about whether the charges are too high anyway, so how do you get the charge to the lowest it could possibly be? There is no real choice in some areas driving down price.

Q15 Mr Heathcoat-Amory: I want to be clear here. There is a cost, and you want that cost transferred. I think you have to be specific about who is going to pick up that cost—the Government, the Post Office, the banks, the convenience stores. It is very easy to say it has got to be free. The difficult thing—and I do not think you have answered this yet—is what are these costs that you want to transfer and who is going to pay those costs?
Mr Baxter: First of all, let us just get the facts of what is actually happening clear here. We are seeing the introduction of these charging convenience machines. Most of them in the last four or so years have been new installations in convenience stores, and this is good in some respects because they provide consumers with access to money that they would not otherwise have, as my colleague says. These machines have been growing considerably in the last four years, quite aggressively, at a rate of about 3,500 new machines, or 10% of the entire ATM network in the UK, per year. These machines will keep growing, because the charging companies, the IADs, are looking to further access this market. They will only grow as far as there will be places to put these new machines. Eventually, they will start cutting into the free network, the existing free machines, and that is already starting to happen.

Q16 Mr Heathcoat-Amory: I am going to stop you: so it is a potential development you are worried about? I am trying to pin you down about what is happening now.
Mr Baxter: No, it is already happening. This worst case scenario is already beginning to happen. HBOS this year sold 82% of its non-branch network, virtually all its machines away from branches, to Cardpoint. Customers of HBOS will now be charged for many of those machines, and Cardpoint is looking to make more charging; their CEO said that in their annual report just a few weeks ago. This is a

problem, because a free machine is basically turned into a charging one, and that is causing the other banks to consider "Maybe we could get out of this whole LINK interchange fee thing and cut our costs here, possibly get rid of the rest of our non-branch machines."

Q17 Mr Heathcoat-Amory: You keep saying about the future. This is Mr Fallon's point. He asked you about this, because it is not the future we are worried about; it is here and now. We hear in the evidence that the number of free machines is still going up.
Mr Baxter: Very slightly though, but much less so than the charging machines.

Q18 Mr Heathcoat-Amory: Is it not a good thing to have competition coming in? Normally consumer groups are afraid of big banks and big building societies dominating the market. I am very influenced by my own rural area in Somerset, I have to accept. I have seen the growth of this competition, which helps the convenience stores, helps keep them open, which is my concern, and they do charge, but people use them. They do not have to, but they do use them. It seems to me rather a dynamic development.
Mr Baxter: There are three issues related to competition. Competition is a situation where consumers can actually make a choice an informed choice of a transaction before they get into it, and have a choice of using a charging machine or a free one. That is not happening. First of all, many consumers simply cannot make the choice; they have to get their money out of a charging machine. Secondly, they are not even aware, in many cases, that the machine is going to be charging until later in the transaction. Research that *Which?* conducted said that fewer than one in five consumers know which machines are charging and which are not, and that clearly shows that the labelling is simply not working.

Q19 Mr Heathcoat-Amory: We are going to come on to that. I want you to answer the question I started with: what costs do you want to transfer on to other people? Have you quantified the costs and who is actually going to pay them, if they all become free, as you appear to want?
Mr Baxter: What we are trying to do is protect more consumers from having to pay this charge, which is, by and large, grossly disproportionate to the actual cost of the transaction.
Mr Cullum: I think one of the issues is that you do not know what the costs are. Don Cruickshank looked at it in his review. He put it as 15–30p for providing it. We know that the typical charge for a charging ATM is £1.50. What I think would be really helpful when you are interviewing other people is to shed a bit of light on how much the costs are and what is reasonable. Again, when Cruickshank did his review, he talked about extremely high and discriminatory prices from machines. He also talked about inefficient geographic distribution of ATMs, and that is one of the issues that relates to your point, what we think there is but we are not sure, and again, it would be great to shed some light on the clustering effect and perhaps try to get some sort of mapping of where the free machines are, where the charging machines are, map that against socio-economic indicators and geographic mapping, and just try and tease it out. For all of us, our hypothesis, but we were not absolutely sure, is that a lot of the free machines tend to be in the same places, or all on the same high streets, and then the ones which charge are all clustered together as well, so, as Laurence says, there is not real choice for consumers.

Q20 Chairman: So you are looking for a map?
Mr Cullum: I think that would be really helpful.
Mr Baxter: We would also like to see some actual information from these charging providers as to exactly how these cash machines work in terms of costs.

Q21 Chairman: One point you made about the selling of machines by banks to the independent companies. Did you imply there is a double advantage there for the banks? If they have their own free machines, they will pay the LINK interchange fee of 31p, but if they sell them, does that mean that any customer taking money out will not be charged to the bank?
Mr Baxter: Yes, there is a sort of false economy if the machine remains free. You need to understand the LINK interchange fee in order to answer that question.
Chairman: Do not worry about that. We have people coming to deal with that. We will wait for them to come before we ask for your interpretation.

Q22 Mr Beard: You have already said that the current LINK code of practice requiring charging cash machines to display a notice is not really working. The normal form of words is "This machine may charge you for LINK cash withdrawals." "May" is wrong anyway, because if it is going to charge you, it will charge you. You have already said that this wording is not adequate, but you have also said that it is not adequate that customers are only warned about the actual amount they will pay when they have entered their PIN number. When are you saying it would be proper to warn people it is a paying cash machine?
Ms Perchard: They are quite large bits of equipment standing on their own, and it ought to be possible to have this very clearly on the outside of the machine, in very large, clear numbers or letters.
Mr Baxter: Labelling is a critical issue, not only on the screens themselves, but actually physically on the machines, so that consumers can see from a distance, before they start queuing, for example. We have actually come up with a solution. We would like to propose, if we may, that one solution to this could be some sort of universal standardised labelling, some sort of clear indication such as this, *(indicating)* a standardised triangle with the charge on it, and if it is free, it would look like that *(indicating)*.

Q23 Mr Beard: That would be a matter for negotiation. You are actually saying that this is not adequate and it ought to be something that you could detect before you start queuing up. That is the main principle.
Ms Perchard: Absolutely. Just to add to that, why that might be needed, certainly for people who are just transferring to using banking services, who rely on benefits, perhaps people who are older and have not been used to using ATMs, and might use the one in the post office because it is a safe environment, they feel they might be able to take their time or there are people they can ask if it goes wrong, it is very important to have clear information for them about what their options are on getting cash out of a machine.

Q24 Mr Beard: Many cash machines at the moment are misleading and they display a sign saying "Free balance inquiry," so that you are just enquiring about your balance. Do you think that use of the word "free" in that context is deliberately misleading?
Mr Baxter: Yes, most definitely.
Mr Cullum: It is marketing rather than information.

Q25 Mr Beard: Did LINK actually consult consumer groups like yours when they introduced their code of practice?
Mr Baxter: They did, and I must say they have communicated with us quite regularly on this sort of thing. I think it is very much an issue of enforcement. The LINK code of practice was certainly quite useful in terms of improving labelling but in a lot of cases it is simply not used.

Q26 Mr Beard: Are you saying that LINK took your views into account at the time that you were consulted?
Mr Baxter: Yes, they did indeed.

Q27 Mr Beard: But it is not being practised?
Mr Baxter: Unfortunately not. What we would like to see is either LINK doing something about improving their enforcement and actually making sure that banks and independent ATM deployers are actually labelling properly. If that does not work, we would like to see all the Independent ATM Deployers brought under the Banking code, because the Banking Code Standards Board seems to be working quite well.

Q28 Mr Beard: Can we come to that now? If the voluntary arrangement is not working, what form of regulation is required?
Mr Baxter: Self-regulation in the first instance.

Q29 Mr Beard: Self-regulation through what? That is a bit vague.
Mr Baxter: Through the Banking Code. We would like to see the independent ATM deployers signing up to the Banking Code because, after all, they are providing a banking service, just like the banks and building societies.

Q30 Mr Beard: Is that a general view amongst all of you?
Mr Baxter: Yes.
Ms Perchard: It would be a very helpful way of linking them into what is a network issue, and if it was possible to bring them within the scope of the Banking Code, that also brings with it the auditing system that is run by the Banking Code Standards Board, which has been incredibly helpful in highlighting issues about compliance with the Banking Code, and that is what would be essential, to have a trusted system.

Q31 Mr Beard: Your experience of working the Banking Code in other respects is that that would be a way of making sure that they were properly labelled and properly operated? Is that right?
Ms Perchard: It is probably fair to say the Banking Code is probably the best of its type as a self-regulatory system. It is regularly reviewed by an independent reviewer. There is a separate auditing system which publishes findings and helps to keep people on their toes really.

Q32 Mr Beard: That is everybody's view, is it?
Mr Cullum: Yes. It has responded quite well over time and has gradually improved, and that is a positive sign. I guess the point is from a consumer perspective, why does the consumer need to know who owns the machine in order to know what their rights are and the standards it needs to meet? From a consumer perspective, it is just another cash machine.
Ms Perchard: Particularly the fact that the LINK logo is a universal logo that you will see across all the machines is something that consumers might not be ready for, the fact that they are different. You think you are part of the system, have the same protection and consumer rights.

Q33 Angela Eagle: What worries me about the growth of charging machines is that they seem to be over-represented in areas where there are no bank branches. Is that the impression that you get? You talked about having a map earlier, but do you not think there is a problem of real choice for people if the branchless areas are over-represented in the charging machines, which is basically meaning that deprived communities, where transactions are likely to be frequent and of low cost, are actually the ones that are paying the most for access to their own cash?
Mr Baxter: Absolutely. Mapping would be very useful, and especially when free machines turn into charging ones, we would like to see some information as to where these machines are going to be. I am talking post codes here. We did a very rudimentary piece of research. We received a random sample of about 58 communities which had been identified by the Campaign for Community Banking Services as branchless in the last few years, and what we did was we used the LINK ATM locator on their website to find out where the closest free and charging machines were, and not surprisingly, only four communities had no ATM in the area, so ATMs are pretty much in all

communities, but for 24 of those communities, the closest free ATM was 4 km away from the centre, and that is very similar to other evidence you are hearing at this table. It shows that when you look at it from the economics of the whole thing, free ATMs are all very well and good in busy areas, where they will attract a lot of volume, but in quieter areas they are less commercially viable and as a result, you will see the very people who need free machines the most are the very people who are targeted not to get them.

Q34 Angela Eagle: We have a situation where there is lots of competition: people will say you can get cash free out of the supermarket, you can get it out of bank branches, but in areas like Speke, there is not a supermarket, there is not an open branch of a bank and there is not a free cash machine. Is that right, Jenny?
Ms Hickson: That is right.

Q35 Angela Eagle: So what do people in Speke do to try to get hold of their own money?
Ms Hickson: They have the choice of the post office cash machine, which charges, or they join the queue for the post office, or they have to walk a mile and a half at least, or maybe three miles to the nearest supermarket/shop, but that is not 24-hour access; the car park will close and those free ones will be closed down. Even the free ones are not accessible all the time.

Q36 Angela Eagle: Is there an issue here for older people as well, who maybe do not have access to their own car?
Ms Hickson: Yes.

Q37 Angela Eagle: How does that tie in with bus routes and costs?
Ms Hickson: The buses in Speke, for example, are OK between 7 o'clock in the morning until 5 o'clock at night but at weekends and evenings it is not a reliable service, and you also have the cost of the bus fare. If it is going to be costing you 60p for the bus, you might as well pay the £1.50 and not have to go out. It is leaving people with very little choice about what to do.

Q38 Angela Eagle: Part of the evidence we have is that 97% of cash transactions are free, and yet we also know that these new companies made £66 million of profit charging people to get their own cash out last year. The only way I can understand those two figures, putting them together, is that poorer people, who are using frequent but low withdrawals, are paying maybe 10–15% of each withdrawal, and providing these companies with the vast majority of their profit.
Ms Hickson: For elderly people, for example, they may go to the post office three or four times a week and use the cash machine, because they only want to withdraw small amounts, and each of those trips is going to cost them some money. You are also talking about people in communities like Speke that are on very low incomes. They may only have £10 or £12 in their account, and they need £2 or £3 for the children's dinner money, but they have to take out the whole £10 and use the ATM and they are losing £1.50 of their money because they have had to use a cash machine because they have not managed to make the previous withdrawal last the whole week and you have to send the children to school with some bus fare or some dinner money. There just is no choice for them but to go and take that money out and pay that charge.
Mr Baxter: It is also worth pointing out that people on lower incomes tend to use cash proportionally more than other people. They will tend to take out smaller denominations of cash, but they usually have no choice but to use cash because, for example, basic bank accounts do not have debit cards, which other people enjoy, and they do not qualify for credit cards—and we all know the problems about credit cards, do we not? So they are basically forced to use cash, and they cannot use debit cards because they do not have them, so they tend to take out smaller denominations, so they will use ATMs proportionally more than other people would.

Q39 Angela Eagle: Perhaps the solution here, if we cannot have free machines—and I think there is a case for having free machines in certain areas, even if you have to subsidise them—is that perhaps we need to look at the charges and look at whether they should be proportionate to the amounts taken out.
Ms Perchard: Yes. Certainly that is something. We have suggested a number of thoughts in our evidence about proportionality between the value of the transaction, because you pay the same regardless of the amount you are taking out. I understand the reason for that may be the recovery of the high capital costs and the maintenance of the machine, and those costs flow irrespective of the value of the transaction, but here we have what we see as really a social policy issue arising in some areas, where, particularly with the post office machines, the Government is accruing significant savings in benefit handling by transferring people on to banking, and perhaps there should be a recognition that people will need more support with being able to draw money out through machines, which, as people use machines more, will lead to a reduction in counter staff as well. So helping people to use technology to get their cash out by subsidising the price that they pay is something we think should be really seriously looked at by the Post Office and DWP.

Q40 Angela Eagle: Finally, can I ask this. There is a dynamic that worries me going on in this market. There may be people watching this who have cars and think, "It's OK, I can get my own money out free because I can go round to other machines that are free," but there is a dynamic here that worries me which could lead to the end of free access to cash for everybody if this substitution of the existing free networks continues to happen either because banks decide to cut their costs even more—and remember, they cut their costs in the first place to get rid of branches and introduce cash machines free. They are now seeking to cut their costs further. If they do this, there is a possibility, do you think, within a few years—because this has all happened from nothing in the last four years—that we might lose free access to cash completely for everybody?

Mr Baxter: That is very realistic. I think there is a fast scenario and a slow scenario. The fast scenario is the LINK interchange fee. That is up for renewal in December of next year. This time next year the LINK members will be deciding whether or not to keep the LINK interchange fee, and if that does not survive past next year, that will be a disaster for consumers. The slow scenario is basically the non-branch network progressively becoming more and more dominated by these charging ATM providers, the Independent ATM Deployers will be buying more and more machines, and eventually the free branch ATMs will be literally surrounded on all sides by a non-branch network, virtually controlled by the Independent ATM Deployers, charging, basically, what they want. It will simply no longer be commercially viable for anybody to hold a free machine anywhere, and then you will start seeing the branch machines disappearing as well.

Q41 Angela Eagle: Once that happens, of course, the charges could rocket.

Mr Baxter: Absolutely.

Mr Cullum: I think we are already seeing signs of the banks abiding by the letter rather than the spirit of their promises not to charge, so if you put your card into a Royal Bank of Scotland machine at the moment it says "We don't charge." Yes, that is true if you are using a Royal Bank of Scotland branded machine, but not if you are using the machines which they own via Hanco, which do charge, so there is a blurring, and I think it does betray the mindset, of them seeing this as a separate business which they can earn money out of rather than as an overall service. Just to go back to one point that you mentioned earlier and others have picked up on about subsidy, I think you are right. I have a lot of sympathy with Teresa's arguments about post offices and subsidising them and where they are in rural areas they are the only. . .

Q42 Angela Eagle: Or urban areas like Speke. This is not a rural area issue necessarily.

Mr Cullum: I think they are two different things. I was going to say there are the rural areas and there are areas where there are lots of people withdrawing their benefits, but I think we need to be careful about the use of the word "subsidy." What these are are networks. We may have favourite machines that we use regularly, but there will be machines which we will use only once in our entire lives, but we depend on the idea that they are located all over the place and that we can easily use them. So I am not sure it is about subsidising the machines that lots of people use and the machines that not so many people use. That is just a network benefit. We all contribute to it. We are paying, and the costs are spread. So we should be careful about describing that too overtly as a subsidy.

Q43 Mr Plaskitt: Miss Hickson, you were talking about the community in Speke. What sort of population are you talking about? Roughly how many people?

Ms Hickson: Roughly about 15,000.

Q44 Mr Plaskitt: How many of those would you say are on benefit or very low income?

Ms Hickson: Two-thirds of the population would be on benefit.

Q45 Mr Plaskitt: So about 10,000 people in the Speke area. What is the withdrawal charge generally of the charging machines in the area?

Ms Hickson: They are £1.25 and £1.50. I do not think they go above £1.50.

Q46 Mr Plaskitt: You said that some people would visit the machines two or three times a week to make withdrawals. If my maths are right, in the course of a year, those 10,000 people on low income are handing over £250 in fees to access their own cash. So 10,000 people handing over £250 a year to the charging companies. They are drawing quite a lot of money out of the Speke community are they not? That is £2.5 million a year from giving 10,000 people in the Speke community access to their own cash. That is what is happening.

Ms Hickson: I would not know how accurate the figures are.

Q47 Mr Plaskitt: What would £2.5million do if it were invested in the Speke community?

Ms Hickson: I think it would make a big difference. I do not know how to describe the community any more. It is basically a post-war estate that has been built on the south edge of Liverpool. The centre of Speke is a parade of shops. The biggest name is Iceland. There is a convenience shop, a little local shop, a post office and a credit union, and that is basically all that exists in Speke, and around the outskirts of that there may be another two or three convenience stores, and you have to literally drive out of the area or get a bus out of the area to access any kind of banking service. The nearest branch is three miles away.

Mr Cullum: One of the things that is really interesting is that there is a parallel universe. There is the one which has just been described, where people have to pay to get access to their own cash, and then there are the ones we mentioned earlier, where people have debit cards, where people can easily pop into Tesco's or Marks and Spencer's or a whole range of shops and they are desperate to give you money, and they want you to take cash back because they know that it costs them money to handle cash, and so they would much rather you took it away and they got an electronic credit for it. So there is some really odd dynamic going on where in one system, it benefits people for you to take the money for free, and in another system you have to pay to access it.

Q48 Mr Plaskitt: Was there ever a point in the middle of the community in Speke where there was free access to cash?

Ms Hickson: The last bank closed in about 1998. The post office obviously is free access if you do not use the cash machine, and the credit union if you have your benefit or your wages paid directly into the credit union. That is pretty much as open as a post office, but not outside of 9–5 hours, no.

Q49 Mr Plaskitt: So for five or six years there has not been free at the point of access cash dispensing in that community?
Ms Hickson: The ATMs are new. They have only been there two or three years.

Q50 Mr Plaskitt: The ATMs have been there two or three years?
Ms Hickson: I would say about two years, yes. I am not exactly sure of the timescale, but about two years.

Q51 Mr Plaskitt: So they have sucked about £5million out of the community so far?
Ms Hickson: Possibly.

Q52 Chairman: On that issue of credit unions, would there be any initiative whereby banks could work along with credit unions to put free cash machines into credit unions?
Ms Perchard: In the context of the recently announced financial inclusion fund, anything ought to be possible. People in the credit union movement should know that the Government is very interested in seeing a major investment take place to improve the viability and services provided by credit unions. We would be very pleased to see that sort of thing take place.

Q53 John Mann: Mr Cullum said about supermarkets reducing their overhead costs by not having to handle cash. Presumably that is the same for a convenience store, where they would have to go greater distances to transport the cash. Presumably there is a comparable relative saving there for a convenience store owner or chain of convenience stores owner.
Mr Cullum: That is right. Going back to Teresa's point, I think the spirit of this is that there clearly are issues about access to machines full stop, and to free machines in particular. There is lots of innovative thinking going on. There is a real opportunity to think a bit differently about it. There are issues with people on low incomes less likely to have debit cards, so that would clearly be something that would need to be tackled, but you could imagine a system where you would take more advantage of that and, rather than just using cash machines, start to think a bit more innovatively like that about trying to get people to get access to their own money for free.
Mr Baxter: Also, if I may add to that, I think we must remember that there are other ways of making a free cash machine viable. Some of the banks and building societies are beginning to explore new ways of getting money out of these things, for example, providing new services such as mobile phone top-up and all that, and advertising on the actual machines. These are alternatives to selling the machines off. I am not telling banks how to run their businesses. However, we must remember, following from Teresa's point, that banks have been given an implicit social responsibility by having benefits and pensions—and salaries and wages for that matter—transferred directly into the current account. People have got to be able to access these things. Banks have been effectively given an implicit social responsibility, and so we have the commercial side of it and we have ways of mitigating the operating costs, and on the other hand we have a social responsibility.

Q54 Chairman: If I could sum up the points that you have made, you still have an issue with transparency, but you are not against charging machines per se. In terms of convenience machines, it is a definition of convenience that you are looking at there, and it is good if the consumer has adequate information in order to exercise an informed choice. In terms of a map, you would like a map from LINK to look at the issue of equity and help establish if there were free machines in poorer areas. The selling off aspect with the banks and others you have suggested to us would be doubly advantageous in that there would be a charge for the IADs but there would be no payment for the banks to LINK, so that trend is something worth watching. In terms of financial inclusion, you are suggesting to us that at a time when the Government is encouraging people into the financial community, this establishment and this increase in charging machines could have a regressive effect on that, and particularly in relation to the DWP and the Post Office. Lastly, on the charges, you consider them arbitrary and something should be done to look at that. Is that a fair summary of what you have told us this morning?
Mr Baxter: That is a very good summary.
Chairman: Thank you very much.

Witnesses: **Mr John Hardy,** Chief Executive, and **Mr Howard Aiken,** Director, LINK card scheme, LINK Interchange Network Limited, examined.

Q55 Chairman: Good morning and welcome to our second session. For background, could you briefly explain the structure and purpose of the LINK organisation.
Mr Hardy: Yes, indeed. LINK is effectively the body which sits in the middle of the banks and the independent deployers and card issuers and facilitates the universality of interchange between the various parties. LINK has existed since 1986 and has grown to the point where there are 54,000 cash machines in the UK, and all but seven of them are embraced in the LINK system. The fundamental operating rule is that any LINK card should be usable in any LINK ATM. The system is highly dependent on the interchange fee which was referred to earlier.

21 December 2004 Mr John Hardy and Mr Howard Aiken

Q56 Chairman: How much is that?
Mr Hardy: The interchange fee is at the moment divided into two categories: a fee for non-branch machines, which is about 31p, and a fee for a cash withdrawal at a branch-based machine, which are cheaper to operate, which is just over 19p. There are also separate fees for non-cash transactions such as balance inquiries and rejected transactions.

Q57 Chairman: How much is it for a balance check?
Mr Hardy: For a balance check at a branch machine it is about 9.5p and at a non-branch machine it is about 19p. The fees are reviewed on an annual basis and they are actually on a cost basis, so we mandate all members who are part of the interchange system to tell us what their costs are and work out an average cost, so that by definition, those members which are less efficient are actually acquiring transactions at a fee which is below the reward they are gaining. In 1999, following the Cruickshank review, we encouraged the development of independent deployers, and it is worth saying at this stage, I think, that it is fairly unusual in shared ATM systems throughout the world for independent deployer type companies to be full members of the network. We made them full members of the network, and the current operating rule, encouraged by the OFT, is if they raise a surcharge, they do not get the interchange fee, since the interchange fee is designed to pay the full cost of operating the ATM system.

Q58 Chairman: You do not have any control over what level of surcharge they make?
Mr Hardy: Absolutely none, and it would be illegal for us to do so. The number of surcharging machines is growing fairly rapidly, because obviously it is an immature market; it only started in 1999. Currently about 38% of the cash machines in the country do raise charges, but it is important to realise that they only actually affect about 3% of the transactions. So the number of surcharging machines is, without a doubt, increasing rapidly because it is an immature market.

Q59 Chairman: Have you any concerns about that at all, or are you quite happy with it?
Mr Hardy: No, I really do not. The market is actually free. It is a very competitive market, and the surcharging machines are actually additional facilities. The number of free machines is still increasing.

Q60 Chairman: What if somebody came to you and said "In Speke the operators are charging £10 for each withdrawal"?
Mr Hardy: I do not think they are charging £10.

Q61 Chairman: No, but what if they said that to you? What would go through your mind?
Mr Hardy: There is no evidence that I can see that—

Q62 Chairman: I am just asking you that question. At £10, what would go through your mind?
Mr Hardy: I think that is obviously a very high amount.

Q63 Chairman: That is it?
Mr Hardy: Yes.
Mr Aiken: The point is that under competition law, we are not allowed to determine the amount of the surcharge. We are forbidden by law.

Q64 Mr Beard: What amount do the charging companies pay to you when they use your facility?
Mr Hardy: To facilitate the transaction?

Q65 Mr Beard: Yes.
Mr Hardy: We have a thing called the switching fee, which is paid to us, and on average it is less than a penny.
Mr Aiken: But the point is, that is paid by the bank that issues the card. That is not paid by the independent deployer.

Q66 Mr Beard: So the people who charge pay you less than a penny?
Mr Hardy: No, they do not pay us anything. The card issuer pays us less than a penny.

Q67 Mr Beard: But the banks, the free machines, pay you 31p?
Mr Hardy: No, it is the same fee. There are two fees to look at, in a sense. There is the interchange fee, which is paid by the card issuer to the ATM owner, and that is the 19p or 31p. The card issuer pays LINK something less than a penny on average to facilitate that transaction.

Q68 Chairman: What is the relationship between LINK and the banks and building societies and charging companies, and how independent of your members are you?
Mr Hardy: There are essentially two parts to LINK. There is the commercial company, if you like, which sits in the middle and which facilitates the technology and the finances, and then there is the bit which Howard runs, which is the card scheme, which is essentially a member-owned organisation. It is an association, if you like, governed by a vast body called the Network Members' Council, which I think at the moment has 53 members on it, and which debates the terms of trade, if you like, the rules applying between them.

Q69 Chairman: Your website notes that you have "vast experience and detailed understanding with regard to the establishment and growth of shared ATM networks by balancing the needs of consumers, acquirer banks and card issuers."
Mr Hardy: Yes.

Q70 Chairman: How do you take account of the needs of consumers in your policy development?
Mr Hardy: We seek to encourage openness and transparency from all of the members, and we have strict rules about transparency and about notification.

Q71 Chairman: Do you have any consumer representatives on your board?
Mr Hardy: No, we do not. We do talk to them.

Q72 Chairman: Do you invite consumer groups to your members' meetings when you are discussing relevant issues such as providing clear warning of charges?
Mr Hardy: We have never done that, but we have spoken to the consumer groups on numerous occasions.

Q73 Chairman: It would not be a bad idea, would it, if you further engaged with consumers?
Mr Hardy: I have no objection at all to it.

Q74 Chairman: No objection indicates that you have no objection, but you are not going to do anything about it.
Mr Hardy: It does not mean that at all.

Q75 Chairman: So what do you mean?
Mr Hardy: I mean I am quite happy for them to come along if they want to come along. Essentially the Network Members' Council is a member-owned organisation and if the members are happy to have consumer affairs people coming along, that is fine by me.

Q76 Chairman: So if a consumer phoned up and asked when the next members' meeting was and invited himself along, you would have no problem with that?
Mr Hardy: I think inviting themselves along is different.

Q77 Mr Plaskitt: Who writes the rules of the LINK organisation?
Mr Aiken: Essentially it is the members, the members write the rules, but our rules have been, and were, submitted to the Office of Fair Trading back in 2000. They spent 14 months looking at those and gave us an individual exemption in respect of interchange fees, but what we do in terms of interchange fees and all our other rules is very closely regulated by the Office of Fair Trading under competition law.

Q78 Mr Plaskitt: So it is the members of LINK who write the rules of the organisation?
Mr Aiken: Yes.

Q79 Mr Plaskitt: When decisions are made within the organisation about those rules or any changes to those rules, how does that actually happen?
Mr Aiken: That happens by means of a vote and, depending what the issue is, there are various majorities that have to be achieved.

Q80 Mr Plaskitt: By means of a vote did you say?
Mr Aiken: Yes.

Q81 Mr Plaskitt: How is the voting arranged?
Mr Hardy: The percentage of votes each member has is dictated by the volume of transactions they put through the system.

Q82 Mr Plaskitt: So it is weighted voting?
Mr Hardy: Yes.

Q83 Mr Plaskitt: So who has got the heaviest votes in the LINK organisation?
Mr Aiken: It is the big banks because they both issue more cards and their customers do more transactions and they tend to have more ATMs or more transactions out of ATMs, so they have the biggest votes.

Q84 Mr Plaskitt: So when a proposition is put to the LINK Board, if it is not supported by two or three of your largest members, it cannot get support?
Mr Aiken: No, there is a cap on voting, so no member has more than 15% of the vote.

Q85 Mr Plaskitt: So just tell us, who has the biggest block vote then?
Mr Aiken: The Royal Bank of Scotland, Barclays, Lloyds, HSBC, HBoS. They are the largest ones.

Q86 Mr Plaskitt: So between them they will have about 50% of the vote then?
Mr Aiken: Yes, about that.

Q87 Mr Plaskitt: So the four or five biggest operators can basically carry the organisation or determine its direction?
Mr Hardy: No, that is not so. If there are fundamental changes to the rules, it requires an 80% supermajority in the Network Members' Council, so it has to be pretty well unanimous.

Q88 Mr Plaskitt: When a proposition was put to the Board a couple of years ago that all the charging ATM machines should have external signage, do you recall that?
Mr Aiken: Yes.

Q89 Mr Plaskitt: What was the outcome of the deliberation on that?
Mr Aiken: That was almost unanimous. Only one member voted against that.

Q90 Mr Plaskitt: Against?
Mr Aiken: Against having external signage.

Q91 Mr Plaskitt: No, when it was first put to the Board.
Mr Aiken: Yes, a rule came into effect from April of this year—

Q92 Mr Plaskitt: Yes, but a couple of years before that, the idea was put to your Board. What decision was made then?

Mr Aiken: I do not recall that. The decision introduced in April was made about nine months previously to that.
Mr Hardy: I am uncertain as to which decision you are talking about.
Mr Aiken: I do not recall a vote prior to that.

Q93 Mr Plaskitt: I will drop you a note about that. Can I ask whether LINK has a consultancy arm?
Mr Hardy: Yes, we have a small number of people, two or three, who are capable of doing market research and statistical analysis.

Q94 Mr Plaskitt: Who do they do that for?
Mr Hardy: Members or non-members who want to take advantage of it.

Q95 Mr Plaskitt: Is it a sizeable part of LINK's business?
Mr Hardy: No, it is not.

Q96 Mr Plaskitt: What is LINK's definition of "convenience" when we are talking about a "convenient location"?
Mr Aiken: We do not have a definition of "convenience".

Q97 Mr Plaskitt: No definition?
Mr Aiken: No, because in our rules we have branch and non-branch and those were definitions which the Office of Fair Trading have looked at and have agreed to, so we have branch and non-branch and there is no definition of "convenience".

Q98 Mr Plaskitt: So, as far as you are concerned, the term "convenience" in this context does not actually have a meaning?
Mr Aiken: Well, I think it has a generally accepted meaning—

Q99 Mr Plaskitt: Which is what?
Mr Aiken:—but it has no place in the LINK rules.

Q100 Mr Plaskitt: What do you think its generally accepted meaning is?
Mr Hardy: I think the general meaning is that there are machines which are in sites which are convenient to some consumers and where the volume of transactions we would anticipate is relatively low. A full, through-the-wall cash machine typically operated by a bank would cost about £26–27,000 a year to run. Providing it achieves a certain throughput of transactions measured in the scores of thousands of transactions per year, that machine can operate sensibly on an interchange fee basis. There are only so many sites which will generate that kind of traffic from a cash machine. Most convenient machines operate on perhaps 8,000 or 10,000 transactions per year. They have very much lower traffic levels and generally that is what we understand by a "convenience machine".

Q101 Mr Plaskitt: How do you respond to the situation which we heard described in evidence earlier this morning that you can find non-charging machines almost adjacent to charging machines in some areas of the country? Does that not suggest to you that there is a problem with the concept of convenience machines?
Mr Hardy: I do not think it does actually.

Q102 Mr Plaskitt: Why not?
Mr Hardy: For a start, LINK has no ability to determine where the machines are. That is a decision which is entirely down to the machine-owner. I would suggest that in normal circumstances, if there is a charging machine adjacent to a free machine, and remember there are labels on all machines and you cannot complete a transaction at a charging machine without specifically agreeing to pay the fee, then the free machine is either going to be very inconvenient for some reason, ie, it is across the road and you do not want to cross the road, or it is going to go out of business.

Q103 Mr Plaskitt: Does LINK have a policy decision on external signage on cash machines?
Mr Aiken: Yes, we do. As we said earlier, a rule came into force six months ago that required surcharging ATMs to have, in addition to what has always been there and has already been mentioned, that in the transaction you are told the precise amount of the charge and you have to specifically accept it or reject the charge. Because of the concern that was expressed that people might start to use the machine and, in essence, waste their time and suffer inconvenience through not being told before they insert their card, we introduced the rule which said that there had to be an up-front sign which warned that the machine will charge and that had to be either by means of an on-screen message or labelling on the machine which was clearly visible. That came into effect six months ago. We have recently, just a week ago, reviewed how that is working and in fact the Network Members' Council of LINK has voted and with effect from June of next year, all machines must have an on-screen message which says, "This machine will charge you", and then it will give the amount of that charge and it will probably say up to the amount because in terms of the charges that the members levy, they can levy those in any way they like. It can be an *ad valorem* charge or it can be a fixed charge and the rules of the OFT require that we cannot dictate the method in which people levy the charge.

Q104 Mr Plaskitt: Are all of your members compliant with the rule that you established from April of this year about signage?
Mr Aiken: I do not think they are, but we notice machines that are not properly labelled and we bring it to the attention of the member. In other cases other members of LINK notify us and indeed I noticed that in your invitation for evidence to this Committee, you did ask members of the public to submit information of machines and we would be very happy to receive such returns as you have got.
Mr Hardy: It is worth mentioning that two national newspapers ran articles suggesting that members of the public notify us when they saw machines which

were not properly labelled and over a period of six months we had 15 individual notifications and one of those was actually about a machine in Cyprus, which had nothing to do with LINK at all.

Q105 Chairman: Yes, but I think the thing is that it sounds as if there is an *ad hoc* element to this rather than a systematic approach. For example, I have just got an email which says, "An interesting example is the northbound service area at Warwick on the M40. This service station long had a free NatWest ATM on an outside wall. Two machines then appeared inside, both requiring payment to withdraw money. Recently a third has appeared, and the free ATM has been removed. The new machines now carry small stickers saying, disingenuously, that the user 'may' be charged." Now, here you are, I am not involved in the LINK network, but just sitting as the Chairman of the Treasury Select Committee and people email me, so it is an *ad hoc* approach rather than being systematic.
Mr Aiken: That rule has been in effect for six months, just over six months. We have reviewed that and we had decided a number of things. One is—

Q106 Chairman: Well, this email was dated the beginning of December.
Mr Aiken: I understand, but the Network Members' Council agreed at a meeting last week that there would be a number of changes to that which take effect from June of next year. One of them is that there will be an up-front screen which says the amount of the charge.

Q107 Chairman: Well, I would suggest on the way back home if you are passing Warwick on the M40 that you get it sorted tonight. Okay?
Mr Aiken: Well, thank you for telling us about one, but, to continue, in addition there will be signage on the machine which will say, "This machine will charge you for cash withdrawals".

Q108 Mr Plaskitt: As an organisation, do you have any sanction over any member who is non-compliant?
Mr Aiken: Indeed we do.

Q109 Mr Plaskitt: What is it?
Mr Aiken: That is a part of the agreements that were reached last week.

Q110 Mr Plaskitt: At the moment what sanction have you got over a member who is non-compliant with the rules?
Mr Aiken: In the extreme, we can expel them from the network.

Q111 Mr Plaskitt: How many have you expelled?
Mr Hardy: We have not expelled any.
Mr Aiken: None, but the point is that in every case where we have brought this to the attention of the member, they have redressed the matter.

Q112 Mr Fallon: If I can just be clear about the market itself, if you add LINK members to the independents, what share have you got of the total?
Mr Hardy: The total cash machine operators?

Q113 Mr Fallon: What share have LINK got of the total market?
Mr Hardy: In terms of the number of machines deployed, it is so near 100% that it does not matter. There are 54,000 cash machines in the country and all but seven of them are in LINK. In terms of the volume of transactions which properly—

Q114 Mr Plaskitt: You are misunderstanding me. If you put the LINK members against the new independent deployed machines, what percentage has LINK got?
Mr Aiken: But the independents are part of LINK.

Q115 Mr Plaskitt: I know, but what percentage have the original members got who are not independent?
Mr Hardy: Perhaps I can readdress the question because you are confusing us with the terminology, I suspect. Are you asking what percentage of the total network do the large banks, building societies and financial institutions have?

Q116 Mr Plaskitt: Yes, what percentage have you got?
Mr Hardy: About 60%. It is not us, it is them. We are the network sitting in the middle. There is no difference between the independent deployers and the banks.

Q117 Mr Plaskitt: But had the cartel not been broken up earlier, there might have been. We might in fact have had lower charging machines, might we not?
Mr Hardy: I am not quite sure which cartel you are talking about.

Q118 Mr Plaskitt: Well, Cruickshank presumably wanted the LINK arrangements loosened and liberalised, which is what has happened.
Mr Hardy: And we were entirely in favour of that.

Q119 Mr Plaskitt: Well, you were then when he told you to do it, but if it had been done earlier, presumably we would have had more independents and probably a freer and more rational market, would we not?
Mr Hardy: I think that is probably unlikely actually. Independents as a concept only really started to emerge in America in 1996 or thereabouts. It is a relatively recent idea that non-banks should put out cash machines and charge for access to them.

Q120 Mr Heathcoat-Amory: As I understand it, almost all the IADs, the independents, use the LINK network.
Mr Hardy: Yes. By definition, they have to because they do not issue cards themselves, so in order to get access to customers, as it were, they have to be part of the network.

Q121 Mr Heathcoat-Amory: To what extent are the IADs a rising source of competition for the banks and building societies? Do you see them in those terms?
Mr Hardy: No. In essence, the banks and building societies have two roles in LINK as both issuers of cards, so their customers use the network, and providers of service and they have other ATMs that other customers can use. The independent deployers essentially only act as suppliers, so they do not make the cards, but they only supply machines. They are paid, in essence, to provide a service to the other members of the network.

Q122 Mr Heathcoat-Amory: But although the number of free machines run by the banks and big building societies is increasing, there is this very large increase in the independents.
Mr Hardy: Yes.

Q123 Mr Heathcoat-Amory: Do you see that the free machines will in time actually start to decrease in number and switch over to the charge-type machines?
Mr Hardy: I see no evidence of that. In the last year about 100 machines which were free became charging machines, but, equally, about 100 machines which were charging became free.

Q124 Mr Heathcoat-Amory: Now, if there was intervention by government or by agreement in the market to try and ensure the further spread of free machines, do you think this would be workable or would we be the victim of unintended consequences, heavy-handed, bureaucratic control mechanisms which might have curious side-effects? What is your general attitude towards being told to cross-subsidise, in other words?
Mr Hardy: I think it would be very difficult to put into effect. There are approximately 41 or 42 organisations which supply cash machines in the UK and, in essence, there are 41 or 42 competing institutions, all of which are looking for the best sites. The result of that is that at a micro level, ie, from the point of view of one of the supplier institutions, they are effectively optimising their delivery system. From the point of view of the system as a whole, the macro view, the system is probably not optimised, to be honest, because too many people are trying to gain transactions in the same place, so you do get a relatively high level of over-supply in town centres and in big shopping areas and you get a relative under-supply in other areas where there actually are not enough transactions to justify free machines.

Q125 Mr Heathcoat-Amory: So you do not think it is workable that some central authority should deem that a certain area is under-provided by free machines and should direct this or do you think you could bolt that on to the system you run?
Mr Hardy: I think it is not beyond the bounds of possibility that you could do that, but it would have to be a decision which existed at a macro level, if you see what I mean. It would have to be a deliberate decision to say that as an act of social policy, the collective of LINK or whatever are required to provide X, Y or Z machines in A, B and C areas. It is not entirely impossible, but it would be very difficult.

Q126 Mr Heathcoat-Amory: Could LINK do that, and you know more about this network, or would there have to be a separate regulator called 'Ofcash' or something to do it for you?
Mr Hardy: I think given direction, LINK would be the logical organisation to do it. It would probably breach competition laws, so there would need to be some Office of Cash Regulation or whatever, Ofcash perhaps or Oflink.

Q127 John Mann: Mr Hardy, you, like me, are not very keen on competition. To help me make a rational choice, can you tell me, you said that one of your members voted against improved signage, so which one was it?
Mr Aiken: I think that is confidential to the LINK meeting.
Mr Hardy: To be honest, I cannot actually remember.

Q128 John Mann: Perhaps you could send us a note. It might be my bank and I would be keen to take it up with them if it was the case. Do you not think I should have the right to know?
Mr Aiken: I think it would be a breach of confidence for us to discuss it here.[1]

Q129 Chairman: You cannot speak on behalf of other people, can you?
Mr Hardy: No.
Chairman: That is the diplomatic way out!

Q130 John Mann: Perhaps you could put it to your committee that they should send us the minutes so we can see who voted against because if it was my bank, I would like to know. What arguments did that unnamed bank put against improved signage?
Mr Hardy: I genuinely cannot remember who it was, but you are in a sense jumping to a conclusion and assuming it was a bank. It may not have been.

Q131 John Mann: What argument did this institution of whatever kind put against improved signage?
Mr Aiken: I cannot remember. I think it could have been along the lines that it did not go far enough.

Q132 John Mann: Perhaps you could take back a two-tier option, one being that you send us the full minutes and the second being to send us the full minutes with the institution's name blanked out, a kind of partial disclosure, so we can see what the arguments were against improved signage.
Mr Aiken: It could be death by boredom!

Q133 John Mann: We are patient people, so perhaps you could take that back to your committee and let us know their response on that.

[1] Ev 120

Mr Aiken: I think the point on signage is that that has now been superseded. We have now moved on from that to this additional signage which has now been agreed and what I did not get a chance to complete was that also we are going to commission mystery shopper-type exercises where we will choose an area.

Q134 John Mann: I was coming on to that and obviously I want to offer to assist you in that, but we would be keen to get those minutes, so perhaps you could take that back. I am taking a little break and I am going to Snowdonia. I have not been there for a long time, so I have no idea where the cashpoint machines are. I will be going on Thursday, so when I go to try to draw out cash, how am I going to find out which machines are free and, of those which charge, which are the cheapest for me to draw cash out from?
Mr Aiken: At the moment you will have to do that by using the machine and then seeing what the amount of the charge is.

Q135 Angela Eagle: Right at the end of the transaction.
Mr Hardy: Yes, there is an important reason for that. In an effort to be transparent, we actually built a system which is unique. I am sorry, I need to be a bit technical here, but, in essence, there is the potential for two types of retail charge. The cash machine can raise a surcharge, ie, which goes to the ATM-owner, or the card-issuer can also raise a charge and in the case of credit cards, which are used in the LINK system too, they will because they are advancing cash. We agreed with the Government in 1999 that there would never be a case where two charges, two retail charges, were applied to the same transaction. Now, in order to do that, that implies that when the card is put into a surcharging machine, the machine knows it is going to charge £1, but it has to determine whether the card-issuer is also raising a charge, so as part of the message, asking for authorisation, the card-issuer is asked, "Are you going to raise a charge?". Then because of internal LINK rules, one of the charges is disabled, so it is actually because the machine has to communicate with the card-issuer before it knows the full picture.

Q136 John Mann: But I am looking at a much simpler scenario because I am a rational consumer, I am not going to draw money out on my credit card because I know the charges, well, I do not know the charges, but I know there will be charges, although they will not tell me what the charges are overall, but I know there will be charges, so I can make a partially informed decision that I will not be drawing money out on my credit card, but I will be using my debit card. So what you are saying is that if there are in the village I am staying in, let's say, two machines, one at one end of the village and one a mile down the other end of the village, what I have to do is go and put my card into both machines to determine which of the two machines I should use to be an informed consumer?
Mr Aiken: I think it is two things actually.

Q137 John Mann: Is that what you are saying?
Mr Aiken: You could look on the LINK website and that would tell you.

Q138 John Mann: No, hang on a minute, look on the LINK website? Where I am staying I suspect does not have Internet access and I will not be taking my laptop with me, so, as a fairly average consumer, I would suggest, therefore, who does not have, visiting an area that I do not live in, a computer readily available, am I going to have to stick my card into these two or more different machines to work out which is the cheapest or the free one?
Mr Aiken: Well, the answer is that at the moment you do and from June of next year you will not because the up-front screen on the ATM before you put your card in will tell you what the amount of that charge is likely to be.

Q139 John Mann: So the improvement which one of you was against, but the rest were in favour of was for the screen before I put my card in?
Mr Hardy: With effect from next June, the machine will say, "This machine will charge you up to—"

Q140 John Mann: Will charge you or may charge?
Mr Hardy: Will charge.
John Mann: You said, "may charge".

Q141 Chairman: And "up to"—up to what? Could you finish that?
Mr Hardy: Whatever the charge is.

Q142 Chairman: So you do not even know the precise charge.
Mr Aiken: Well, you cannot know because the mechanism exists within LINK for the issuing bank to actually contribute something towards that surcharge.
Chairman: But Mr Mann is asking you something specific here.

Q143 John Mann: Well, how will it be clear, the situation? Let's say I go back in June. We will give the benefit of the doubt and we know it is rather a mess at the moment and I will not be able to find out until a long way into the transaction, so we come to June and I am in the same village in Snowdonia that I do not know, or I will know it then of course, but I will go somewhere else because I have visited Snowdonia, so I am somewhere else in the wilds of England, let's say, I am in the Lake District and I go into a village and I do not know what the banks are or the machines and there are two or three there. What exactly will happen? I will have to put my card into the machine, will I?
Mr Aiken: No, the screen, before you put your card into the machine, will say, "This machine will charge you up to", whatever the value of the surcharge is.

Q144 John Mann: Up to? Up to what?
Mr Aiken: Well, if the machine levies a £1.50 charge, it will say, "up to £1.50".

Mr Hardy: Or if it levies a £1 charge, it will say, "up to £1". The reason for that Howard was explaining earlier.

Q145 Chairman: But this is confusing because you could have four machines which each say, "This could charge you up to £2", but when you put your card in each machine, you could maybe be charged 50 pence on the one card, £1 on the other and £1.50. Would it not be better just to put on the machine, "This machine charges X amount?"
Mr Hardy: No, because that would actually reduce the transparency in a funny sort of way because it then denies the card-issuer the ability to contribute to that surcharge. We built that system precisely—

Q146 John Mann: So it is against my interests to know?
Mr Hardy: No, it is not. What we are saying is that it is very, very difficult to tell you the exact amount. We built a system which was designed to be as transparent as possible and to give the card-issuer—

Q147 Angela Eagle: But it is not transparent.
Mr Hardy: We built a system so that the card-issuer could contribute towards subsidising the surcharge if he wanted to do so.

Q148 John Mann: It seems to me that the attempt is to give the maximum amount of information in the most difficult way. Why not have a big sign stamped on the machine which says, "A charging machine", and then I will not even have to go and look at the screen, never mind put my card in and I will be able to see, as I am in Snowdonia this week, a big red sign which says, "Charging machine", and perhaps a big green sign on another one which says, "Free machine", and I then would make a rational decision.
Mr Hardy: But that is another part of the rules that come in in June, that as well as all the late message in the transaction, the early message which says the amount of the surcharge, there will be a physical sign on the machine and, incidentally, on any external signage that directs the customers towards the machine, saying, "This machine will charge you for LINK cash withdrawals".

Q149 John Mann: And how big will that sign be?
Mr Hardy: Well, there are so many different styles of ATMs that it is difficult to say.

Q150 Chairman: You have got us mixed up actually because there is no clarity here. Let me give you an example. I was going home to my constituency last week, thinking about cash machine charges, and I was passing along the dual carriageway and on the left-hand side of the dual carriageway there was a garage with a sign saying, "LINK machine and Little Chef", and on the right-hand side there was another one saying, "LINK machine" and another restaurant, but the Esso garage on the left-hand side for unleaded petrol was 80.9 pence and the BP garage on the right-hand side was 82.9 pence, so a rational choice by me would be to divert into the Esso garage and get 50 litres of petrol at 2 pence a litre less. I cannot do that with charging machines because I have got to go to them to understand. Why can you not have them up loud and clear, like they have for petrol stations? Why is it not as simple as that?
Mr Hardy: Because the charges may vary. As I keep saying, we actually built a system so that the card-issuer could, if they so desired, subsidise the surcharge.

Q151 Chairman: But you are not as fair to the customer as petrol stations are, and that is the whole point about this, that there is a lack of transparency here and I think that is the point Mr Mann is pushing.
Mr Aiken: But once again from June that sign which says, "LINK cash machine here" will also say on it, "This machine will charge you".

Q152 John Mann: But it will not say how much it will charge and we do not know how big the sign will be. Is there a minimum and a maximum font size on the sign?
Mr Aiken: Yes, there is because what we said on those signs is that it must be of a font size that is commensurate with other wording on the sign and it cannot be less than 14 point as a minimum.

Q153 John Mann: And you will be advertising widely who is charging and who is not?
Mr Aiken: Well, the sign on the ATM will say—

Q154 John Mann: In addition to the ATMs.
Mr Aiken: You mentioned the signage outside which says, "LINK cash machine here" and that sign itself from June must say, "This machine will charge" if it applies.

Q155 John Mann: What is your estimate in five years' time of the number, the percentage of the machines compared to now which will be charging?
Mr Hardy: I would have said that we probably will see about 50% of the machines will be surcharging at that point in time.

Q156 John Mann: What is the percentage now?
Mr Hardy: It is about 37–38%. I think there is probably a relatively large amount of growth left in the marketplace for machines which operate on a very low number of transactions.

Q157 John Mann: I personally seem to be in the minority because I disagree with the Consumers' Association and the National Consumer Council, and my constituents agree with me. My view is that there should not be charges for me to get my money out of a machine. Do you not think that the British public are of the view that they ought to be able to get hold of their money for free, particularly considering the record profits of the banks and financial institutions at the moment?
Mr Hardy: I think that is a question to be addressed to the banks, not to the network. I am not supposed to comment on retail charges.

Mr Aiken: One of the conditions of our exemption is specifically that we must permit surcharging, we must permit charging.
John Mann: Well, can I make a suggestion because you know how we politicians like to keep in touch with trends in society. I have noted that the machines in this building are all currently free. Would it not be a good idea also to include a charging machine here to give us a proper consumer choice? Perhaps we can have the free machines in the House of Lords and the charging machines in the Commons—
Mr Fallon: The other way round!

Q158 John Mann:—or vice versa, and then we could make rational or irrational consumer decisions.
Mr Hardy: Would you like me to convey your request for a charging machine to the independent deployers?
John Mann: That would be very kind of you because I think that might concentrate the minds of policy-makers.
Chairman: I say what it would do. It would give us an understanding of the mindset of these independent machine operators and see if it is worthwhile putting one in here. That is the only reason for it.

Q159 John Mann: You see, I am all for assisting your research, but what research are you carrying out into the views of consumers or are you carrying any out into the views of consumers on this slow trend in the market towards charging them to take out their own money?
Mr Hardy: I do not think there is a slow trend in the marketplace. I think there is a growth in the number of surcharging machines fuelled by a willingness on the part of a percentage of customers to pay for convenience.

Q160 John Mann: A willingness or a compulsion, in essence?
Mr Hardy: I think in the vast majority of cases there is a willingness. I think in some cases there undoubtedly is compulsion, but that is a matter of economic question and a social policy question, is it not?
John Mann: Well, it is economic and social policy. It is also one which consumers might view in the light of bank profits.

Q161 Chairman: Mr Hardy, if you had the opportunity to take money out of a free machine and out of a charging machine which was 50 yards away, out of 100 times you went to it, how many times do you think you would go to the charging machine?
Mr Hardy: It would depend if it was across the other side of the road and it was raining or not.

Q162 Chairman: No, just alongside it, say, just the other side of this room, how many times would you go to the charging machine?
Mr Hardy: I would probably go to a free machine.

Q163 Chairman: All the time?
Mr Hardy: Yes.

Q164 Chairman: The opaqueness of information that is provided and will continue to be provided after June, from what you are telling us, helps people to be driven down the road of charging because, unlike the petrol stations where you see immediately what it is and you are able to make an instant decision and that is the utmost transparency, I wonder if we are going to get that.
Mr Hardy: I think I do need to emphasise that the organisation is very keen to ensure the maximum amount of transparency. As an organisation, we are—
Chairman: Well, I tell you what you can take back from us. You can take back the suggestion of the petrol stations and just write us a letter back as to why it is not convenient for you to do that. Okay? That would be good and you will be able to explain to the whole world then.[2]

Q165 Mr Beard: What type of costs are involved in running cash machines?
Mr Hardy: It basically depends on the size of the machine, how heavily armoured it is and whether it is through the wall. A typical bank machine in a through-the-wall location might cost about £26–27,000 per year to run. A small machine—

Q166 Mr Beard: Just the running costs, not the capital costs.
Mr Hardy: That will include depreciation. Depreciation is probably 20% of that. The costs of running a relatively small machine inside a grocery store or a pub might be £7/8,000 a year, I would guess. Cash machines are relatively highly fixed cost, so it is the cost of the machine, the depreciation, the telecommunication lines and the computer systems needed to run them which exist whether there are transactions or not.

Q167 Mr Beard: Why is there a big difference between those two in that way?
Mr Hardy: It is just the nature of the machine. The costs of making a hole in the wall, which in some cases is quite expensive, a through-the-wall machine will be very heavily armoured, will have a lot more cash in it, for example, and be more comprehensive, whereas a simple machine inside a grocery store will be relatively small, will have a relatively modest amount of cash in it and be lightly armoured.

Q168 Mr Beard: How much does the average cash machine cost to purchase and install?
Mr Hardy: Again it is very difficult to give an answer to that. A through-the-wall machine probably is anything between £20–35,000, depending on the functionality and how heavily armoured it is. An interior machine is probably in the region of £4–8,000.

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Q169 Mr Beard: Could you explain to us how this interchange fee system operates? How is the fee calculated and what have been the recent trends in this level of fee?
Mr Hardy: When we set up the current system, we discussed it heavily with the Office of Fair Trading and we agreed that the fee should be cost based, on a fully allocated cost basis. In order to get that level of fee, we had mandated all of the members who participate in the interchange system to give us on an annual basis their full costs of operating the system. We aggregate all of those together, all the high cost ones and all the low cost ones, and we come to an average fee in the middle and that is used to determine the interchange fee. Over the past four years that that system has been in operation, the net effect of that has been to reduce the level of interchange fee by about 20–25%.

Q170 Mr Beard: Over a period of what—five years?
Mr Hardy: Four years.

Q171 Mr Beard: So how much does it cost to operate the network of free ATMs throughout the United Kingdom which are funded by the LINK interchange fee?
Mr Hardy: Probably about £1 billion.

Q172 Mr Beard: What determines the difference between the interchange fee paid when withdrawals are made at branch machines and non-branch machines?
Mr Hardy: It is largely the additional cost of servicing the cash-in-transit people and of course the site rental.

Q173 Mr Beard: And the capital costs will make a difference?
Mr Hardy: The capital costs would probably be more or less the same.

Q174 Mr Beard: Would a higher differential between the branch and non-branch interchange fees encourage the development of more non-branch machines in areas that are not well served by bank branches?
Mr Hardy: Well, it might, but of course remember that the system at the moment is based on the actual costs and that is by agreement with the OFT.

Q175 Mr Beard: Has any work been done to determine whether there is any sensitivity to these costs?
Mr Hardy: Yes.

Q176 Mr Beard: What is the answer?
Mr Hardy: The answer is that the costs are actually extremely sensitive to site rentals.

Q177 Mr Beard: Why is it that you have to charge a fixed fee or a fixed fee has to be charged by the charging machines? Why could they not operate on a percentage fee?
Mr Hardy: They could do.
Mr Aiken: There is nothing in the LINK rules and in fact the LINK rules are forbidden by the Office of Fair Trading from determining that the charge is always calculated. It is perfectly feasible to have an *ad valorem* or some other.

Q178 Mr Beard: We have heard earlier this morning that the fixed fee has great penalties for people on low incomes or benefits because they pay the fee on probably withdrawals of £10, £15 or £20, so is the industry not sensitive to this at all?
Mr Hardy: I think there is absolutely nothing to prevent that happening, but, as I said earlier, cash machines are relatively highly fixed cost, so the actual cost of the transaction does not very materially change from dispensing £20 to dispensing £100.

Q179 Mr Beard: But you could vary the way in which it is raised?
Mr Hardy: Yes.

Q180 Mr Beard: When these ATMs were first brought in, they replaced the bank cashier who cashed cheques for people in the bank, so the bank must have had some sort of allowance really for the costs of that operation.
Mr Hardy: Yes.

Q181 Mr Beard: Why is that not used as a discount on this?
Mr Hardy: I do not think there is any evidence at all to suggest that banks actually substantially reduced the number of cashiers.

Q182 Mr Beard: But they closed a lot of banks.
Mr Hardy: They closed a lot of banks, that is true, but I do not think those were necessarily directly the result of introducing cash machines. When ATMs were first introduced, which is quite a long time ago now, banking life was considerably simpler than it is now. People use banks much more and for a lot more services, so it is very difficult to actually draw a direct comparison.

Q183 Mr Beard: But it is not difficult to infer that what is happening with this trend towards banks selling off their network of free machines is that when this started, the justification for it was that they wanted to have a cheaper way of people gathering their cash than the bank clerk cashing cheques, and they got that.
Mr Hardy: I think in fact the original justification was a more convenient way.

Q184 Mr Beard: Well, now they are going to abandon those costs altogether if they have passed the cash machines on and the net effect of this change is that instead of them paying the costs out of their own fees, instead of them paying it, they are already passing it to the customer.
Mr Hardy: I think that is a view that you could take. I think that only one example has occurred, one significant example has occurred of a bank selling

machines off. The machine industry is quite dynamic. Machines are put in and machines are taken out all the time because a lot of installers actually manage machines individually by profit, and in some cases they are taken out because they are simply not used.

Q185 Mr Beard: If operators were to receive the interchange fee back from the LINK, they could knock that off the charge that they are making from the customer, could they not?
Mr Hardy: They could.

Q186 Mr Beard: Why can that not be done?
Mr Hardy: The current LINK arrangements were agreed with the Office of Fair Trading and in fact at that stage it was agreed with the Office of Fair Trading that where a surcharge was raised, the interchange fee would not also be applied. The primary reason for that was that the interchange fee was specifically designed to cover the costs of operating the machine. To introduce a partial recovery, ie, a surcharging machine, would produce an incredible amount of complexity and would probably upset the whole system.

Q187 Mr Beard: Well, it is complexity, but it does not have to be electronic complexity and it can be just in the accounting, can it not?
Mr Hardy: It is much more complex than that. It is all about how the costs are charged. I think another point is that, as we said earlier, the mechanism already exists where if the bank that issued the card wants to refund part or all of the surcharge, it can do that and the mechanisms are in place, so that could be done now.

Q188 Mr Beard: But the agreement is stopping it? Is that what you are saying?
Mr Hardy: No, that can be done now and we cannot regulate those prices, but I think the fact that there is no interchange fee when a surcharge applies is part of the conditions under which we have got an individual exemption. I think the Office of Fair Trading like the surcharge in the sense that it is a charge that customers are aware of when they incur it. The interchange fee is a hidden charge because customers, I guess, in the end have to pay it one way or the other. I do not think that they would like to have the issue confused, to have, if you like, a transparent charge and a hidden charge on the same transaction.

Q189 Mr Beard: One charging cash machine operator has suggested that it may be possible to vary the interchange fee between customers of different types, say, customers on benefits and other customers. In your opinion, is this technologically possible? Is it a feasible thing to do?
Mr Aiken: I think the answer is that it is feasible, but it would be in contravention of our current exemption were we to do so because it is predicated on it being a cost recovery basis and if we are saying that we are going to recover the costs in an asymmetric way, recover more from some customers than others, that is certainly not part of the exemption that we got from the Office of Fair Trading.

Q190 Mr Beard: Well, that may be, but just dealing with the technicality and whether it is feasible or not, how are you going to know? Say, it is someone on benefits, just for the sake of argument, how are you going to know that the person who is withdrawing cash is on benefit?
Mr Aiken: Because in that circumstance the bank that issued the card would have to send a message to us to say, "This is perhaps someone who is a lower interchange".

Q191 Mr Beard: So it is entirely do-able?
Mr Hardy: It is do-able. It would probably be quite complicated.

Q192 Mr Beard: But it is quite complicated if people only withdrawing £10 are being charged £1.50 three times a week, is it not?
Mr Aiken: Sorry, complicated for them? That is a different issue. If you are talking about the surcharge, the surcharge can be varied now. It does not have to be a fixed amount.

Q193 Mr Beard: Why do charging cash machine operators receive a payment of 20 pence from the consumer's bank for each balance enquiry?
Mr Aiken: Because the agreement we have with the OFT says that on a surcharged transaction there will be no interchange fee. There is no surcharge on a balance enquiry, therefore, they get the interchange fee.

Q194 Mr Beard: Does that fee of 20 pence equate with the cost of the enquiry or what?
Mr Aiken: Yes, it does because we spend enormous sums of money each year having a very comprehensive study done of the costs of operating ATMs and in order to arrive at the interchange fee, we are obliged to do that by the Office of Fair Trading.

Q195 Mr Plaskitt: You say you study each year?
Mr Aiken: Yes.

Q196 Mr Plaskitt: Why do you have to restudy it?
Mr Aiken: Because the costs change during the year. That is the whole principle upon which I believe the Office of Fair Trading gave us an exemption, that the interchange fee is cost-reflective and—

Q197 Mr Plaskitt: But your answer to Mr Beard's question was that it was cost-reflective because you were recovering the cost of studying what the cost was.
Mr Hardy: No, it is the cost of the operation we are looking at.

Q198 Mr Plaskitt: But you said you have to study it each year.

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Mr Aiken: We do, yes. We have to do a cost study. We are obliged by the OFT to do a comprehensive cost study every year because the costs change and, as we said, the costs have come down and that is one of the effects that the Office of Fair Trading expected to see, that it would encourage efficiency and reduce costs.

Q199 Mr Beard: If a consumer selects to withdraw, but then cancels when they realise there will be a charge, does the cash machine operator receive a fee from the consumer's bank?
Mr Aiken: They do. That is the same fee as for a balance enquiry.

Q200 Mr Beard: So their interest is to make these things as obscure as possible there, is it not?
Mr Aiken: You could construe that, but the changes that we have made and the change we have just made are addressing precisely that issue.

Q201 Mr Beard: Do you think this provides a disincentive for operators to clearly communicate it? There is no real reason why they should put these signs on at all, is there?
Mr Aiken: Well, there are because now they are mandated to under the LINK rules.

Q202 Mr Beard: You mentioned several times your restriction by the arrangements with the Office of Fair Trading, so your suggestion is that if these questions that we are posing today were to be properly addressed, any solution would have to be negotiated with the Office of Fair Trading? Is that right?
Mr Aiken: I think if you are going to interfere with the charging, yes.
Mr Hardy: I think it depends on the nature of what you suggest, but potentially yes.

Q203 Angela Eagle: Some of the biggest fees that we have come across on these cash machines are in fact, I think rather unsurprisingly myself, found in pubs which often charge up to £5. Does that worry you at all?
Mr Hardy: We do not have a view on it because we are not supposed to have a view on it. It is a retail charge.
Mr Aiken: We cannot say if a particular location shall or shall not surcharge and we cannot say what the amount of the surcharge is. We are forbidden from doing so by law.

Q204 Angela Eagle: It does reflect on your LINK system though, does it not?
Mr Aiken: But we have to comply with the law.

Q205 Angela Eagle: What is the justification? Is this the OFT that is telling you that you cannot have an opinion on price?
Mr Hardy: Well, we are trying to avoid the operation of a cartel. By definition, a payment system is quite like a cartel because you have got competitors who have to co-operate in order to operate the system.

Q206 Angela Eagle: Yes, but there are benefits to that which is presumably the balance that we are talking about here.
Mr Aiken: Yes, but the regulation of the OFT applies to the interchange fees that flow between members and we cannot, as a group of banks and others, get together to fix the price of the customer charge in any way whatsoever.

Q207 Angela Eagle: No, I understand that, but I am asking whether you have an opinion on the highest. It is an interesting coincidence, shall we put it that way, that in this system that is so untransparent with charging that the highest fees that we have come across are actually charged in pubs where people are perhaps even less likely than usual to be clear about what the charges are likely to be, and £5 quite often for the machines in pubs.
Mr Hardy: There is nothing we can do about it. It is entirely up to the cash machine operator.

Q208 Chairman: So that is outwith your responsibility?
Mr Hardy: Absolutely.

Q209 Angela Eagle: But you are saying the OFT demand that you do not take a view on that because it is the law?
Mr Hardy: We cannot, as a group, regulate the charges.

Q210 Angela Eagle: I think that there is a very, very interesting figure here and one of you, I think John Hardy, quoted it earlier, that 97% of transactions are free in cash terms and yet £66 million of profit was made last year, charging people to have access to their own money.
Mr Aiken: I do not know where the £66 million came from. It is not profit. That presumably was an estimate that someone has made of the surcharges paid, so that is income, I assume. I do not know where that figure came from.
Angela Eagle: Nationwide, and they said profit, they did not say income.

Q211 Chairman: I think the latest one was £140 million.
Mr Hardy: But that is revenue. It is not profit.
Angela Eagle: Well, £66 million profit is what I have heard.

Q212 Chairman: I think it went £60-odd million in 2003 and up to £140 million revenue in 2004.
Mr Hardy: I do not know where the £66 million came from. I cannot verify it.

Q213 Angela Eagle: Even if it is revenue, that means that 3% of transactions are making the vast majority of the revenue for these charging and surcharging machines.
Mr Hardy: Yes.

Q214 Angela Eagle: And we have heard from evidence earlier today that quite a lot of fees, and we will wait to have a look at the map, are actually in

the most deprived areas in the country which means that profits are being made out of the people that can least afford to give them over in conditions where they have no real choice, as you or I would express the meaning of that word. Is that not true?
Mr Hardy: I think there are undoubtedly a number of areas of social depravation where there are very few facilities and where the machines which have been installed are operating on very few transactions, and really that is the whole point, that the average surcharging machine operates on a very small number of transactions per year. As I said earlier, the cash machines are largely fixed cost and if there are only a few transactions, by definition, the cost per transaction is significantly higher.

Q215 Angela Eagle: So John Mann wants a charging machine here, but is it not true that if we had a charging machine here where there are lots of free machines already available, it would make virtually no money? The charging machine in Speke makes a vast profit because, as we heard earlier from the evidence, those who have no real practical access to free cash machines and who have to pay maybe a bus fare or go miles to get access to cash, whose bank branch has closed down a long time ago and who may have to go to the machine more than once a week because they cannot afford to take out large amounts of cash at a time, they are the people who are being squeezed by the charging system as it is now, are they not?
Mr Hardy: I think they are, although I strongly suspect that the figures that were quoted are probably somewhat spurious. I have no doubt that the charge per transaction is £1.50. Frankly, if a machine in an area like that that was doing thousands of transactions per month, every other independent deployer would be rushing in to put machines in to charge the same amount. The fact that there is only one machine indicates that there probably is not a great deal of traffic.

Q216 Angela Eagle: There are two machines.
Mr Hardy: Well, it would be interesting to look at that machine and determine what the level of traffic is, but I suspect that the volume is nowhere near what you were suggesting.

Q217 Angela Eagle: But are you not worried that that is the shape that the system is taking and that the rational thing for these charging companies to do is to place their machines in areas where people have no choice but to use them and people are being charged a very high percentage of the cost in charges for the size of their transactions? It is not fair by any definition that I can think of.
Mr Hardy: But the independent deployers are economic entities. They are supposed to make a profit.

Q218 Angela Eagle: Out of those who are the poorest, so the poor have to pay for access to their cash while people who have more choices do not?
Mr Hardy: Well, I think the lady from Speke was pointing out that there are no supermarkets in the same area and there are very few facilities indeed.

Q219 Angela Eagle: Well, lack of choices tend to pile up on one another.
Mr Hardy: I entirely agree with you and I am very sympathetic to it, but I think it would be unfair to expect the independent deployers to have a social conscience when you are not expecting supermarkets to.

Q220 Angela Eagle: Just stop the sentence there. I do not think they do have a social conscience! The threat to the rest of the free cash system is real though, is it not, with the dynamics of the growth of this market?
Mr Hardy: No, I do not think it is.

Q221 Angela Eagle: Do you not think it is conceivable that free cash machines will be unavailable for the rest of us potentially in the next few years because of the dynamics of this market?
Mr Hardy: I think that is extremely unlikely.

Q222 Angela Eagle: Why?
Mr Hardy: The number of free machines has actually increased.

Q223 Angela Eagle: Very, very slowly though.
Mr Hardy: But we have already indicated that the free machine market is essentially mature and that the charging machine market is immature and is growing and is providing convenience.

Q224 Angela Eagle: So what do you think about HBoS which just sold off most of its free network to a charging operator?
Mr Hardy: That is entirely a decision for HBoS and whoever bought the machines.

Q225 Angela Eagle: Does this not show the dynamic of the market that is now being created and is that not a threat to free cash machines?
Mr Hardy: It shows the market dynamic.

Q226 Chairman: But it is outwith your remit.
Mr Aiken: We cannot insist people put machines in at all, let alone free machines, and we cannot regulate the charge.

Q227 Angela Eagle: You said earlier that you have 40 or 41 organisations and they were all competing institutions but you failed to mention that certainly Hanco is mainly owned by a bank, so there is some overlap there, is there not?
Mr Hardy: Hanco was an independent deployer in the sense it was owned by Hanco until earlier this year—April or May I think, I cannot remember—when it was bought by the Royal Bank of Scotland, and that is for the Royal Bank of Scotland to answer.

Q228 Mr Beard: Who have sold off their machines to it.

Mr Hardy: No, they have not.
Mr Aiken: I am not aware of any machines—

Q229 Chairman:—That is HBoS.
Mr Aiken: That was their decision but I am not aware that any have moved.

Q230 Angela Eagle: So it is certainly possible and we have got one example there whereby some of the members of your board actually have a big interest in the independent deployers as well as having their own networks, so it is not 40 organisations competing against each other, is it, some organisations are owning each other?
Mr Hardy: There is only one example of that.

Q231 Angela Eagle: So far.
Mr Hardy: Yes.

Q232 Angela Eagle: But that is conceivably something that could increase?
Mr Aiken: I think that is something you would have to ask the institutions concerned. It is not for us to answer what their opinions might be.

Q233 Angela Eagle: Just one final question. If we wanted to look at how all of this worked for regulation, it is the OFT that we would have to talk to, is it, because they are your regulator effectively?
Mr Aiken: Competition law is our regulator, yes, and the Office of Fair Trading decision is a public document. It is on the Office of Fair Trading web site which is obviously available to anyone to examine.

Q234 John Mann: Just one question. I was just reflecting on your 14 point print size on machines. I wonder how easy you could read 14 point.
Mr Aiken: We said that is a minimum.
John Mann: I wondered whether you could read the 14 point. I have made it easier and crossed off everything else and I have put a big star rather larger than 14 point. That is the 14 point.
Chairman: What one? Let me try again!
John Mann: The one I have not crossed out is 14 point. I wondered whether it might be necessary to actually go rather close up to the screen, perhaps get in the queue at the cash point to queue up to check whether one could work out where the 14 point print was and whether something a bit larger might be an appropriate size?
Mr Plaskitt: How about making that font the minimum?

Q235 John Mann: So the consumer could make a competitive choice rather than be struggling up at the screen to find this small print saying we will be charging you.
Mr Aiken: As I said, that is an absolute minimum size. What we have said is that the font size must be commensurate with other—
John Mann:—Perhaps you could take that back to your board as well and they might want to reflect on whether the 14 point size is quite large enough or whether something rather bigger might actually encourage competition.

Q236 Chairman: Thank you, John. The Banking Code is a voluntary code and all your members are included in that but subsidiaries of companies are not included. Is that correct?
Mr Aiken: In LINK terms, we have a set of LINK rules and these things that we talked about on signage are rules, they are not a Code of Practice, so anyone who participates in LINK is bound by those rules.

Q237 Chairman: We will maybe come back to that. Mr Hardy, on this issue of transparency and the petrol stations with machines, are there any technological or systems barriers that would stop issuers clearly indicating the amount of charge in the way that consumers can see before inserting their cards?
Mr Aiken: There are no real systems barriers to that other than that the charge may in some circumstances be variable if for example members went to an *ad valorem* charge.

Q238 Chairman: You have said it is difficult to provide up-front notice of the charge of the card issuer—for example, the credit card company may issue a charge—but is it ever likely to be below £1.50? What I am getting at is this: would it not be possible to put a sign on the machine saying you will not be charged less than so-and-so for using this machine, in other words a minimum payment, and that would make it easy for everyone?
Mr Aiken: You would not know—

Q239 Chairman: Mr Hardy is indicating you could do that.
Mr Hardy: You could do that. There might be some circumstances in which there might be issues with that.

Q240 Chairman: What we did with the banks is we asked them to put minimum repayment scenarios on their accounts and Barclays and Lloyds have moved on that and that is a really big advance for consumers because if they are making a minimum repayment it could take 25 or 30 years or maybe forever if they are not paying the capital off. Once that is there in front of everyone saying "this will take you x amount of years to pay off" it focuses the mind. It is the same here. If we had that transparency in a minimum payment that would focus people's minds, the same as for the petrol station.
Mr Aiken: I think it is impossible for the ATM to know what the minimum payment is because in the event—

Q241 Chairman: But Mr Hardy is it not agreeing with you, he is saying it could be done, you could have a minimum payment.
Mr Aiken: I think the point there is if it is a charge card or a credit card the ATM owner cannot impose a surcharge and the issuing bank has to decide how much it is going to charge their customer. The ATM owner cannot possibly know up-front before they got the message back from the issuer the amount of that charge.

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Q242 Chairman: There should be a code here surely? If you are making investigations every year on machines, in answer to James's question, then banks could provide information that this will be the charge over the next year and that can be incorporated and you could have the minimum charge.
Mr Hardy: It depends on the transaction. If it is a debit card—

Q243 Chairman: Let me tell you that what we want is for you to look at that very seriously and write back to us on it because that is a fundamental aspect of our inquiry and we will be looking at that in great detail. If you could do a memo for us on that, that would be terrific. On the issue of transparency I note the Building Societies Association are still saying that it is vague, bland and non-specific so those are people within the industry that are saying that, and I think there is something to be taken up there. If I can get a summing up with you before you leave, it is the case that consumers still cannot shop around at the moment because they do not know what charge will be levied until they have almost completed the transaction. That is the situation?
Mr Aiken: But, as I say, from June before they put the card in the machine there will be something on the screen which tells them what the charge is.[3]

Q244 Chairman: Even if there are four machines at each corner of this room, after June you would still have to go to each machine—
Mr Aiken:—And you have to look at the screen of each machine.

Q245 Chairman: Exactly, so therefore they cannot stand in the middle of the room and say A, B, C or D. They cannot make that single decision. They have got to go to all these machines. Is that correct?
Mr Aiken: Yes.

Q246 Chairman: They have still got to do that, right. Regarding the points that my colleagues brought up about financial inclusion, it would indicate that more research needs to be carried out into access to free machines, particularly in poorer areas. Is there any help that you can give us on that, particularly producing a map of where the machines are? Could you do that?
Mr Hardy: We can do that.
Mr Aiken: I think you need to identify to us what are the postcodes of the poor areas.

Q247 Chairman: But you could do that?
Mr Aiken: Indeed.

[3] Ev 121

Q248 Chairman: It would be good if you could do that. Regarding the Code of Practice, the current Code of Practice is inadequate and we welcome the review announced today on that. If you could keep in touch with us on that area I think that would be very helpful. Regarding the Banking Code Standards Board and law enforcement, I have described it as *ad hoc*. Is there a way you could discuss that with the Banking Code Standards Board to produce a more systematic approach to that?
Mr Aiken: We already have done.

Q249 Chairman: My friend on the M40 in Warwick does not think that because he brought that to my personal attention. So we are looking for a systematic approach, not an *ad hoc* approach.
Mr Aiken: That is right and we are going to do these mystery shopper exercises.

Q250 Chairman: It is not just mystery shoppers because the mystery shopper takes place the week before Christmas and then everybody forgets that in the new year. It is the systematic approach that we are looking at.
Mr Aiken: If we are talking about signage on individual machines you have to visit the individual machine.

Q251 Chairman: I will give you that challenge as to how systematic you can be and you can come back to us on that particular issue. Regarding the selling off, the point was made that banks are selling off. Is there what we term a "double" incentive to sell off for banks because if they have their free cash machines in their bank branches or at Victoria Station then customers come along and the banks pays LINK the 31 pence or whatever—
Mr Aiken: No, it does not pay LINK. The bank that issued the card will pay LINK on average .8 of a penny. The interchange fee goes to the ATM owner.

Q252 Chairman: They are paying some amount of money.
Mr Hardy: To the ATM owner.

Q253 Chairman: But if the bank or the company sells to an IAD, then if any customer comes to that machine later on there is no charge at all for the bank?
Mr Hardy: As long as there are no surcharges because some independents do have machines which are free.

Q254 Chairman: But it does not cost the bank for every transaction because it is then the responsibility of the IAD. Is that correct?
Mr Hardy: It does not pay any interchange fee.
Chairman: That is an issue that we would like to look at. Do my colleagues have anything else? Can I thank you for your time this morning. It has been very helpful indeed and we look forward to the submissions that you are going to make.

Tuesday 1 February 2005

Members present:

Mr John McFall, in the Chair

Mr Nigel Beard	Angela Eagle
Mr Jim Cousins	Mr James Plaskitt

Witnesses: **Mr Benny Higgins,** Chief Executive, Retail Banking, RBS, and **Mr James Crosby,** Chief Executive, HBOS, examined.

Q255 Chairman: Good morning, Mr Higgins and Mr Crosby. Welcome to the Committee and our hearing on cash machine charges. Please identify yourselves for the record.
Mr Higgins: My name is Benny Higgins, Royal Bank of Scotland Group.
Mr Crosby: James Crosby, HBOS.

Q256 Chairman: Mr Higgins is the Chief Executive of Retail Banking at RBS and Mr Crosby is the Chief Executive of HBOS. In this inquiry we are looking at three particular areas. The first is what the future of cash machine provision is. Convenient Cash Dispensers have grown rapidly since a standing start in 1999. We are looking at what the causes of this increase are and if we are going to move to a situation where the only free machines are in bank branches with banks selling or closing their non-branch machines. We are also interested in the issue of transparency. Evidence given by consumer groups identified concerns that charges were not communicated clearly. What improvements could be put in place, if any, for consumers to see the charges before they sign up? Thirdly, we are interested in the issue of financial inclusion. Concerns have been expressed, particularly by the Citizens' Advice Bureau, over the impact that the spread of charging may have on financial inclusion and low income households. We are currently examining whether there is evidence of very limited access to free machines on high streets, in post offices or other sites and areas. That is the basis for our inquiry. Given your dominant position in this market in that, Mr Higgins, you have a subsidiary, Hanco, and, Mr Crosby, you sold machines to Cardpoint, your evidence to us this morning will be very relevant on that. What is your organisation's position on the strong growth of charging cash machines that we have seen since 1999–2000, and are you still committed to the provision of free machines to your customers?
Mr Higgins: Perhaps I could put the situation in context first. In 2004 the total withdrawals from the combination of free to use ATMs and Convenient Cash Dispensers was £155 billion, of which £6 billion was through the convenient cash machines which were charging, that is under 4%. Perhaps we could just reflect on how we have got to this position. In 2000 the Cruickshank report recommended that LINK opened up its membership to non-banks and suggested that a consequence of this would be the emergence of convenient cash machines in locations where hitherto there was no access to cash and as a consequence there has been rapid growth and now 40% of machines are convenient cash machines, but it still remains under 4% of the volume of withdrawals. Even if the number of convenient cash machines was to increase by a factor of two we would still expect the proportion of total withdrawals to be under 10%. We welcome this development in that there is now much greater choice for customers. The Royal Bank of Scotland Group has 6,000 ATMs all free to use. That network is the largest in the UK. Last year we added 470 machines in terms of installations. We are committed to the provision to customers and indeed non-customers today for those free machines.

Q257 Chairman: The Cruickshank report is a thread running through our inquiries as it came up in our inquiry into credit cards.
Mr Higgins: It was the recommendations of Cruickshank which triggered this situation.
Mr Crosby: I think one should emphasise that the UK enjoys one of the most extensive free ATM networks in the Western developed world and you should recognise that was not always the case and to a very large extent it was competitive forces and behaviours within the industry that made that happen. At HBOS, as one of, if not the, fastest growing providers of current account and related services we have a deep interest in the preservation of charge free ATMs. I think it is true to say that the advent of charging ATMs has both sustained and developed customer choice. It is important to emphasise that there are two business models there. There are high volume low margin machines, which are the traditional charge free machines, which account for 97% of turnover, and there are the more convenience orientated low volume charge based machines. I think it is important to emphasise that the high volume machines account for little under 20 times the turnover per machine of the convenience ones and that seems very likely to continue. Even very significant future growth in charge based machines is unlikely to move the percentage of transactions that are represented by charging machines up very markedly whilst providing that choice. The key to that is what the major banks do in terms of our policy and we are completely committed to charge free machines on our estate of machines and I expect our competitors to take the same stance.

Q258 Chairman: It appears that the LINK meetings deciding these issues are conducted in private and are confidential. Could you enlighten us as to why that happens? What are the rules governing the clarity of the charges? Are these meetings confidential? Are votes taken in secret?
Mr Higgins: Yes.

Q259 Chairman: Why is that the case?
Mr Higgins: It is a legal entity with a constitution.

Q260 Chairman: But in terms of clarity and transparency?
Mr Higgins: What is the clarity that you are seeking?

Q261 Chairman: Different companies have different policies and different approaches.
Mr Higgins: Our position is absolutely unequivocal: we are committed to the free to use ATM estate.

Q262 Chairman: If they are conducted in secret and it is confidential it does not tell us what the policies of different banks and institutions are.
Mr Higgins: I suggest you ask each of the banks for their views. I can give you our view unequivocally.

Q263 Chairman: I think it would be helpful, if we have the LINK network and LINK representatives here telling us things are transparent and open, if the minutes of meetings were available with the decisions that have been taken by certain institutions made known. Do you not think that is a reasonable request, Mr Crosby?
Mr Crosby: I am not saying whether it is reasonable or unreasonable. It is something that LINK should consider. LINK is a member based organisation and they ultimately follow the wishes of their members.

Q264 Chairman: Yes, but you are a member.
Mr Crosby: It is fair to say that the key issue that LINK have discussed in recent times, which was the transparency initiative, was supported by 90% of the membership.

Q265 Chairman: It would be handy to know who the 10% were who did not support it.
Mr Crosby: I think it is fair to say you do not get to 90% in that voting without including all the major banks.

Q266 Chairman: If you are very keen on that then your reputation could suffer as a result of people saying they do not want to go ahead on that because of the secrecy element of the meetings.
Mr Higgins: That was the outcome. We were equally totally supportive of transparency.

Q267 Chairman: I think you should take that message back to LINK and say that it is very important for it to be public. Would your banks be in favour of allowing consumer representatives to attend and contribute to these meetings?
Mr Higgins: That is a question for LINK.

Q268 Chairman: What about yourselves as individuals?
Mr Crosby: To be absolutely fair and frank, I think it would be unusual for a commercial organisation with a board, even a member based organisation, to have them attending on all items. It would not be unusual for a commercial organisation that wanted to get close to what its customers thought of its services to have them present their opinions and I would certainly be keen to encourage LINK to do that.

Q269 Chairman: The Banking Code has just been produced. I was at a meeting of the British Bankers Association along with Seymour Fortescue and others on that and I was praising the Banking Code, I think it is a very good initiative. Would you be in favour of delegating the task of proposing the rules in LINK to an independent reviewer, as is done in the Banking Code? Would that not be a step forward?
Mr Crosby: We have got the transparency initiative which is a very important part of the development and very central to the subject of your investigation as you described it at the start, that LINK and LINK's members are committed to implementing that. Looking further forward, we would be supportive of ATMs and ATM related services being brought within the Banking Code because it makes good sense.

Q270 Chairman: What about you, Mr Higgins?
Mr Higgins: I would have no objection to ATMs being brought under the Banking Code. As it happens, the guidelines that LINK have in place are more stringent than those that currently would apply under the Banking Code. We fully support the enforcement of the transparency as is in the proposals set out by LINK.

Q271 Chairman: In your submission you told us that "RBS will be fully compliant with the proposed revisions to the Banking Code in relation to charging transparency . . . " I wonder if that applies to both RBS and your subsidiary, Hanco, because the Banking and Standards Code have noted that convenience cash machine operators that are subsidiaries of main subscribers are not automatically subject to the Code requirements. Would you support an amendment to the Code so that subsidiaries, such as Hanco, are automatically subject to the requirements of the Code?
Mr Higgins: I would have no difficulty with that. The LINK proposals which we will adhere to for Hanco are more stringent.

Q272 Chairman: On the point I made to you about an amendment to the Code, would you support that so that subsidiaries are brought into the Code? That would be a good message to come out of this committee hearing from you as a big organisation.

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Mr Higgins: In principle I would have no objection to that. There would not be any direct implications for transparency because the rules that will be effective from 1 July under the LINK proposals and to be enforced by LINK are more stringent than others that exist at the moment.

Q273 Chairman: That is a matter of debate.
Mr Higgins: It is a matter of fact.

Q274 Chairman: The Banking Code people would tell you otherwise. I spent a lunch time with them discussing that issue. The providers of free ATMs, according to RBS, are already being forced out of sites as these are converted to charging units by the retailers and in your submission, Mr Higgins, you quote as an example Welcome Break who removed 14 NatWest ATMs and replaced them with CCDs earlier this year. Barclays said to us in their submissions, "It is however increasingly difficult to compete with the new independent ATM firms when tendering for new non-branch sites. Prime locations, such as motorway service stations, attract very high tender prices and we expect this to continue." Do you see this drive towards competition with CCDs putting in bigger bids for sites and forcing the banks out of these areas continuing?
Mr Higgins: So far it has been relatively isolated. If we are to put one of our free to use ATMs in a particular remote site, that is to say a non-branch site, we have to pay rental. We have to come to some sort of contractual agreement with the retailer. It is the retailer who has the choice to take the rental from us or, as an alternative, to put in one of the cash convenience machines from which there is a revenue stream.

Q275 Chairman: Do you see that trend continuing?
Mr Higgins: There will be more of it because it is a free market and market pressures will create that.

Q276 Chairman: What about yourselves?
Mr Crosby: Yes. What makes so many of those machines very poor performers in practical terms is a mixture of things, but one of the things is the low turnover, no more than one-twentieth of the turnover of a bank based machine and it is all about those two different business models. What we do not see evidence of yet is that when a machine switches from being charge free in that environment to charging the volume changes. With proper disclosures customers do seem to make the right choice.

Q277 Chairman: LINK notes that only 3.6% of all withdrawals attracted a surcharge in September 2004. However, APACS indicated to us that this figure is rising fast. It rose by over 48% in 2003. It would seem as though this strong growth will continue.
Mr Crosby: I think this is a function of the growth in 2003 and 2004 in the number of machines that are fee charging. That would have to continue. There are only so many motorway service stations in practice and many of these convenience sites, so I think there is a limit.

Q278 Chairman: Some of the submissions we have had have asked for all ATM operators to sign up to the relevant provisions of the Banking Code. Would you support that?
Mr Crosby: Yes.

Q279 Angela Eagle: I am interested in the dynamics of this market because I think people recognise that there might be some instances where paying a small charge for convenience is acceptable. Is it not the case that there is going to be continued pressure on all of those remote cash machines that you own that are free, and is not the prospect that they will continue to be switching from free provision to charging provision as the dynamics of the market continue and you are essentially going to end up with what Mr Crosby said, which is being completely committed to charge free machines on your estate, but actually remotely they are going to disappear?
Mr Crosby: I think there is going to be a reduction, but to a large extent that reduction has taken place.

Q280 Angela Eagle: So you do not think there is going to be much more switching between charging machines and free machines because people are increasingly coming across machines that used to be free that now charge?
Mr Crosby: There are still today many more numerically bank owned machines than charge ones.

Q281 Angela Eagle: It is 60% to 40%.
Mr Crosby: It is all about the volume that goes through them. When you have got approaching 20 times as much volume going through these machines for very, very good reasons, one of which is that they are free, then I think that is what sustains that split. I think it is very important to major banks and it is very important to my bank in particular that charge free ATMs remain very much the norm in the UK.

Q282 Angela Eagle: You sold machines to Cardpoint. Why did you do that?
Mr Crosby: We did that because they were very poorly performing, they are unsustainable economically, they had not performed anywhere near expectations and it was fundamentally because although we knew they were going to cost us twice as much to sustain in terms of running costs as our own, they performed dramatically less well in terms of volume and it was a factor that our customers and other banks' customers were not using them in anything like the numbers we expected.

Q283 Angela Eagle: The Royal Bank of Scotland has taken a slightly different route and decided to own Hanco, which has got another foot in the charging market. Why did you decide to do that?
Mr Higgins: I need to put one thing in perspective. The rapid growth in the Convenience Cash Dispensers is not being driven by the switch from

existing free machines to charging machines, it is the rapid growth in the smaller, very low volume machines that are typically in pubs, post offices and convenience stores.

Q284 Angela Eagle: They usually charge more in pubs, maybe even £5.
Mr Higgins: They are typically £1.50.

Q285 Angela Eagle: I have seen £5 being charged.
Mr Higgins: I can only speak for Hanco.

Q286 Angela Eagle: There was even a report at the weekend of £10 being charged in one pub.
Mr Higgins: I think that is a unique case.

Q287 Angela Eagle: What do you think of that?
Mr Higgins: The fee that Hanco receives is fixed regardless of the price. It is the retailer who sets the price, fills the machine and chooses where to put the machine for the convenience of their customers because it is good for them as a business in that because it attracts customers, it is a stream of income for them, but more than anything else, it is the convenience to the customers.

Q288 Angela Eagle: So it is convenient if you charge £10 to get money out of a convenient cash machine, is it? It is convenient for somebody but I am not sure it is convenient for the customer.
Mr Higgins: Convenience is less effort or less difficulty to get to the cash. There is nobody in the UK that cannot access cash freely either through the large free estate or indeed cash back.

Q289 Angela Eagle: I do not agree with you about that, but we will be coming on to that later.
Mr Crosby: Prior to the emergence of these kinds of machines there was no access to cash in these locations.

Q290 Angela Eagle: I understand that, but I think we are looking at the dynamics of the market here and it was something that was mentioned earlier by Mr Crosby. You have got a free estate that largely exists because the major banks are committed to it at the moment. You have then got a very rapidly growing estate of so-called convenience machines which charge and it is not always completely clear how much they charge, when they charge and in what circumstance they charge, certainly not for customers. Why in a market that is dynamic is there not going to be over time the gradual replacement of the free machines by the charging machines? I think that is what people are worried about.
Mr Higgins: I can speak for The Royal Bank. We have increased last year our free estate by 351 (net of machines removed at request of site owner). 49%, of Hanco machines, for example, are in pubs and the majority of those pubs are in the city centres. In almost every case free ATMs are available, but people choose the convenience, whether it is the closeness of the machine or it could be at a time of the day or evening where they think it is safer to use that machine. For example, there is a Hanco machine in a pub in Renfield Street in Glasgow that has around 385 transactions a month. There are 13 Royal Bank owned free to use ATMs within a few hundred yards.

Q291 Chairman: That begs a definition of what is convenience. A lot of people have said they have been installed because they are convenient, but this is not convenient if they are a few hundred yards apart.
Mr Higgins: I think it is the best illustration of convenience. Customers have a choice.

Q292 Chairman: The line given in terms of convenience was that there is not a free machine within a certain distance, but this seems to be an inversion of the argument that was used at first.
Mr Higgins: It is customer choice.

Q293 Chairman: Could you write to us with a definition of what you think convenience is?
Mr Higgins: Less effort or less difficulty. I have not looked it up in the dictionary, but I think that would be the definition I would use.

Q294 Chairman: It is an interesting point for LINK because some people try to debate this issue on a pinhead.
Mr Higgins: That would be my definition. The point here is an extension of customer choice.

Q295 Angela Eagle: You have just suggested it is a safety premium, have you not?
Mr Higgins: No, I have not. I have said that there are reasons why customers make choices.

Q296 Angela Eagle: So it is easier to get money in a pub than risk going outside and getting it.
Mr Higgins: It is a possible reason, although it is not likely to be a common reason for making the choice.
Angela Eagle: It was quite an interesting suggestion you made.

Q297 Mr Plaskitt: Mr Crosby, I want to come back to your decision to sell. You said to Angela that the reason you sold the 800 was because they were "poorly performing". Can you say what else they had in common?
Mr Crosby: They were remote and they were mostly convenience related sites, petrol stations, late shops or motorway service stations, mostly but not entirely.

Q298 Mr Plaskitt: Have you any left that are in similar locations?
Mr Crosby: Yes, we do.

Q299 Mr Plaskitt: How many have you got left?
Mr Crosby: Less than 100. We quite deliberately held some back because we would have been potentially removing the last free ATM in a town or because they were in public places like hospitals and we looked at a group like that and decided deliberately to keep those back.

Q300 Mr Plaskitt: Was there any element of cross-subsidization when you owned them? Were you using the profitability of the high volume ones to support those parts of the network that were not wiping their own face as it were? Were you doing that?
Mr Crosby: It is very difficult to segment one part of the organisation like that and say it is necessarily cross-subsidizing the other. To the extent that the larger network was more viable then inevitably that could be the case. The fact of the matter is that the money we took out of that was partly what enabled us to invest much more heavily in front edge customer service last year. We recruited 2,000 people in the front end in customer service. It was one of the largest recruitment exercises of the year.

Q301 Mr Plaskitt: In your submission you said to us you were "very mindful of your broader responsibilities to the communities you serve".
Mr Crosby: That is my reference to the point of being caught withdrawing the last free ATM in a locality and being mindful of one or two public areas. I am not saying we have got it right in every instance but I think we were mindful of it.

Q302 Mr Plaskitt: Can we take it you are not planning to get rid of the 100 or so that are left?
Mr Crosby: We have no plans to do that.

Q303 Mr Plaskitt: You are going to keep those and keep them free?
Mr Crosby: Yes. They are our machines and our machines are free and we are totally committed to them being free.

Q304 Mr Plaskitt: So when you said you wanted to keep them charge free on your estate, by that you meant the entire network, did you?
Mr Crosby: That means our machines. It is not on a piece of land we own in that sense. It just means the collective machines that are branded either Halifax or Bank of Scotland.

Q305 Mr Plaskitt: Of the 816 you sold to Cardpoint, 250 have now converted to charging from having been free. Are you happy about that?
Mr Crosby: I think that is fundamentally a matter for Cardpoint, but I think that is in line with our expectations.

Q306 Mr Plaskitt: Did you expect that to happen?
Mr Crosby: Broadly. Well over 80% of this 816 were under a contract that was going to come up for renewal by 2006 anyway. Going back to an observation that was made earlier, it is unlikely that in the face of competition we would have sustained the position in an open tender because the dynamics of those machines, particularly those 250, would have changed at that stage.

Q307 Mr Plaskitt: But it is a fact that 250 machines that you used to run and which did not charge their customers now do charge.
Mr Crosby: Yes.

Q308 Mr Plaskitt: So that is a consequence of your decision to sell them. You are saying it might have happened in the future, but it has already happened.
Mr Crosby: It almost certainly would have happened within a relatively short space of time anyway. I accept it is an inevitable consequence, but it would have happened anyway.

Q309 Mr Plaskitt: Do you think the 250 number will rise?
Mr Crosby: I do not think I should speculate because it is a share sensitive speculation for the company concerned.

Q310 Mr Plaskitt: I can tell you that they think it will.
Mr Crosby: They are better placed to make that judgment than I am.

Q311 Mr Plaskitt: So you would not be surprised if their prediction is right and the numbers that switch from free to charging goes on increasing?
Mr Crosby: What I would say to you is that the 250 was in line with our expectations. I am not going to speculate further than that.

Q312 Mr Plaskitt: How much did you get for the sale of them?
Mr Crosby: We got £50 million.

Q313 Mr Plaskitt: Initially you expected a bit more, did you not?
Mr Crosby: I think there was a possibility that it might have been more, but I think that is what we would expect to get.

Q314 Mr Plaskitt: Why did it come in a bit lower than you anticipated?
Mr Crosby: I think it was a mixture of the terms and the specific transfers. It is a question of how many of the owners sign up to move across. We did not have total power to sell all of them without the owners' consent and that was the key variable.

Q315 Mr Plaskitt: Cardpoint did not have £40 million or £50 million in the bank when they bought your network, they did not have it in the cash till as it were. How did they raise the money to purchase your network?
Mr Crosby: It was a mixture of sources. Some of it was lent by us under normal commercial arm's length arrangements. We have been bankers to that business for many years.

Q316 Mr Plaskitt: So you lent Cardpoint the money to enable them to buy your machines and then convert them from free to charging. Was that the deal?
Mr Crosby: We lent them part of the money as bankers, quite independently, we have been bankers to that business for a substantial time and all aspects of that transaction were fully disclosed some months ago.

Q317 Mr Plaskitt: Is it not curious that your bankers lend them the money to purchase your machines and they are making the money on the deal by converting them from free to charging?
Mr Crosby: Looked at from another perspective, the sale was the result of an open option and there were a range of bidders. As it happened, we ended up with the winning tender bid coming from an organisation to which we were the banker. That was always a possibility given our market size.

Q318 Mr Plaskitt: But the result is you have funded the operation which is leading to the conversion of machines from free to charging. This is a fact, is it not?
Mr Crosby: Yes.

Q319 Chairman: Mr Crosby, in your submission to us, in paragraph 2.2, you say, "The Committee may also be interested in how the proceeds of the sale to Cardpoint were allocated within the HBOS Group. As a matter of fact, the sale proceeds have been reinvested in improving our customer service across the UK." If you lent them the money, just explain the consistency of those two statements for us.
Mr Crosby: There is a fundamental difference in the sense that we do not own those machines anymore, we do not own any equity in the business to which we sold the machines.

Q320 Chairman: The ordinary person in the street would think if you sold people something you would get the money back and your submission says to us that you got that money and you invested it, but in fact you lent it. How does it square up?
Mr Crosby: First of all, the proceeds are free and unencumbered and are generally used for investing in the future of that business. As it happens, the major thing we did in that business last year was the largest recruitment exercise in retail financial services in 2004, it was 2,000 people which we felt we needed to strengthen our customer service. Secondly, we have lent an increased facility to the company, not uniquely related to this transaction, against all its operations and ultimately on terms that have been agreed on an arm's length basis, so that money will be repaid to us, that is a commercial loan.

Q321 Chairman: It would be useful if you could write to us on that to explain it.
Mr Crosby: I am very happy to do so.[1]

Q322 Chairman: At the time of the Cruickshank report in 2000 a branch based withdrawal at the counter cost over three times as much as an ATM withdrawal. Are these figures still accurate for both your banks?
Mr Higgins: We do not allocate costs in that manner. Clearly that order of magnitude would be about right.
Mr Crosby: It is about right.

Q323 Chairman: Mr Higgins, how separate is the management of governing policy for RBS's own free ATM network from that of the Hanco network?
Mr Higgins: It is quite independent, but it does report to me as it falls within my area of responsibility. I should stress that our reason for buying Hanco was that it was an emerging channel, as this inquiry has set out very clearly, and as such it was important for us to be represented. More importantly, in terms of increasing customer choice, it is the retailers who are typically our small business customers and who are providing that service, so it was very important to us.

Q324 Chairman: In terms of the governing policy, it is integrated with RBS, is it?
Mr Higgins: Yes. We are growing our free estate and we intend to continue to do so. The only places where we have taken machines out have been where we have failed to reach an agreement, which are the 14 machines referred to earlier. Hanco is growing a quite different estate. A typical ATM which is free to use has 7,000 withdrawals a month and it can go up as high as 30,000. The typical number of withdrawals in a Hanco machine is less than 300. These are quite separate markets.

Q325 Chairman: In terms of the strategy of RBS, there will be empathy between Hanco and the RBS approach for ATMs, will there not?
Mr Higgins: The same values in terms of running a business, but they are quite separate in terms of the strategy.

Q326 Chairman: Could you give us a note on that?
Mr Higgins: Absolutely.[2]

Q327 Mr Cousins: Do you have any special arrangements, either Halifax with Cardpoint or RBS with Hanco, about the revenue derived from charging?
Mr Crosby: No, I do not think so, not in terms of my understanding of your question.

Q328 Mr Cousins: I thought my question was perfectly clear.
Mr Crosby: We have sold the machines and we do not get any revenue from them.

[1] Ev 175

[2] Ev 173

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Q329 Mr Cousins: And you have no special arrangements with Cardpoint about sharing a revenue?
Mr Crosby: No.

Q330 Mr Cousins: So it is a straightforward case, you have lent them the money, and they pay the money back?
Mr Crosby: Yes.

Q331 Mr Cousins: What about your relations with Hanco, do you have any special internal arrangements about the charging income?
Mr Higgins: It is very clear in our case, Hanco is wholly owned by The Royal Bank. The pricing that is set for a particular machine in a particular location is set by the retailer independent of the amount that Hanco receives. Hanco receives roughly a third of the typical fee of £1.50, but in a case where the charge was higher what Hanco would receive would still be the same, and Hanco is wholly owned by The Royal Bank, so that is the income less the costs in delivering that service.

Q332 Mr Cousins: The arrangements that exist between people providing customers with cards and the cash machine operators are fairly clearly set down. For remote machines there might be a financial incentive to having a charged for system because you would save the fees that you would otherwise have to pay the cash machine operator for a free machine.
Mr Higgins: That is true. However, let us put our credentials on the table. The Royal Bank of Scotland has never charged customers or non-customers for the use of ATMs. When we acquired NatWest in March 2000 we very quickly abolished a decision to charge customers. We have never done so and we have no plans to do so notwithstanding that the economic dynamics of ATMs would be more favourable if there were charges.

Q333 Mr Cousins: You would agree that there is a general financial cost saving for you in the expansion of the charged for network.
Mr Higgins: It has no impact on the situation as far as we are concerned. We have a situation at the moment where running our 6,000 free to use ATMs comes at some considerable cost. The machines which Hanco are putting in place are quite separate and in quite different locations, locations that would not be served under any reasonable circumstances by a machine that was free. The cost of these machines is of quite a different order.

Q334 Mr Cousins: The point I am making to you is that if one of your customers uses a charged for machine you do not pay a fee to the cash machine operator.
Mr Higgins: That is right. It is equally true that if a customer of another bank was to use one of them instead of using one of ours we would forego the interchange that we would have received. Interchanges flow in both directions if you are an issuer and an acquirer. [3]

Q335 Mr Cousins: What is your attitude to this?
Mr Crosby: I think I see the point you are making. The fact of the matter is, however, that the fee free ATMs in the UK have also grown. Over the last four or five years they have grown from 27,000 to 33,000 and with a much higher volume, so there is continued growth in that area and the predominant transactions continue to be there. I do not think one can argue against that background that the addition of fee charging is necessarily a saving for the banks, it is an addition of choice if you view it from the perspective of saying there is no interchange fee.

Q336 Mr Cousins: And the fee system is different in the case of machines that are owned by the banks from machines that are free standing in remote locations. The fee you save as the charged for network grows is at its greatest for remotely placed machines. That is correct, is it not? So you have a financial incentive to see the growth of machines in remote locations that are charged for.
Mr Crosby: I think it is a marginal difference and it is small in relation to the fees that are being charged to make these remote locations sustainable in the eyes of either the retailer or the provider who owns them.

Q337 Mr Cousins: When the competition authorities were looking at these arrangements that were being made between banks and cash machine operators they allowed a higher fee to be paid for freestanding machines because of the extra costs involved and there was a clear steer that that was intended to encourage cash machine operators to reduce those costs gradually, but in fact what you both have chosen to do in slightly different ways is to see the expansion of the charged for network saving you the fees. Is that not quite what the competition authorities intended when they allowed this system to be created?
Mr Higgins: Can I just state some facts about what has happened? In 2004, throughout our 6,000 free to use ATMs, both branch and non branch, we had 576 million transactions compared with 538 million transactions in 2003. There was also an increase in the number of ATMs we had available. So the free to use ATM estate of The Royal Bank of Scotland Group is growing both in terms of number and in usage.

Q338 Mr Cousins: What about the growth of the Bank of Scotland's free machine network off bank sites, is that growing?

[3] *Note from the Witness:* Even where there is a surcharge the card issuer still has to pay interchange to the ATM owner for balance enquiries and rejected transactions. This is substantial (the current rate in LiNK for balance enquiries is 18.2p or nearly two-thirds the rate fir cash withdrawals). There is no real incentive for banks to encourage conversion of sites to charging.

Mr Higgins: The Royal Bank of Scotland's network?

Q339 Mr Cousins: Yes.
Mr Higgins: Both our branch and non branch networks are growing at a fairly healthy rate.

Q340 Mr Cousins: Could you give us the figures on that?
Mr Higgins: I could give you them, but I only have the aggregate figures in my head. [4]

Q341 Mr Cousins: Some of the independent operators of charged for cash machine networks are saying that they also ought to be able to charge an interchange fee on top of the fees they charge to customers or get charged. Do you agree with that?
Mr Higgins: Hanco has not put forward that view. Needless to say, it is a dynamic market, as we have seen over the last few years, so things could change. As it stands today Hanco is not putting that forward.

Q342 Mr Cousins: What about your own attitude to this?
Mr Crosby: I do not think we would support it in practice. I do not think it is a big shift anyway. The interchange fee is modest in relation to the fees that are charged. It is not pivotal to the viability of those remote locations in the eyes of either the retailer or the owner of the machine.

Q343 Chairman: On the point about the growth of free machines, there has been anecdotal evidence provided to us of an increased concentration of free machines and so there may be relatively little increase in the total number of sites where free machines are available. For example, Westminster tube station used to have only one free machine and now it has 4 free machines and some bank branches now have 4 or more machines available outside. To what extent do these developments account for the growth of free cash machines over the years?
Mr Crosby: I will try to answer that but probably fail because I do not know the answer to that. We can look at it and it is obviously a factor, but it is driven by the demand for those fee free machines. Where we put another machine in it is always because the first one is too busy in practice, it is for a good reason, but I cannot comment on the trade off.

Q344 Chairman: This morning before I came to the Committee one of my colleagues mentioned that Doncaster railway station has been refurbished and she was telling me there used to be free cash machines there but that every one is now a charging machine. Given that is a high footfall area, it just seems odd there are no free machines available. I am taking the anecdotal evidence from her. That would tend to lead us towards the conclusion that the trend in this market is towards charging because if the banks offset their free machines and there are charging machines put in then the banks do not need to pay the interchange fee of 31 pence, so with every transaction that is a saving.
Mr Higgins: I do not think that is the right analysis. First of all, we are very keen to have our remote machines in high footfall sites, we do not want to have them removed. The reason they have been removed is not at our request, it is not because it is in our strategy or our direction, it is that those who own the site are choosing to take the negotiation on the rental value to a place that makes it worthwhile.

Q345 Chairman: It is advantageous to the banks because you do not need to pay an interchange fee there at all. The dynamics of the market would indicate that there is an incentive to move that way.
Mr Higgins: That is misrepresentative.

Q346 Chairman: Tell me how it is misrepresentative because I cannot understand it.
Mr Higgins: Interchanges flow in both directions. I cannot talk for Doncaster railway station.

Q347 Chairman: Neither can I. There is a lack of real information here. That is why we are gathering as much as we can here.
Mr Higgins: Let us assume we were the only free to use ATM machine in Doncaster railway station as a working hypothesis. If it was one of our customers who used that machine we would not pay anybody anything, but if it was somebody else's customer we would receive interchanges. So it is in our interest to be the only machine in such a location, this is ideal.

Q348 Chairman: In a low footfall area there is an incentive for the banks.
Mr Crosby: It is marginal because the volume of transactions that goes through these charging areas is very small in relation to the total. When you multiply that by the interchange fee being much smaller than the fee that is charged you see it is very modest.

Q349 Chairman: We have got to define what the margin is.
Mr Crosby: What is unusual about Doncaster—

Q350 Chairman: I have never visited it by the way.
Mr Crosby: I know it quite well. It does seem that it is unusual to see multiple charging ATMs on the same site. What you see there is very clearly the power of the owner of the site.

Q351 Chairman: It is back to the Barclays point. That is an issue for us as well.
Mr Crosby: That will be whoever owns Doncaster railway station.

Q352 Angela Eagle: Two or 3 years ago when Barclays announced that they were going to charge other customers and potentially even dissolve the LINK structure there was a huge public outcry which forced them to recommit to their free machines and then everything went quite and all of a sudden we realised that there had been a 40%

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[4] *Note from Witness:* Of the RBSG net growth of 351 in 2004, 28 were at branches and the other 323 were at remote sites.

increase in charging machines albeit in what you describe as low footfall areas. Do you not understand how worried people are that this is just the banks trying to achieve what Barclays tried to achieve a couple of years ago behind everybody's backs by stealth?
Mr Crosby: I do recognise that concern. At the time of that event we were the lead player who stepped back and said we were not going to charge at all. I am not saying that was entirely altruistic. It was in the interests of our customers but it is also in the interests of our strategy as a rapidly growing bank. We are completely committed and I honestly believe that all the major banks are. I do not think there is any suggestion of stealth or any change of heart here at all.

Q353 Angela Eagle: Do you not understand, Mr Higgins, that that is what people are worried about? People do not like having to pay to have access to their own cash and they especially do not like having fees that vary. They do not like being told that they may have to pay but not really knowing until the very end and then not always knowing how much they are going to be charged.
Mr Higgins: This is a direct consequence of LINK being opened up on the back of the Cruickshank report. It was predicted then that what would happen is there would be machines on locations where hitherto there had been no machines. We have expanded our free to use ATM network during these years. There is more opportunity to get at your cash through a free ATM. What has happened through the development of Convenient Cash Dispensers is there is an opportunity to get at cash where there would be no alternative, this is greater choice and this is greater access. That has clearly been the development.

Q354 Mr Cousins: You have been talking about the expansion of your network. Before you take a decision to use a new location presumably you do a business study to determine whether this is likely to be a low volume location or a high volume location.
Mr Higgins: Are we talking about our free to use ATMs?

Q355 Mr Cousins: I am talking about your network, whether it is your network you are operating through your subsidiary or whether it is your free network.
Mr Higgins: We cannot talk about them together, it would be confusing. With the free to use ATM network a machine will cost about £25,000. The annual running cost, including the depreciation of the cost, is about £25,000. What we have to do is establish what the likely usage of the machine is based on footfall, we have to look at the rental where it is not at a branch and go through quite a detailed economic model of whether or not it is viable. That is what we do for the free to use ATMs and by adopting that process last year we introduced a further 480 to our free to use ATM network. Hanco is a quite different model. Hanco deals with businesses. It is the retailer who decides whether or not they put a machine on the premises or not. The retailer then will deal with Hanco. 60% of the new ones have gone into pubs and in terms of stock it is about 50%. Another 20% of new machines are going into post offices and 10% are going into convenience stores. The retailer makes a decision to put the machine there and the retailer then decides what the fee is going to be, that is the model.

Q356 Mr Cousins: But the effect of that is that the country will be divided up into high transaction locations and areas and low transaction locations and areas. Once the operators of sites, whether they are railway stations or shopping centres or anything else, spot what is going on they will say, "We are operating in the middle of a low transaction area. We are going to shift all our machines on our sites onto a paid for basis and make £1 per transaction in the process." That is how markets work.
Mr Higgins: That is how markets work. That is exactly the consequence of LINK being opening up and the emergence of these machines. The decision to put charging machines in high footfall locations is not the banks' decision. We have no control over someone taking us out.

Q357 Chairman: We are interested in the public policy aspect here. MoneyBox gave us a submission where it spoke about the Competition Act strictures and I will quote it to you because it is supporting what Mr Cousins and others are saying. They are saying to us, "However, the consequence of these agreements has paradoxically been to encourage the major banks and building societies to reduce their on-going investment in remote ATMs as there is no longer any commercial benefit in deploying and maintaining machines which generate low transaction volumes. And equally perversely, the methodology of calculating the multilateral interchange fee has indeed encouraged efficiency savings but by incentivising banks to prune the numbers of low revenue generating ATM machines, most of them in remote locations." It looks as if there could be a divide in the future in the country.
Mr Higgins: We have grown our number of remote and we have—

Q358 Chairman: We are talking about the public policy aspect here. We know the great things RBS has been doing there. You get a gold star for that. We are looking at the trend. There seems to be a pretty persuasive argument there. Is that right, Mr Crosby?
Mr Crosby: I think the issue is how far it goes.

Q359 Chairman: That is the nub of it.
Mr Crosby: It seems to us that provided the major banks sustain fee free ATM networks you are still going to get, in perpetuity, a very high percentage. It is the flip side of the concern that customers have that they do not want to be charged for it and provided there is sufficient access to the fee free estate and there is adequate disclosure at the charging site they will be used purely for convenience.

Q360 Chairman: We are coming on to that. Given that the free standing started in 1999 when there were no charging machines and it moved to a landscape where in terms of the state 40% are charging, one of the things that is occupying us as a Committee is what the future landscape is.
Mr Crosby: It could be 50% and if it were 50% it would still be less than 5% of volume was going through it. Arguably that would be more choice for still very little volume. There must be limits to how far it goes beyond that given the number of sites.

Q361 Angela Eagle: The dynamics of the market push it that way as well. The only thing that stopped the dynamics of the market getting rid of free charging machines at all is your commitment as big banks to maintain your free machines when all the dynamics are pushing you the other way. I am just wondering how robust you are all going to be over the next few years.
Mr Higgins: You can judge us by our track record.

Q362 Mr Plaskitt: Is it not intricately linked to your decisions in the future about your branch network? It is all very well you saying you will commit to keeping free ATMs on your estate if the estate is defined as branches, but what if you prune the branch network as we have seen in the past?
Mr Crosby: In our case the pressure is to increase the branch network rather than reduce it, it is the same volume issue. I do not think the pressures generally on branch networks to reduce them are the same as they were five or 10 years ago for all sorts of reasons.
Mr Higgins: For some time we have had an unequivocal commitment to maintaining the existing branch network. From 1999 we have had a formal promise not to close branches.

Q363 Mr Beard: Let us move on to this question of financial inclusion. To what extent do you regard your banks as under an obligation to provide free cash machines away from existing branches as part of this concern for financial inclusion of all the population?
Mr Crosby: Where we can in practical terms and economically we are committed to doing so. Our commitment to financial inclusion is evidenced mostly through a very high market share of basic bank accounts and is in excess of a half to two-thirds of basic bank accounts in the UK. Clearly in certain sites it just is not practical in this environment because the retailer calls the shots. So there are limitations on that.

Q364 Mr Beard: Mr Higgins?
Mr Higgins: In keeping with the way we run our business our obligations are to look after our customers. If one ranks by socio-economic grouping or affluence the 3,500 postal districts in the UK, we find that in the bottom 20% we have a higher number of free to use ATMs per head than in the 80% above, so as a matter of fact we have a higher penetration of free to use ATMs in the most disadvantaged areas.

Q365 Mr Beard: Has not the growth of charging machines reduced the incentives of banks like yours to provide free access in deprived areas, because you can always turn round to say any cash machines can be provided by charging operators and we do not need to bother about that, or, if that is not you, then your subsidiary Hanco could be doing it?
Mr Higgins: Just remember that the convenience cash machines are going into areas where the footfall is so low. Remember in Hanco's case it is less than 300 withdrawals per month compared to an average for a fully functional ATM of 7,000 per month, so the ATMs are almost very, very much going into areas where there was no machine, it is not about replacement, but, as I say, sticking to the facts, we have more free to use ATMs in the bottom 20% of the country by postal code, postal district.

Q366 Mr Beard: The point I am making is those areas, so low in footfall are very often the deprived areas. We have had evidence, for instance, from Speke in Liverpool.
Mr Higgins: Speke in Liverpool is an interesting one because NatWest, which is obviously part of our group, has a branch there, and an ATM there. We are the only bank represented in Speke.

Q367 Mr Beard: But they are all charging machines.
Mr Higgins: No, it is a free to use NatWest ATM and a branch in Speke. That is beyond any question.

Q368 Mr Beard: There is a wide area which is not covered by free machines.
Mr Higgins: All I would suggest is that we are the bankers in Speke and we are the bank that has an ATM that is free to use in Speke.

Q369 Mr Beard: But it does not change the point that I was making. Mr Crosby, is it not the case that whilst you have got these charging machines you can abdicate from responsibility for deprived areas by saying those were, as Liverpool, for low demand, we can leave that to the charging people.
Mr Crosby: No, I do not think it is as straightforward as that. We have a half to two thirds of basic bank accounts in the UK. That costs us a lot of money, it costs us 25 to 30 million pounds a year, and it is important that we encourage such basic bank account customers to use ATMs wherever it is suitable and appropriate, and we would not have a half to two-thirds of basic bank account customers if our branches were not conveniently situated for that market. If our branches and ATM distribution network was inconveniently situated for that market, we would not have more basic bank accounts than the rest of the industry put together.

Q370 Mr Beard: Have your banks conducted any research into cash machine provision to see what sort of spread of free ATMs there are and whether they are adequately available to all the population?

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Mr Higgins: No, we have not, but I think it is something that as an industry we should do very much in the interests of understanding some of the dynamics behind your questions, which are probably policy questions.

Q371 Mr Beard: Because certainly one independent ATM before us has noted that banks abandoned deprived areas like Speke and they have only been covered because they have moved in?
Mr Higgins: I have already mentioned our position with Speke, but the question—

Q372 Mr Beard: Do not concentrate too much on Speke, it is just an example.
Mr Higgins: Absolutely, but your question was have we conducted research to understand the spread of our ATMs with respect to disadvantaged areas. We have indeed. We have spent a great deal of time analysing that very question, and that is why I can report that the bottom 20% of postal districts have a higher representation of ATMs than the top 80%. We have conducted that.

Q373 Mr Beard: Free ATMs?
Mr Crosby: This is free ATMs. The bottom 20% by postal district have got a higher representation.

Q374 Chairman: One of the things that interests us is exactly where the free ATMs are located, where all the ATMs are located, because we could have a small town with a high street where the free ATMs are and the records show that that is in a deprived area, but everybody comes in to shop and it is a high footfall. We would like as much information as possible as to the location of these. You mentioned Speke as well. The CAB response to us said that there was nothing in Speke; so if you could give us information as to that we will compare that with the evidence we have received from CAB perhaps.
Mr Higgins: I would be delighted.

Q375 Mr Beard: One of the issues in this is the number of people now with the basic bank account who use cash machines, but very often they just take out what they want for their shopping expedition, which maybe as low as £10.00 and they are charged £1.50 for it, so they have been disproportionately charged. Is there any way in which the cards could differentiate between people on benefits who could be charged less than those who are not?
Mr Crosby: I think it is unlikely. The data is there, but it is really a matter for those, it has to be a matter for those companies that are charging, I am afraid, but in principle I think it would be quite difficult because the data would not be there to drive that.

Q376 Mr Beard: Mr Higgins, have you got anything to add to that?
Mr Higgins: I would just say that the charges for withdrawals are typically fixed and typically £1.50. Just bear in mind that the total cost incurred in our case by Hanco and the retailer when you combine them are actually more than two-thirds of that; so I think that sometimes there is this misunderstanding that somehow or other the costs are very low and the £1.50 is generating a huge amount of revenue. So the nature of the fixed cost of the transaction means that whether it is £10.00 or £100.00 the actual cost of the provision is very similar. It is not unlike many other things which happen in every day life. If you get a taxi, the standing charge in a taxi is the same and the cost of the taxi is the same regardless of where you might be.[5]

Q377 Chairman: There is a big reason for telling you exactly when you have been charged?
Mr Higgins: That is right, and we are absolutely for that transparency.

Q378 Mr Beard: The new Banking Code is going to require banks to notify customers when they close the last bank branch within a mile radius in an urban area within a 4 mile radius in a rural area. Do you think similar proposals should be brought in for banks changing from free to paying cash machines?
Mr Higgins: We would be very happy to go along with that. We are totally committed to both the branches and the ATMs.

Q379 Mr Beard: Mr Crosby, your submission notes that around 65 of the machines that HBOS sold did not have another free ATM machine within two miles. Will you be notifying your customers living nearby if these machines are converted to charging?
Mr Crosby: Yes, we will very much comply with the Code.

Q380 Mr Beard: I am sorry?
Mr Crosby: We will obviously be complying with the Code.

Q381 Mr Beard: The code is not there yet. I am suggesting it might be.
Mr Crosby: I am leaping ahead. I agree it should be and we would.

Q382 Mr Beard: Consumer groups have called for a cap on the charges and I presume that you would both object to a cap on charges. What would be your grounds for objecting?
Mr Higgins: I think market forces mean that you do not need caps. Again, in fact referring back to the Cruickshank Report, it was stated there—I cannot quote it absolutely word for word—that your price controls are a last resort. I think they are beyond that. Market forces are very good at determining at what level charges should be.

Q383 Mr Beard: How would market forces determine that everybody is charging £1.50 and some £5.00?

[5] *Note from Witness:* All holders of basic bank accounts (including 662,000 RBSG customers) can obtain cash free at Post Office counters such as the Post Offices in Speke. Others choose to use the Post Office Card Account free of charge. Both these services are designed to accommodate the needs of those on low incomes. RBS is providing £30 million over five years towards the cost of this Universal Banking Services Scheme.

Mr Higgins: Very few are charging £5.00. The retailer who is charging £5.00 has obviously determined that customers are happy to pay it. If customers do not pay it, it will not stay £5.00 for long.

Q384 Mr Beard: Mr Crosby, the question of the cap?
Mr Crosby: In practical terms I do not have any objection to a cap on the charges, but I suspect it probably would not be legal. I think there are some concerns as to whether it would be legal. I am sure I have seen that. It is also a question of whether it would actually change very much in practice, because across the broad breadth of charging machines I suspect you will find that more than £1.50 is not sustainable anyway. These machines cost twice as much to maintain, they attract many fewer transactions, and in that environment it seems to me that there will be a natural ceiling, and it may be that we are seeing that already. The fact of the matter is that in principle I do not object, I just think that the law will stand in the way if there were to be an industry move in that direction.

Q385 Mr Beard: But the counter argument to what you have said is that there are significant numbers of machines that are charging £5.00?
Mr Crosby: Yes, but whether that is sustainable. We are in the early stages and we are seeing how this settles down and I am suggesting that in the longer term the sustainable charging level will not be £5.00 in today's money terms.

Q386 Mr Beard: Going back to this question of financial inclusion and the use of these cards and these machines by people on benefits, some consumer groups have suggested to us that a sliding scale of charges would be fairer where the charge is based on a percentage of what is withdrawn. That sounds reasonable, does it not? Why is it not appropriate to bring that in?
Mr Higgins: I think I go back to an earlier comment. The actual underlying cost when you aggregate the cost to Hanco in Hanco's case, and I can only speak to Hanco in this sphere, if you aggregate Hanco's costs and the retailer's costs you get to two-thirds of the £1.50, roughly speaking. So this idea that somehow the sliding scale could go from a very low number to a much higher number, what you would have is a scale that went from £1.00 plus something to whatever the highest rate was, so it would not make that big a difference. The second point would be that it would be much harder to be as transparent as I think we all want to be, and a subject we will be coming to, I presume. Finally, it could have a rather odd impact on customers' behaviour, where instead of just taking out a single transaction they break it down into smaller ones if that seemed to be viable, depending on what the sliding scale was, and all that would do is drive up costs—the two-thirds of £1.50 would rise as the basic cost—so I do not think it would take us to a better place.

Q387 Mr Beard: We are really talking about fairness across the whole range of incomes, and these standard charges bite more on the people with low incomes than the larger incomes. That is what proposal is intended to make it fairer, so why is it to be dismissed so out of hand?
Mr Crosby: I think if those who are charging for the machines can make that work, can make it commercially viable, then I can see the argument that it gives an outcome which is pro financial inclusion and therefore to be supported.

Q388 Mr Beard: Why should it not work? It is bound to work. If you have got your costs, you just have to work out what the percentages are?
Mr Crosby: There are some practical issues, but, like all these things, if it is commercially sustainable it can be made to work.

Q389 Chairman: The new LINK rules require a message to be displayed on the screen saying that this machine will charge up to a certain amount for LINK cash withdrawals. Would you be in favour of setting a minimum size for this message? The reason I ask that is that I have the 14 point size. Mr Crosby, you are screwing your eyes up, and may well you screw your eyes up—
Mr Crosby: I have got bad eyesight, as I said before

Q390 Chairman: —because what I am going to show you is the same message that you cannot read here in 96 point. Would you not fancy it being in legible form on the machines in bigger print so that people can understand? We went downstairs to the Post Office just now. Remarkably, the Alliance and Leicester machine says, "This is a free machine. There is no charge for this", and it is in huge big print. On your way out go down and have a look at it. I will take you down and you can see it. Why is it in the House of Commons they have put that in? I just wonder, but there we are.
Mr Crosby: The fact of the matter is that we have all supported the transparency initiative with a view to it being effective, and after it is implemented in July it will be monitored and part of the test will be that it actually is getting across. So if it has to be bigger, then it should be.

Q391 Angela Eagle: Why has it taken so long for this agreement to come about? It is welcome that there is going to be an agreement, and clearly we have got to look at some issues about how large and in what form the messages are, but why has it taken two years since the big growth of these machines to bring any transparency at all to charges? These machines say "free" in big letters quite often, and then in tiny letters "balance statements", which I think is deliberately misleading in terms of the message it gives to potential users. Is this not damaging to the whole ATM industry?
Mr Crosby: Yes, I agree with that—I think it should have been done earlier—but we are doing it and we are going to do it properly.

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Q392 Mr Plaskitt: And you said it will be monitored.
Mr Crosby: Yes.

Q393 Mr Plaskitt: By whom?
Mr Crosby: It will be monitored by LINK.

Q394 Chairman: Can I just interrupt you? We had LINK in front of us and they said, "Look, we depend on people phoning in.
Mr Crosby: Can I move on from that, because I think it relates to the observation we made earlier on about us being keen to get this under the Banking Code Standards Board who actually have the capacity to monitor these things. We have not supported this transparency initiative with a view to it not being implemented in a way that works.

Q395 Mr Plaskitt: But when we had LINK with us I asked them what sanctions they had to use against members who were not compliant with that agreement, and essentially they have not got any apart from expelling people, and they have never expelled anyone.
Mr Crosby: There is a first time for everything, and we are committed to this and I am sure the other major banks are, and we will definitively make sure it happens either through LINK or through the Banking Code Standard Board. It has to happen.

Q396 Mr Plaskitt: I think it is rather important to determine who does it, because we have established the constitution of LINK, and we know who runs it and who controls it and their representatives have admitted to us that they have no sanctions to use against people who are not compliant with its rules; so what is it worth?
Mr Crosby: Can I offer to take that away, go back to LINK and come back to you on this issue with Mr Hayes? We will come back to you together on exactly how we are going to make sure it is implemented.
Mr Higgins: I would just like to make two points on transparency. Number one, Hanco is already extremely transparent. There is already a message on the ATM screen which says, "You may be charged." It says "may" because it is not—

Q397 Chairman: We want to move onto that one. Can we just take you on that one? The first thing is that on 14 point, as I say, both of you screwed your eyes up, so therefore I think in terms of the font size it is important to look at that.
Mr Higgins: We are already completely—

Q398 Chairman: Would you go back and look at that?
Mr Higgins: We have already looked at it. We are already committed to a 36 point.

Q399 Chairman: But when are you going to introduce that?
Mr Higgins: We are doing it. That is what we are implementing for the deadline.

Q400 Chairman: So you are going to do that?
Mr Higgins: We are doing 36 point; that has been agreed after looking at it from the customer's perspective.

Q401 Chairman: The reason I ask that is that when I asked, I think it was LINK the last time, "I am going home to my constituency on a Thursday night and I go down the main A22 road and on the left-hand side there is a garage with Esso petrol at 78.9. On the right-hand side there is BP at 81.9." So I say, "What am I going to do?" Being a wise guy I go the Esso and save £1.50 on 50 litres. We have got cash machines in front of us here and, as I mentioned, we have got 4 cash machines in this room in each corner. What I have got to do with my card is pop it into the cash machine, gives me every transaction, and then the penultimate message says, "Oh, it is going to cost you that." Then I go to the next one, the next one and the next one and then I go back to the middle of the room and I say, "What was the one that was the cheapest?" That to me seems nonsense in today's environment. Why can we not have a set-up whereby we have things in large print that, "This machine will charge", and also tell what the charge is going to be. That seems to be fairness above all. If petrol stations can do it surely cash machines can do it.
Mr Higgins: Can I, first of all, say we are absolutely committed to transparency and it will be—
Chairman: No, no, I am asking you a question, Mr Higgins. You have mentioned transparency endless times this morning and I am delighted.
Mr Higgins: It is important

Q402 Chairman: On you go. I am trying to pin you down on this one.
Mr Higgins: But it is a mere increase and we will continue to look at the different ways we can do it. Specifically to that point, we will have to look at customer research to determine whether that would be better or not. You talk about petrol stations here, in every day life there are many—

Q403 Chairman: Look at me. I am one of your customers, I have got one of your bank accounts, and I am telling you, as a longstanding RBS customer, I want you to put that on your machines. If you value my custom, go and do it.
Mr Higgins: We always look at customer research; we are constantly doing it. We have been absolutely committed to doing the right thing all along, but in everyday life there are many examples. You choose petrol stations, but you walk past a few pubs without knowing how much it is for a pint of lager.

Q404 Chairman: But you go in and you ask them what it is for a pint of lager. You do not need to put something in a machine that waits 5 minutes to tell you your perfectly foreign Guinness will be £1.00. It does not happen that way. Therefore, why can you not act in this transparent way, and when you say you are committed to transparency I am not letting you off with that. Will you take that back and look at that so you can get signs on that?

Mr Higgins: Yes, absolutely.
Mr Crosby: I am getting it.

Q405 Chairman: Again, a lot of consumer groups have mentioned to us many cash machines currently display a sign saying, "free", and it is a big "free", "balance inquiry". They suggest that is misleading. For the record what is your opinion?
Mr Higgins: There is a charge. It is free to the customer but there is an interchange takes place, but we fully support that it could be misleading and it takes you to the sense of fairness; so we would fully support that and, in fact, we are determined to make sure that there is no other alternative to that.

Q406 Chairman: So there is a case for looking at that again and maybe banning the word "free" on that.
Mr Higgins: Absolutely.

Q407 Chairman: Lastly, if consumers are going to have a clear choice between free and charging cash machines, do you not think there is a need for improved signage to make it clear that the machine is free. So if people say it is a free machine, I am standing in the middle of the room and, hey presto, I jump across to the corner because that is free. Fair enough?
Mr Higgins: Yes.

Q408 Chairman: Good. *Which?*—which is maybe not your favourite organisation—submitted a pretty comprehensive submission to us and they suggested there could be some sort of standardised labelling, such as a large triangle for a charging machine and a large circle containing the word "free" for free machines. What do you make of that?
Mr Higgins: Just having a logo?

Q409 Chairman: Yes.
Mr Higgins: I think what is important is that there is enough information. A single logo would be applied to a variety of different kinds of charging machines; so we prefer to look at it, but I do not think it is as straightforward as it might seem at first sight because it would be deemed to mean a lot of different things potentially, but we would look at it.

Q410 Chairman: In terms of improved clarity and transparency it could be better?
Mr Higgins: Yes.

Q411 Chairman: This session has been very helpful to us. What I and my colleagues have taken out of this session this morning is that we have expressed our concern about the LINK rules regarding transparency of charges which have been decided at confidential meetings and I think it would help the industry itself, and particularly customers, because you are all competing with one another. You are competing like mad with Mr Crosby. You are smiling at each other this morning, but for the rest of the time you do not smile at each other, and I know that. Therefore, if you could put your point of view across it would be very helpful and the confidentiality thing go. In terms of the rules that are not in force, and if you looked at the evidence last time from LINK, they were telling us that they depended on people phoning in and that does not seem satisfactory; so if you looked at that aspect that would be important. Also the Banking Code, if ATM operators could be signed up to the Banking Code that would be very helpful, as I say, because I and my colleagues have made complimentary comments regarding the Banking Code; and, whilst there has been an increase in free ATM machines, the anecdotal evidence to us is that the concentration of them could mean that is at the expense of spread, and I think that is an important point that we want to look at and to place large signs on cash machines showing the charges away from the 14 point, I think that is a step forward which you could take away. Mr Crosby, you wrote to me last week saying that the machines that you sold to Cardpoint provided a prominent sticker providing a list telling people, "This is now going to be charging in 30 days", which is helpful and I think you also promised to notify customers living near free machines that they were converted to charging. So that has been helpful to us in terms of our inquiry. It is a public policy issue, not only that, it is the future of these machines, and your submissions and your oral evidence this morning has been extremely valuable. Thank you very much. (Short pause) Mr Higgins, Mr Crosby, can I just ask you to sit down again. There was a question I wanted to ask you; it was important. We are having the Post Office in I think in the next couple of weeks and we want to ask about the Post Office, because what they are saying to us is that you are not allowing your current account customers to withdraw cash free over Post Office Counters. What is the reason for that, because we want to be ready for them coming in? Is it a cost issue or is it a reaction to the Post Office continuing to extend its offering of financial products such as personal loans? Mr Crosby?
Mr Crosby: Purely cost.

Q412 Chairman: Cost.
Mr Crosby: In negotiations we have had in the past they have been seeking to charge us significantly more per transaction than the same transaction would cost inside our branches; and the fact of the matter is that we are not, amongst our customers, getting very significant responses encouraging us to provide that service. If customers told us, "We really want access through Post Offices; it is really important to us", and/or the Post Offices gave us a more economic proposition, we would be there.
Mr Higgins: Our basic bank customers, of which we have got more than 662,000, have access to the Post Offices, but beyond that they do not, and a basic issue here is that the Post Office is in competition with us.

Q413 Chairman: Is that a cost issue then?
Mr Higgins: Competition is more of an issue than cost.

Q414 Chairman: That would indicate that whilst Mr Crosby will go back and maybe look at this issue, you are absolutely determined not to take them on.

Mr Higgins: We are not absolutely determined about many things. Time will tell what we do. We react to the circumstances we find ourselves in. It is an area of competition.

Q415 Chairman: It is competition. It is nothing to do with cost then. Even if they reduced the cost, you want to act on your own. Is that what it is?

Mr Higgins: That is what we are set to do.

Chairman: Thank you very much.

Witnesses: **Mr Peter McNamara,** Chairman, MoneyBox plc, **Mr Ashley Dean,** Managing Director, TRM, **Mr Ron Delnevo,** Managing Director, Bank Machine Ltd, and **Mr Mark Mills,** Group Chief Executive, Cardpoint plc, examined.

Q416 Chairman: Good morning and welcome. I am sorry the first session ran over, but you were all present and you heard my outline at the beginning on this being a public policy issue and we are looking at the future of the market. I think Mr Delnevo, Bank Machine Ltd, has written to us and said that in terms of the development of cash machines it has been a "win-win" situation already, so I do not think I will go along the table and ask you that. I presume you all agree with Mr Delnevo that this market is a win-win one? Okay; thank you. For the shorthand-writer could you introduce yourselves?

Mr McNamara: Peter McNamara, Chairman at MoneyBox.

Mr Mills: Mark Mills, Chief Executive of Cardpoint.

Mr Dean: Ashley Dean, Managing Director of TRM.

Mr Delnevo: Ron Delnevo, Managing Director of Bank Machine.

Q417 Chairman: We will come on to discuss the details and the rules of transparency charges later in this session, but LINK told us that five members voted against the new requirement for approved transparency at the meeting on 14 December, and, as you heard earlier, LINK were unable to supply us with the names of the companies that voted against the new requirement because of what they said were "confidentiality agreements". Can you each tell us whether your companies voted for or against the requirements for improved transparency and, if you did, give your reasons for your decision?

Mr Delnevo: Against, because LINK was simply rushing to react to the fact that there was a Treasury Select Committee rather than spending time properly examining all the issues.

Q418 Chairman: So LINK are opportunists, are they?

Mr Delnevo: You used those words. I am not using them. I have given my position.

Q419 Chairman: Okay, we will maybe come back to that. Mr Dean?

Mr Dean: As it happens TRM voted for the proposal, and I think that was on the basis that primarily we would like to get on and run our business and are very happy for things to be transparent and were keen, therefore, to do and to support anything that allows us to move on from this issue and get on with our business.

Q420 Chairman: Mr Mills?

Mr Mills: I was not present personally, but on the day apparently there were lots of iterations of the transparency vote, but overall we voted against them on the basis that they did not seem particularly workable. To take your example of petrol stations, it would possibly be distracting to put too much information about a charge within a petrol station at the roadside.

Q421 Chairman: I am not talking about petrol stations. I have passed petrol stations and cash machines are away from petrol stations, so it is nothing to do with petrol stations. You chose whether you think of going for petrol and then drawing money at the same time, so it is nothing to do with that, but you voted against. Mr McNamara?

Mr McNamara: We voted against, and let me explain why very quickly. The Network Management Committee, a sub-committee of LINK that the ATM owners go to, all the combined IADs, although, as we know, having nearly half the ATMs, have a total voting power that does not amount to 1%, and, frankly, LINK, owned largely by the banks, is extraordinarily good at imposing transparency on other organisations and not on themselves; and while we are very committed to transparency, indeed I would argue it is probably the most transparency service transaction you ever do, this is not reciprocated by all the banks' activities in terms of transparency at ATMs themselves, and, for the reasons I have outlined and that voting structure, I do not believe that the LINK organisation, as presently operating, acts necessarily in the interests of consumers nor of effective competition in the industry.

Q422 Chairman: Maybe the ordinary person in the street would draw the conclusion that three of you are not in favour of giving customers clearer information?

Mr Mills: Not at all. Mr Chairman, our business has been based from inception on the process whereby we explain to the customer that it is us that is making the charge and we give them the free choice to say whether they accept the charge or not. In addition to that, our machines, in our case and my competitors', are invariably brightly coloured and do not display particularly bank names. Therefore, when somebody approaches one of our machines, we are not coercing them in any way; we are providing a service.

Q423 Chairman: No, the bank's, for example—maybe Mr McNamara has got something against the banks, but I showed them the 14 point sign on the machine when you make withdrawals—nobody could see it at that distance—and they are saying that they are going to take it back and look an increase the signage. Whilst you voted against it, would you be willing to increase the size of print, for example?
Mr McNamara: Completely. Let me make it quite clear. I have no objection to the transparency of our charge, or, indeed, the charges displayed on the resting screen. It is displayed where you put the card.

Q424 Chairman: No, that is further on because there is progress to be made on that. It just seems disappointing that the 3 of you voted against that. By the way, would you not prefer the rules to be public so that everybody knows what is happening?
Mr Delnevo: Absolutely. There is no problem with that, but it is interesting that the people at the Nationwide themselves submitted—

Q425 Chairman: No, hold on.
Mr Delnevo: Can I just say something?
Chairman: So you are interested in that. We will get on, we will have a sensible discussion here, Mr Delnevo, and you will get your say just as much as everybody else. There are 4 people and I am trying to balance it out. Okay.

Q426 Mr Beard: What factors have led to this dramatic growth in charging cash machines over the past 4 years?
Mr McNamara: Shall I start on that one? One factor which is quite significant has been, of course, the admission of non-banks into the LINK organisation, essential to move the transactions around. The second one, quite straightforwardly, as we said in our submission, in part has been that the average costs are all the recovery that banks make from having a remote machine. Average cost means by definition half the machines you install will make a profit and half will not at a location, so the locations for banks only work where there is that very high footfall for a free machine that Mr Crosby referred to, and, in effect, it is the gap in the market that is created for low transacting machines, typically a tenth or a twentieth of that of a free bank remote machine, coupled with, if you like, the capacity to charge that have made more ATMs economic.
Mr Mills: It is purely consumer led. We installed our first machine when there were just under 30,000 free machines. One would argue at the time that the country was well served and the banks were providing adequate service; there did not seem to be people protesting that there was an inadequate number of machines. We installed our machines on a pure service basis, providing, we believe, better availability than the banks, and the customers have come and repeatedly come to our service; so I speak for all of my peers here when I say that the vast majority of our customers repeat use our service month in month out, and that is in any area. We provide a service and we say to people, "There was not a machine there before", if it is a new installation, "If you wish to use it, there is a charge. If you do not wish to use it, then please carry on using whatever existing arrangement you had with your bank, with your Post Office with cash-back at supermarkets." There is no degradation in service. Our business is purely to complement and provide an additional service to the general public.

Q427 Mr Beard: Mr Dean, is there anything you would like to add to that?
Mr Dean: No, I think Mark sums it up about right. It is broadly, in fact entirely, consumer led. It could not really operate on any other basis, I do not think.

Q428 Mr Beard: Mr Delnevo?
Mr Delnevo: The fact is that the first bank ATM went in in this country in 1967 and the banks had a 30-year window of opportunity to provide the ideal service for the British public. They did not take it, and the fact that the number of ATMs has almost doubled in the last 6 years indicates that there was a gap in the market, as Mark has referred to, and independents have filled that.

Q429 Mr Beard: The question is why has it grown in the last 6 years?
Mr Delnevo: Because independents were allowed to exist from 1998 onwards.

Q430 Mr Beard: So it is this access to the LINK arrangement that has caused it?
Mr Delnevo: Initially it was sponsorship through LINK members and then independents were allowed to become members in their own right in the year 2000.

Q431 Mr Beard: Many of the submissions you have made refer to the fact that withdrawals from charging machines are currently only at 3.6% but by 2003 the growth rate was 48%, which is huge? Do you expect that growth rate to go on?
Mr Delnevo: No, I would not necessarily think so. The bank said earlier that they did not think that the percentage would go beyond 5%, and I would tend to agree with that.

Q432 Mr Beard: When is it said to be another 5%?
Mr Delnevo: Over the next few years.

Q433 Mr Beard: What is the other view?
Mr Mills: With respect, 48% to take us to 3.6 of the market in overall terms is very—

Q434 Mr Beard: It is actually 3.6 now.
Mr Mills: Sorry, if we got to 3.6 with an increase of 48%, then we must have been at 2.4 presumably. So in the overall scheme of things we have only moved 1.2% of the whole landscape of transactions towards charging, but given than in our own business the underlying growth on our machines is about 70%, that would indicate that people are not just happy to use them the first time but probably the fiftieth time

because they are either saving time or saving something, convenience, by using one of our machines.

Mr McNamara: I would say that the importance to banks of having free ATMs for their customers and their service is so important that the banks will always take actions to make sure that there are a very large number of free machines available for a very large number of their customers.

Q435 Mr Beard: So you are not expecting that sort of growth rate?

Mr McNamara: So I would anticipate the growth, as you say, topping out at probably around 5% of all transactions in due course.

Q436 Mr Beard: When LINK admitted a number of charging operators back in 2001 they noted that, "The new machines will be situated in 'convenience' sites that have not previously justified a cash machine". How do you define "convenience" in this context?

Mr McNamara: I think convenience is probably a wrong word. I would say there is a high degree of choice. In some cases there may be a long way to go to a free machine; in other cases the physical distance may not be great, but the consumer is prepared to pay the cost of the charge rather than travelling a small distance; and given both the existing and forthcoming clarity of that charge, I think that is just a consumer choice preference.

Mr Mills: I think "convenience" is defined by the individual. For some people it is more convenient to remain where you are than to walk 10 feet to use another machine which may be free, and at the end of the day we present the choice to the consumer. The consumer's choice has not been reduced in any way, shape or form because there are more free machines and more free access to cash than there has ever been.

Mr Dean: The key word, as you have already heard, is choice. It can be a machine that is in a pub or a club, for example, where next-door or outside there is a free machine, but if it is convenient enough in the eye of the beholder, as it were, to use that machine there, then that is what will happen. I might also add, I think there is an underlying assumption that independent machines equals charging machines; and while that is for the most part true, it is not exclusively true and, therefore, will not necessarily remain in the case in the market. For example TRM have an estate of something like 4,000 machines over 200 of them are already free, and that is merely a product of the economic and commercial arrangement around those particular sites. It may be that we see more sites that are free to use and yet run by independents because they believe, and I think we probably do believe, that we can run them in a more economic and efficient way.

Q437 Mr Beard: If they are free, how are you going to make anything out of them?

Mr Dean: The revenue would simply come from the LINK interchange which you talked about in the previous session. In some circumstances, depending on the arrangements, and, as I say, at least a couple of hundred sites in my case, it is perfectly possible to run those profitably based on that 31 pence interchange.

Q438 Mr Beard: Mr Delnevo, the question was what is your definition of "convenient"?

Mr Delnevo: We would echo what MoneyBox says, it is the public who choose to use the machines. If they decide it is convenient for them to use an ATM, that is their choice.

Q439 Mr Beard: That is skipping the question.

Mr Delnevo: No.

Q440 Mr Beard: Choice is not an answer to what is convenient. What is convenient is that it is near, or it is a better quality service, or it is cheaper or something?

Mr Delnevo: Convenience is not something that has a standard definition for every human being.

Q441 Mr Beard: That is the definition that has been given by LINK. That is why I am asking you.

Mr Delnevo: You are asking me for my definition.

Q442 Mr Beard: I am asking you what is your definition of convenience? Why do people go to your machines if they have to pay, rather than going to a free one?

Mr Delnevo: Because it suits them to do so in their own individual circumstances. It is about individual choice.

Q443 Mr Beard: But that is bucking the question.

Mr Delnevo: No, it is not. It is answering the question.

Q444 Mr Beard: What, in your view, are the circumstances which influence that choice?

Mr Delnevo: The circumstances vary. If I am in a pub and it is nice and warm and I am having a drink, I may not choose to walk 100 yards in the cold because I do not want to do it. That is my choice. It is convenient for me to use the ATM in the pub. Equally, it could be about a half-mile walk. I do not want to walk that distance and back to save £1.50. As I said in my submission to the Committee, the fact is it is not worthwhile for the average person spending more than a few minutes searching for a free ATM or queuing up because the fact is £1.50 is not a high percentage of somebody's hourly pay.

Q445 Mr Beard: By and large convenience equates to how near they are?

Mr Delnevo: How near and the proximity, yes.

Q446 Mr Beard: If you have got this sort of growth and you are pushing to expand your estates, is this going to push the rents up? Is this happening? Are you finding that the rents where you want to place your machines are going up now?

Mr McNamara: Yes, it is. It is a competitive environment to acquire sites or ATMs that attract a good number of customers to use those sites. Quite clearly, this is not particularly new; it has always been the case that banks, before the existence of IADs, would pay to have a good site for their ATM, because clearly the more transactions an ATM does, whatever the basis of its charging, broadly speaking, the better the economics of that ATM siting.

Q447 Mr Beard: Do you all agree with that? Your expansion is now pushing the rents up on possible sites?
Mr Dean: I can perhaps put a slightly different flavour on it, but, as I see it, I think what is happening from the retailers' perspective is that they are certainly becoming more educated, I suppose, in understanding the potential of the market, but I think what that is leading to is perhaps more customisation of commercial offerings. That may be a fixed rent, it may be a percentage of the surcharge, it may be nothing at all, depending on what is the priority for that particular retailer. It might be that just want people in the shop because of the additional spend that that might generate; it might be the income or rent, as you put it, from the machine itself. So I see a more complex customisation developing.

Q448 Mr Beard: How much is the pressure from the retailer for higher rents going to influence the level of charges you are making?
Mr Dean: I guess, like everything, there is an optimum point, and part of our placement process is around trying to decide what that optimum point is. If one charges too much, frankly people will not use it. If one charges too little, then there is not enough potentially to make the machine viable. It is more a question of picking the right point in a situation.

Q449 Mr Beard: What is the difference between a site where you charge £1.50 and, say, £5.00?
Mr Delnevo: Excuse me, can I just say that the number of ATMs charging more than £2.00 in this country is incredibly small. My own company does not have a single ATM charging more than £2.00, and it is not just a case of retailer pressure, site pressure; we would refuse to put in an ATM at more than £2.00.

Q450 Mr Beard: Is that true of all of you? Who here has got machines that are operating at £5.00?[6]
Mr Mills: We have not, and I think that the—

Q451 Chairman: What is the highest charge you make then?
Mr Mills: My highest is £2.00. May I just add that the alleged story about the £10.00 one probably is not true, because I think there is a LINK rule that says you cannot charge more than £5.00 anyway; so I would like to know—

Q452 Mr Beard: Whose rule is that?
Mr Mills: It is a LINK rule.
Angela Eagle: Does it help though?

Q453 Chairman: LINK have given us a submission and they have never mentioned that there are rules?
Mr McNamara: I do not think that is right.
Mr Delnevo: No, it is not right. I do not believe there is a cap in pricing.

Q454 Chairman: I think one of you ruled against a cap in prices in your submission. It was so red hot I had to put it down halfway through reading it.
Mr Delnevo: I think the bank's have a cap on interest rates and credit card charges. Maybe we can look at capping ATM charges, but the truth is that the industry is not exploiting. Nobody at this table has admitted having an ATM over £2.00 charge. The Royal Bank of Scotland admitted that Hanco had a machine that was £10.00 this morning in that club that was referred to, but that is probably one machine in the whole country. You would have to ask the Royal Bank of Scotland about that. We would not know because we do not charge that kind of price.

Q455 Mr Beard: During this phase where you are aggressively expanding, as it appears to be the case, you must also be competing very strongly to take over the free cash machines. Is that right?
Mr Delnevo: The fact is that expansion has not been through taking over the sites that banks have. Less than 4% of the independent ATM network is old bank sites taken over by the independents. Most of those sites are green-field sites where there were never ATMs before.

Q456 Mr Beard: That may be the case but I am saying is that not likely to be a consequence of your aggressive expansion if you are going to go on even for two or 3 years expanding to around 50%, that you will be pushing aggressively to takeover the free sites?
Mr Delnevo: We are finding that the banks are now competing aggressively as well to hang on to free sites. It is a free market and everybody must decide.

Q457 Mr Beard: Can we have remarks from the rest of the panel?
Mr McNamara: I would be surprised if the banks would sell many of their free site machines because of the importance of them maintaining their relationship with their current account customers that are the cornerstone of their profitability, so I would judge it to be a rather foolish move by a bank to sell off those free sites, but, quite clearly, we as a business are keen to obtain more ATM sites that are useful. I do not think they are going to be at the expense of bank ones and, indeed, almost all the sites we have deployed, 99% of the 2,800 MoneyBox has, are in locations where there were no ATMs previously.
Mr Mills: If I may add that the retailer drives this, because we can say to the retailer all day long that "If you install one of our machines we will pay you X", but the banks can also say, "If you install our machine, there is no charge payable. We will pay you Y", so the retailer decides. Our retailers are very happy with our business model and we have

[6] *Note from The Royal Bank of Scotland:* Hanco have one machine charging £10, the retailer determines this fee. Hanco does not set the fee.

shown them other attributes other than just a straightforward economic equation that they might profit more from a supply and a charge, ie better availability and better service, but the retailer can always say, "I do not wish to have charging machines. I am prepared to have free machines that take less income from that piece of business, but perhaps see more customers."

Q458 Chairman: Mr McNamara, the point that you made earlier about the major banks almost having abandoned installation of remote machines—this is in your submission—and the banks, you say, have sought by various means in the course of disposal to divest themselves of existing portfolios of low volume ATMs. The submission we received from Barclays indicated that they are finding it difficult to compete with the new independent ATM firms. In terms of the landscape in the future do you see a landscape where you will have free ATMs with the banks largely on their estates and you will be moving to a charging regime elsewhere, so you will have that situation developing?
Mr McNamara: Yes, in a quick word, I would imagine that still the vast what majority of transactions at ATMs will remain free, as we have said, around 95%. I imagine that there will be a growth of charged ATMs at low footfall locations, because that is the economics of our type of deployment.

Q459 Chairman: I understand. From a public policy viewpoint, from our perspective you could have a situation where you have the non-charging environment, which covers a large percentage of the estate, and you can have companies increasing their charges because there is not any competition in these areas from free ATMs because you have admitted that there would be a free ATM environment and a charging environment in different places. There would not be any incentive to keep prices down?
Mr McNamara: I think there are two points there. Customers do have a resistance to paying a charge which they have deemed to be unreasonable, and for that reason the market automatically keeps charges within a certain limit. I think that is very clearly the case. I would also say, as we have said in our submission, that that charge is, in my view, unnecessarily high because no part of those costs in remote locations are being borne, where they belong, by the current account or the card issuing organisation, as was alluded to earlier today.
Chairman: I think maybe we will get Jim to develop this later on. James.

Q460 Mr Plaskitt: Mr Mills, have you had any communications from the LINK system by way of complaint about any of the signage on your machines?
Mr Mills: I think we may have had one some time ago, but nothing specifically that I am aware of, Mr Plaskitt, but no doubt you will be able to quote one to me.

Q461 Mr Plaskitt: No. I think you might recognise this.
Mr Mills: I do indeed.

Q462 Mr Plaskitt: That is one of your machines. It is actually the one that is in the motorway services on the M40 at Oxford. Whereabouts on that machine is the sign that tells the customer he or she is going to be charged for using it?
Mr Mills: I think it is in two places, if not 3, because I can see a sticker where the dispenser of cash is, but also I think that we may display it on the screen as well, and lastly we ask the question at the appropriate time whether the customer accepts the charge and how much the charge is.

Q463 Mr Plaskitt: It is there?
Mr Mills: Yes, near the dispensing mechanism.

Q464 Mr Plaskitt: Down there?
Mr Mills: That's it.

Q465 Mr Plaskitt: That is where it says it? How many of your customers operate the machine when they are standing that far away from it? How many customers have 4-foot long arms?
Mr Mills: Not many, I would imagine, but I would add that that signage is when— The rule or the code regarding eye-level was not necessarily in place then. We have been telling people since inception that there is a charge and, given the new rulings, we are upgrading how we tell them by displaying it on all of the front screens, and we are going to put it on the signage in accordance with the LINK rules.

Q466 Mr Plaskitt: I took this picture last Thursday?
Mr Mills: It is not in place yet, Mr Plaskitt, is it? We are compliant with the LINK rules.

Q467 Mr Plaskitt: At any rate, your customers have not got 4-foot arms, so they tend to get closer to the machine before they operate it?
Mr Mills: They get very close to our bright orange machines, which do not display any banks' names, which ask them the question if they are prepared to accept the charge, and we clearly state that Cardpoint makes a charge. They are welcome to withdraw and not be charged. Yes, they have to get quite close to our machines to use them, but they seem delighted, Mr Plaskitt, because they return, on average, every 3 weeks in two-thirds of the cases.

Q468 Mr Plaskitt: When they get closer to the machine that it what they see, is it not? That is the same machine when I was standing in the position to operate it.
Mr Mills: Sure.

Q469 Mr Plaskitt: Now where is the warning that it is going to charge me?
Mr Mills: That is where we are loading the warning on that says on every idle screen—

Q470 Mr Plaskitt: It is not there now, is it?
Mr Mills: No, because we do not have to be there at the moment, do we? We are compliant with the LINK rules as they stand.

Q471 Mr Plaskitt: How long has this machine been at Oxford services?
Mr Mills: Probably three years, but we are happy to comply with all the LINK rules and will, and currently do. As the new rules come in place it does take some time to load the new software on to 2,800 machines.

Q472 Mr Plaskitt: But for three years you have been happy to warn people's knees?
Mr Mills: No. With complete accuracy, that warning was not on until probably 6, 12, 18 months ago.

Q473 Mr Plaskitt: No warning, and, if you did put one on, down at knee level?
Mr Mills: With respect to how the Committee may view our customers, our customers are fully aware that this is a bright orange machine that does not belong to their bank, and as they approach our machine and are duly asked the question, and millions of times we have asked this question, over a million times every month we ask the question, people invariably say, "Yes", and withdraw money and seem very happy with it. We do not get complaints from people about the machines in that respect, so we are not sure that the customer is anything other than perfectly aware of what is happening and perfectly happy to accept the charge. In our exit interviews people say they are delighted with the service on the basis that they save time. They are prepared to balance the time saved against the costs of the machine.

Q474 Mr Plaskitt: This is going to change by July, is it not, with the new code?
Mr Mills: Absolutely. We are delighted to tell people, wherever we are required to, that there is a charge, because it is nothing different from anything we have ever done anyway. We have always told people about the charge.

Q475 Mr Plaskitt: I want to move on now to the deal you did with HBOS to buy their machines. Two hundred and fifty of them you have converted to charging machines. Are you planning to convert any more of them?
Mr Mills: It is purely down to the economics. We are happy to run them for free where it is viable to rely on the bank interchange; where it is not viable to rely on the bank interchange, where the retailer elects to put the charge on, depending on our negotiations with them, we will apply the charge and keep the machine in service rather than be forced withdraw it.

Q476 Mr Plaskitt: So you are not sure whether any more will convert or not?
Mr Mills: If I were to hazard a guess, I would say that probably more will—that was the point of doing the deal—but those machines would have been closed, and, despite what anybody might guess, it is unlikely that many or any of the banks would rush in behind if we withdrew those machines and install another free one because they are just not economically viable.

Q477 Mr Plaskitt: In which case, can I ask you a few questions about statements you made in your Executive Officer's Report to your shareholders where you have got quite a lengthy discussion about this deal. I will quote what you said: "The principal challenge for the company"—that is you—"was to persuade retailers to accept new terms and conditions encouraging as many as possible to move from a free to cardholders' business model to one where the cardholder pays a charge." So you are actually actively out there encouraging retailers to switch them from free to charging?
Mr Mills: Yes, because otherwise we have to withdraw the machine, which to me does not seem very good customer service to anybody. When asked, and if you do ask the consumers, "Would you rather have a machine which charges and you are free to walk past it and never use it, so hopefully it will not degrade your standard of living", or "Would you rather have a machine there that charges but you can use it or not, or not have a machine at all", the vast majority of people say, "I may never use it, but I would certainly rather have the service should I elect to use it."

Q478 Mr Plaskitt: But you are out there trying to incentivise the retailer to switch these things from free to charging, are you not?
Mr Mills: Correct; that is our business model. We built our business on charging people openly and transparently asking them the question, and our customers, of which there are millions every month, seem delighted to pay.

Q479 Mr Plaskitt: It is interesting to read what you go on to say: "It was always anticipated that not all of these machines would be immediately converted to the charging model, and, once the non-charging machines are operating profitably, there is a further opportunity to convert these machines to the charging model with the benefit of further improved profitability"?
Mr Mills: Correct.

Q480 Mr Plaskitt: So what you are saying there is you may well get to a point where the non-charging machines are profitable, but you are still going to convert them to charging?
Mr Mills: The point is that the machine then remains in situ and, therefore, we can still continue to discuss with the retailer whether we can apply the charge. It may be more profitable for us and the retailer, but if it at least gets to profitability and remains there, at least we can keep the machine open. Our argument is that it is better to have a machine there that is open, that is sustainable because it is profitable working on the interchange fees, than it not be there to start with. What it does mean is that I have got a continued customer with whom I may have normal

commercial negotiations, bearing in mind our businesses are not doing anything wrong by offering a service which is paid for which is a pure consumer choice on the part of the customers and the population of the UK. So we are quite happy to discuss this and say we want to run machines profitably. If we can run them profitably without charging, then that is excellent. If we cannot run them without charging profitably, then we either need to charge or withdraw the machine.

Q481 Mr Plaskitt: But you will make more money if you switch them into charging machines, will you not?
Mr Mills: If we get the economics right.

Q482 Mr Plaskitt: You just make more money if you switch them to charging machines?
Mr Mills: If we get the economics right, because you do see attrition, you do see a reduction in the number of customers when you convert from non-charging to charging.

Q483 Mr Plaskitt: Are you incentivised to get them from free to charging?
Mr Mills: By whom?

Q484 Mr Plaskitt: By your shareholders?
Mr Mills: Incentivised; no.

Q485 Mr Plaskitt: You picked up a £150,000 bonus for getting this deal. Are you going to pick up any more if you get more converted to charging?
Mr Mills: No.

Q486 Mr Plaskitt: You are not?
Mr Mills: What I would also add is that on the free machines we are trying to engineer costs out of the equation so that we move the bar as to where we can operate a free machine, because, as has been mentioned by Mr Dean, we can see that there is a market for free machines but operated by independents: because if they can be done profitably why would we not provide that service?

Q487 Mr Plaskitt: I think you gave away your strategy in the next paragraph of your report.
Mr Mills: I hope so. That is why you put a statement in your annual report, is it not?

Q488 Mr Plaskitt: You have given away quite a lot. You conclude by saying this: "In response to recent press comment, your company will retain some machines as free." It seems to me that you have got no intention whatsoever to maintain the free network other than a few for PR purposes?
Mr Mills: No, not at all, Mr Plaskitt.

Q489 Mr Plaskitt: What does that statement mean then? "Driven by press comment to hang on too few free machines"?
Mr Mills: Does consumer thinking drive the press or does the press drive consumer thinking? One way or another there is a market there which accounts for 97% of the usage, and it would be folly for my competitors and I to ignore the fact that 97% of the current usage is elected to be transacted at no charge, and therefore that is a valid market for us. So we have looked at it and said, "Okay, if we can make this work on a free basis, why would we not?" Our response would be that if there is a free business model that is viable and it is in response to consumer demand, then we can stay with that.

Q490 Mr Plaskitt: But with you incentivising the retailers to switch them over, you are going to make more profit if they actually charge and here you are telling your shareholders, quite candidly, you are going to hang on to just a few free ones because of press comment?
Mr Mills: We did not say "a few". What we are saying is due to customer demand, so we are quite happy—

Q491 Mr Plaskitt: Do you not think the customer would prefer them to be free and not charging?
Mr Mills: My argument would be that every customer would like everything for free, but unfortunately the world is not like that. Where our service is charged for, people are happy to pay for it rather than not have the service at all, and that is evidence by our repeat usage.

Q492 Mr Plaskitt: I am sorry. You are telling your shareholders that you can operate non-charging machines profitably. You said it in your report?
Mr Mills: Yes, and now I add a *caveat* to that by saying that free machines which are profitable are not as profitable as a charging machine.

Q493 Mr Plaskitt: Exactly.
Mr Mills: That is fine. That is our business. We have built a business on charging.

Q494 Mr Plaskitt: So you will try to convert as many of them as possible.
Mr Mills: We will convert as many of them as we can subject to the fact that we will leave free machines where the consumer demand is such that it is viable to operate one profitably. It is a volume business. If we have got a machine doing 30,000 transactions a month that is nicely profitable, we would like to see those 30,000 customers if that is a profitable machine.

Q495 Mr Cousins: Can I ask, because you are one of the few examples of switching from free to charging rather than this wonderful phrase "Greenfield charging", and you referred to a loss of transactions when you switch from free to charging. Can you give us some idea of what the transaction loss is?
Mr Mills: With pleasure. Initially we estimated that we would lose about 57% of the transactions and retain 43. We have found that we do not lose anything like that number. We have exit-surveyed people and have found that that is because it is still a machine that saves them time and they are prepared to pay a small premium to maintain the service, as it were, as opposed to seeing the service withdrawn because it simply is not viable.

Q496 Mr Cousins: What is the actual fall off?
Mr Mills: It is currently running at about 50%.

Q497 Mr Cousins: Fifty as opposed to the 57 predicted?
Mr Mills: That is right. What we are finding, Mr Cousins, perhaps is that those people who have decided that they do not wish to pay, and we are perfectly relaxed about that because that is their prerogative, are then obviously being displaced to other machines which are presumably free which fortuitously, in response to Mr Plaskitt's question, means that they could be coming to one or our free machines, which then increases in volume which makes that viable and we can retain that machine on a non-charging basis.

Q498 Mr Cousins: You recall me asking HBOS earlier about the cost of this transaction. Can you comment on Mr Gregson, your Finance Director's comment in his report to the shareholders, because he was discussing with them what that transaction will eventually cost and how much of the loan the bank gave you to use you will use up presumably? He said, "The balance of the purchase consideration is contingent and will be determined by the number of hosts to contracts which are transferred to Cardpoint from HBOS and also by the proportion of transferred contracts which allow charging for cash withdrawals." Do I interpret that correctly as meaning that the more you switch to charging the cheaper the deal will be for you with HBOS?
Mr Mills: No, the more we switch to charging the dearer the deal will be from us to HBOS. It is obviously commercially confidential and we are a listed business, but the broad deal is that the 816 sites were not all immediately transferable to Cardpoint. We had to work with the retailers and with HBOS to negotiate with the customers new terms for either the machine to charge or remain free, and there was a consideration payable per machine whether it was free and converted or charging and converted, and it was more if it was charging and converted, converted into a new contract with Cardpoint.

Q499 Chairman: On the issue of the growth of charging machines, again just to get the trend established in our minds here, Nationwide has submitted a memorandum to us which said that in terms of the charging environment inducements from IADs can be as much 10 times the rental income plus an increased margin on each withdrawal. RBS made the point too that in their submission providers of free ATMs have already been forced out of sites as these are converted to charging units for the retailers, and it gave the example of 14 NatWest machines that have been replaced, and Barclays have also said this. For clarity's sake, there is an aggressive campaign going on here, and this is not to say it is wrong or right, but there is an aggressive campaign going on here in the market between the IADs and free cash machines and that will continue. We can see that trend accelerating. Is that correct, Mr McNamara?
Mr McNamara: I do not think it will accelerate indefinitely, because the markets seldom work that way, they usually peak out at some point where the economics no longer reward the prices being paid, but undoubtedly that has happened to date. What I would stress is that many of our machines are located into what are undoubtedly convenience stores and the site owners' income and the value they get from that site is an important contributor to their income and their continued existence.

Q500 Chairman: But just as a trend?
Mr McNamara: As a trend it will continue for a time until the price exceeds the economic value.
Mr Delnevo: My view of the situation is as follows. Nobody would possibly put forward the contention that the independents are as strong as the high street banks or the Nationwide Building Society financially. It is quite possible for the banks and the Nationwide to compete for sites.

Q501 Chairman: You do not come up against the Nationwide, do you?
Mr Delnevo: I think they cause a lot of bad publicity.

Q502 Chairman: You are obsessed by them.
Mr Delnevo: No, they are obsessed with this issue.

Q503 Chairman: Oh, is that it, because you have mentioned them so many times.
Mr Delnevo: Yes, absolutely, and I will go on mentioning them.

Q504 Chairman: You mentioned Nationwide as well—
Mr Delnevo: That is right, yes, and the Nationwide's issue every three months is transparency. Are we finished with transparency or are we going to talk some more about it?

Q505 Chairman: No, we are going on about that. Do not worry about that.
Mr Delnevo: Okay; that is good. The fact is the banks are quite capable of paying high rentals for sites if they choose to do so.

Q506 Chairman: I am looking here at the trend, Mr Delnevo. Mr McNamara I think has cogently summed that up for us, but do you agree with him? That is really the point.
Mr Delnevo: No, I do not. The Royal Bank of Scotland outlined that they have put in nearly 500 more free ATMs in the last year. They competed for some of those sites against independents and won. The banks can compete if they chose to do so.[7]

[7] *Note from the Witness:* Nationwide have approximately 1,400 Off-Branch ATMs. If they chose to increase their ATM rental payments by £10k a year, the cost would be £14 million per annum. Such a measure would almost certainly be enough to not only guarantee they could keep their existing sites but also allow Nationwide to have any new sites they wanted. £14 million has to be seen in the context of Nationwide's profits/members benefits which amounted to close to £1,000 million in 2004.

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Q507 Chairman: So that is really what they are saying, that this is a load of waffle?
Mr Delnevo: Who is saying what?

Q508 Chairman: RBS, because they say they have been forced out?
Mr Delnevo: They have already admitted they have put in 500 new sites. How does that show they have been forced out?

Q509 Chairman: Mr McNamara, I think, was very reasonable in responding to what I said. RBS said that competition has put them out and that their machines have been replaced. All I am really asking is rather than go down Nationwide paths and *cul-de-sacs,* I am asking if the trend is the one that has been established. Mr Mills?
Mr Mills: Mr Chairman, I think that the trend may continue but it is more than just economics at work, because all of our businesses rely virtually wholly, and I say that because we have got a slightly different subsidiary, but our cash machine business relies purely on people using our machines and the service being available. The banks make profits from thousands of other facets of their business; therefore the independents have consistently proven that their availability is better and the service is better. Most retailers select us not just on the economics.

Q510 Chairman: It is an aggressive campaign.
Mr Mills: Yes. It is because the machines are there and working when the people need them.

Q511 Angela Eagle: Can I ask on that, do you have ambitions to take your business beyond the 5% that has been banded around this morning as the possible ceiling for independent control of transactions? Do you have ambitions to do that?
Mr Dean: The short answer would be, I guess, yes, of course. Any business would have ambitions to expand as much as it can, but I think there is a flavour of there is independents and there is banks, and one charges and one does not, and I think the way the market will develop will blur those edges.

Q512 Angela Eagle: Do you think the banks will start charging or do you think they will do the RBS thing and buy a company that charges for them?
Mr Dean: I guess the different scenarios that you have talked about this morning with HBOS and with RBS show some level of completely different strategies, but they do show a market developing. The short answer to the question: would you expect the 3% to increase? Is yes, I think it probably will. To what point it is really difficult to say. I do think though in the exchange when you talked about the HBOS deal, it was assumed that it is happening in isolation. We may sit here this morning reasonably good chums, but this is a fiercely competitive market that we are operating in, so of course we will be looking at these HBOS sites to see whether we can offer some better proposition, and that is how I suspect the market will develop.

Mr Mills: If I may just elaborate slightly, the 5% is of a market of a given size. When we started the businesses four or five years ago there were roughly 100 million transactions per month hitting the LINK network. That is now over 200 million and it has grown insofar as the percentage which are not at banks' own machines has grown, so people are becoming, as they call it, more promiscuous, ie using more different banks than their own. So even though the 3.6 is a% of a cake, the cake is getting bigger because cash machines are ever more the popular and people are cashing less cheques, *etcetera*.

Q513 Chairman: The new LINK rules require a message to be displayed on the screen saying, "This machine will charge you up to so much for LINK cash withdrawals. I asked our friends from the Royal Bank of Scotland and HBOS if they were in favour of setting a minimum size for this message, and I demonstrated to them a 14 point size message, which they could not read from this distance. Would you be in favour of a minimum size for this message for people? Mr McNamara.
Mr McNamara: Yes, I think that the message should be in a clear size. The message itself is a complex issue, though, because if you do mention a fixed price it makes it very difficult to go down the route of variable charging which we presently have a number of experiments on.

Q514 Chairman: Maybe not a fixed price, but say, "This machine will charge a minimum or a maximum of", whatever, so therefore that helps?
Mr McNamara: Yes, subject to that.

Q515 Chairman: You would not object to something that size, would you?
Mr McNamara: I think size, as you indicated very clearly, is not the only criteria to be quite straightforward about transparency.

Q516 Angela Eagle: But size maybe important?
Mr McNamara: Size is important, maybe, but it is also important to have something in the right place.

Q517 Chairman: Mr Mills, when someone's knees go to your machine, we want an instant message to the knees!
Mr Mills: I can see that. I would like to appeal to people's toes as well!

Q518 Chairman: Mr McNamara, are you finished, I am sorry?
Mr McNamara: I was going to say it is also important, as indicated, to have it in the right place: because, frankly, you can put a sign saying "£1.50" round the side or on the bottom of the machine, but it is critical that any signage is where the card is used.

Q519 Chairman: If you go down to the Post Office, this fabled place down here with the Alliance and Leicester cash machine, it is right beside the buttons and it is dead easy. You do not need to approach the machine in prayer to find out where the sign is. So something like that; would you agree?

Mr McNamara: Yes, that is no problem.

Q520 Chairman: Mr Mills, you would agree?
Mr Mills: It is a physical thing, because the size that you are indicating there as an example would not fit on the screens of most of the machines.

Q521 Chairman: No, but down there it fits. It is no problem. I understand. I am not getting to 96 point, but I am trying to get to the situation where people can read it without their glasses.
Mr Mills: Why would we object? Two-thirds of our users come back within 3 weeks.

Q522 Chairman: No, no, keep to this point.
Mr Mills: I can read that perfectly.

Q523 Chairman: You can read this perfectly. What does it say?
Mr Mills: Hold it again. It says, "This machine may charge up to £1.50".

Q524 Chairman: No, it says, "This machine will charge." You are wrong, Mr Mills. You are absolutely wrong. You make my case completely. There you are.
Mr Mills: Mr Chairman, that is possibly because we do not charge every user. That is one of the big issues that we keep skirting over.

Q525 Chairman: We need extra signage, increased signage. I am looking for you to sign up to this.
Mr Mills: Let us get accurate signage, because the fact is American Express is a member LINK—

Q526 Chairman: No, no, no. There is no American Express here. I am asking you—just settle on my question—will you be of assistance to us in supporting the view that we need increased size in signage?
Mr Mills: We are happy to have clear signage.

Q527 Chairman: No, I asked you the question, will you support the proposition? Yea or nay. Dead easy.
Mr Mills: Yes.

Q528 Chairman: Good. Mr Dean, will you support the proposition?
Mr Dean: Of course. However, can I just point out that that is not actually what the LINK rules are. We are concentrating on the font size 14. It is only a short sentence, if I may. What it says is: "Use a font size that is consistent with that used for similar information and at least a font size 14." The point behind this was (do bear in mind some of these are a lot smaller machines than the one downstairs) some of these are sold machines that are going in quite exclusive, trendy sort of places and the retailers are very particular about the signage.

Q529 Chairman: All we are interested in is increasing the size. You referred to LINK. Mr Delnevo has already said it is a waste of time.
Mr Delnevo: I did not say that.

Q530 Chairman: Well, more or less.
Mr Delnevo: No, I did not. Sorry.

Q531 Chairman: Would you support the proposition that we increase the size?
Mr Delnevo: If I am allowed to make one point, a survey last year showed that nearly 77% of people using a charging ATM actually were aware of early warning signs already.

Q532 Chairman: Mr Delnevo, we just want to concentrate on the question. Make life easy for me and you. Will you support the view that we should have increased signage?
Mr Delnevo: Our sticker is already beside the screen.

Q533 Chairman: No, I am asking you—
Mr Delnevo: I know what you are asking me, but I will not answer yes, no.

Q534 Chairman: So you are not going to answer.
Mr Delnevo: I will not answer yes, no, because that is too simplistic a view of it.

Q535 Chairman: You will not cooperate for increased signage then?
Mr Delnevo: We will co-operate fully with LINK in implementing any necessary changes to signage. We do not accept that there is any lack of transparency now.

Q536 Chairman: That is fine. That is a great answer. I take that as a "No".
Mr Delnevo: So there you are. You can take it as you like.

Q537 Chairman: For the fixed notice on the machine that will say, "This machine will charge you for LINK cash withdrawals"— I am sorry, I think I have asked that particular point. What I want to ask is would you support the amount of any charge being included on this sign, this large sign?
Mr Mills: There is a technical difficulty which, as I mentioned, has been slightly skirted over: because there are some members of LINK to whom we cannot charge the customer; so the cash machine operator does not levy a charge but the card issuer does; so we do not charge the customer. It would confusing, you would have to admit, if we said to somebody, "This machine will charge you for a withdrawal", or a LINK withdrawal, because they are a member of—

Q538 Chairman: That is why we said earlier a maximum or minimum charge.
Mr Mills: Or "may" charge you.

Q539 Chairman: No, they will all the time. I have never seen a machine that says "may" that has never charged.
Mr Mills: Well, you have never put the right card in then.

Q540 Chairman: No, I have never seen "may". Quite frankly, I have not. Therefore, will you go for a maximum or a minimum so that it tells people what they are going to be charged? As I mentioned earlier, having to go to 4 corners of a room if we had these machines there to find out exactly what is the cheapest, that is not really transparent. Mr McNamara, you have the reasonable voice and face here, tell us?
Mr McNamara: You are broadly right. I would agree with you that you can put a range in place, but, it is quite true, there are some cards that operate free even on surcharging machines.
Mr Delnevo: Mr McFall, you keep making the point about people going round four ATMs. You have never acknowledged the point that Mark Mills has made that the vast majority of people using these machines use them week in week out. The signage is a minor issue because they are aware they are going to pay for it and they go back knowing it is convenient to them. That is the beginning and the end of it.

Q541 Chairman: We are interested in the public policy viewpoint, and if people approach your machines and come away with big smiles, then I am delighted. The happier the world is the better.
Mr Delnevo: But they are working, so they do smile.

Q542 Chairman: Mr Dean, your submission noted that having the amount of the surcharge on the screen and displayed on marketing materials, such as window stickers, would be problematic. As you say in your submission, "Any changes to price would require expensive site visits and signage upgrades"?
Mr Dean: Yes.

Q543 Chairman: Could you tell us how much a large sticker costs?
Mr Dean: The large sticker probably does not cost very much, but the visit of a skilled trained engineer to go and attach it does. They go when the machine breaks down. The serious point behind this unenthusiasm for putting prices all round everything, is that the effect that that will have will sort of fix the price, and whatever it is, it will tend to stay that way. We talked about some of the competition between independent companies. What if I want to put one near one of Mark's HBOS arrangements at £1.00, let us say? Surely that would be a good thing for competition, and that is absolutely the way this company thinks.

Q544 Chairman: Let me try and go on and ask that. How much would a site visit cost? Since you may either visit the site on a regular basis to replenish the cash.
Mr Dean: I do not do that.

Q545 Chairman: Or if a replacement is provided by the retailer you could send them the sticker or sign in the post, so it does not seem to add up to much, Mr Dean?
Mr Dean: No, but then remember we are looking at this in the context of LINK carrying out enforcements, so it is not good enough, I do not think, to send it in the post, is it? What if they do not attach it? Retailers get piles of post saying "Attach this that and the other".

Q546 Chairman: Yes, but I think an important message would be, here is the sticker, here is the sign. They do it with petrol stations. If they have price changes they are able to do that, and you get regular visits. It actually comes over as disingenuous.
Mr Dean: It is absolutely not meant to be that at all. In fact, I am a little disappointed you see it that way, because I think we have been very enthusiastic about supporting the charging. All I am trying to maintain is a position where we can alter prices quite quickly. I just thought as a basic principle in any market being able to alter prices quickly is a good thing.

Q547 Chairman: Then again, the idea of expensive visits and signage, I do not think that is an impediment to letting people know exactly what they should be paying or roughly what they should be paying?
Mr Delnevo: This is a low margin business, Mr McFall. It is not a high margin business. That is what you are missing here. Every time you put the cost up, you put the cost up to the consumer as well because that has to be passed on.

Q548 Chairman: You are going out to visit these machines to replenish them. Mr McNamara, can you try and explain for me what your colleagues are on about here?
Mr McNamara: The concern, of course, and it is a genuine concern, is something that the labelling requirements are consistently carried out by the retailer or the site owner. To that extent we make sure the engineers check that signage is in place for advice. There is no way of avoiding that requirement. The ability to suddenly put in place new signs clearly does incur a cost, because hopefully our machines do not need—

Q549 Chairman: You see, it could be perceived that the answer that is given here is that the less information the better for yourselves, the less information to the consumer.
Mr McNamara: I would stress, and I think it is worth stressing because people can get too far carried away with this, this is one of the most transparent charges that there is, and clearly it will be, with the increased signage, a very visible charge in terms of what you incur in banking. Other charges associated with a card transaction are completely non-transparent.
Chairman: There you are.
Angela Eagle: We have been talking to them about that.
Chairman: I think posting a sticker is not too expensive a measure, Mr Dean.

Q550 Angela Eagle: Do you expect that if you put these signs on and transparency will increase by July that your usage will go down?
Mr McNamara: No.

Q551 Chairman: Could I move on to the suggestion we had from *Which?*, which asked if there could be some of sort of standardised labelling such as a large triangle for a charging machine and a large circle containing the word "free" for the free machines. Would you consider implementing this suggestion in order to make it easier for informed choice?
Mr McNamara: I think it is not necessarily the best answer. I think very clearly everybody understands that broadly speaking building society and bank machines so branded are nearly always free. Any machine that is not so branded, clearly there is a warning on it of some type of charge that may be levied. Where it could be limiting, and I would stress it could be limiting, is that certain cards that do operate are free, even on charging machines, as has been alluded to, and there is every potential that in future deals and transactions that enable cards to operate free at our machines will come about. There is no reason, for example, that the banks or other card issuers have to pass on the surcharge. That surcharge travels in a quite separate field technically speaking, and the amount of that surcharge that is passed on to the customer is entirely discretionary to the card issuer.

Q552 Chairman: The concept of labelling machines free of charging; is that not a reasonable idea?
Mr McNamara: Yes.

Q553 Chairman: It is something we could work on?
Mr McNamara: Yes.
Mr Mills: We made our machines bright orange from the beginning to differentiate ourselves from the bank and then have asked every single customer to accept the charges. To put a red cross or a green tick on, I do not know whether it would add anything, but we are happy with the principle, but by the same token you have to look at the—

Q554 Chairman: Are you happy with the principle, Mr Dean?
Mr Dean: Yes, of course, and voted for it.

Q555 Chairman: Mr Delnevo, are you happy with the principle?
Mr Delnevo: The principle of having improved signage we are always happy to look at. The fact is that no ATM is truly free in this country, so it is very dangerous to suggest you could put "free" on any ATM.

Q556 Chairman: So you are against putting "free" or "non-charging" on?
Mr Delnevo: I am against putting free on any ATM because you get charged for credit card transactions at ATMs and there are a host of other things that you get charged for. It is not as simple as free or not free, unfortunately.

Q557 Chairman: That is fine. That is a very clear answer. Voluntary regulation is only effective if there are effective monitoring enforcement procedures in place. Can you guarantee that all your cash machines are complying with the existing Code of Practice?
Mr McNamara: We checked them regularly with our engineers to make sure that they do comply, and it is our intention to carry on doing that.

Q558 Chairman: They do comply?
Mr McNamara: As far as we are aware, they all comply.
Mr Mills: We check them regularly, but, unfortunately, if someone were to peel one of the stickers off then you are left in a fairly invidious position; so to mitigate that we are putting it on the screen. They all comply, as our engineers leave the premises, and they will all comply when it is on the screens.
Mr Dean: Yes, subject to them being checked whenever we arrive.
Mr Delnevo: The same answer.

Q559 Chairman: If the rules were changed to enable convenience cash machine operators to join, would your companies be willing formally to sign up to the relevant provisions of the Banking Code and be subject to the procedures of monitoring and enforcement?
Mr Mills: Given that that would give us less stringent regulation—

Q560 Chairman: Less stringent?
Mr Mills: Yes.

Q561 Chairman: I do not think it is.
Mr Mills: That is what the consensus is.

Q562 Chairman: The Banking Code it is very open and has an independent assessor that consults with the bank, so it is a bit absurd to say it is less stringent. I cannot let you away with that. Professor Elaine Kempson would take great exception to that.
Mr Mills: If you compared it to the LINK constitution.

Q563 Chairman: With the Banking Code, would you be willing to signing up to that. Mr McNamara?
Mr McNamara: Yes, I have no problem with that all. My only *caveat* would be that we would make requests for equivalent levels of transparency and a more equitable LINK arrangement about enforcement than presently exists.

Q564 Chairman: For the banks.
Mr McNamara: For the banks as well.

Q565 Chairman: Excellent; no problem with that. Mr Dean, the Banking Code?
Mr Dean: Without understanding fully the implications, but in terms of the context of how you are putting it, yes, I am sure it would be fine.

Mr Delnevo: We are totally in favour of maximum transparency. If that is what the Banking Code brings, that is great.

Q566 Mr Cousins: We have heard evidence this morning from the banks that were here that it costs them roughly £25,000 to install a cash machine and that out of the £1.50 charge there were two various accounts of it: one is that two-thirds were costs and the other was that the bank got 50p from that transaction and the retailer, or the person operating the site, got the other pound. Why do you think your costs are so much lower?
Mr Delnevo: Are so much lower?

Q567 Mr Cousins: Than theirs to enable to you operate in this market?
Mr McNamara: Can I clarify a little bit of that?

Q568 Mr Cousins: I am only going on the basis of what we heard?
Mr McNamara: Yes, I think that £25,000 machine that they were referring to was a typical bank through the wall machine rather than the type that we would more commonly install in convenience shops, which is far less expensive than that.

Q569 Mr Cousins: How much less expensive?
Mr McNamara: Up to 2 and a half to 3 thousand for the cheapest model. So a very different price, because it is not in an environment that requires it to have it built into a wall and to have a strong safe round it, *etcetera, etcetera*. There is a big difference in those economics. Very broadly speaking though, the economics you then describe would be roughly right for a machine that a retailer is filling themselves with cash, so 75 pence to one pound would go to the retailer, about 30 or 40 pence would cover the maintenance and processing costs that we as IADs have and 20 pence would be our gross profit, out of which we would have to deduct our overheads before we made a profit. Very broadly speaking, that is the economics of the one pound fifty'ish charge that is levied at most ATM positions.

Q570 Mr Cousins: Is that comparable with you all?
Mr Delnevo: Our situation is that we do not go in for machine replenishment very often because we do not believe it gives a proper level of service to the end customer, so we generally deliver cash to our ATMs. In those circumstances, before we pay any site rentals, a transaction normally costs us around about 70 pence in terms of the costs of delivering the transaction.

Q571 Mr Cousins: Seventy?
Mr Delnevo: Seventy pence, yes, before we pay any rental to the site owner, and that has to be paid out of the £1.50 that we are talking about today. That is why we said earlier that this is not a high margin business. We only make small profits. My company made a profit before tax of £175,000 in 2003 running 800 ATMs. That compares very unfavourably with the profits that banks make. We are in business, we enjoy the business, we are trying to make a profit, but we make only small profits. It is not exploitative and we do not make super profits.

Q572 Mr Cousins: This is a question I put to the banks. Given the arrangements for charging between cash machine operators and the card suppliers, if you are right about the level of costs of operating a site, there is clearly a built-in advantage for the low transaction locations presently free to go over to a charging basis? That is the logic of the cost structure you have just set out?
Mr Delnevo: But bear in mind what the banks regard as a low transacting ATM. For a bank 3,000 transactions a month is a low transacting ATM for one of their free ATMs. In the circumstances you are talking about, low for a surcharge or a charging ATM is two or 300 transactions a month, so a difference in scale entirely. The last time the Consumers Association talked a lot about the fact—

Q573 Mr Cousins: Yes, but consider what the implications of that are. Your concept of a low transaction site is very different to a banks'?
Mr Delnevo: Absolutely.

Q574 Mr Cousins: A banks' might be 3,000 transactions and yours is 300. As the banks withdraw from the low transaction locations, you will gain access to much more profitable locations given your structure from your point of view.
Mr Delnevo: There will be some movement there, but you already heard the Royal Bank of Scotland talking this morning about the fact that they have put in maybe 500 new free machines in the last year. This is a marginal effect that you are talking about. I know you laughed at the word "Greenfield", but the main effect is new ATMs in new sites, not the transference of sites between banks and independents, is a marginal issue.

Q575 Mr Cousins: But given the information the Committee has had in the last 5 minutes or so, is it not absolutely plain that this ceiling of 5% of transactions for charging is one that is to keep all the boys and girls happy right now; because given the cost structures you have set out, it is absolutely obvious there is a massive incentive on low transaction locations to go over to charging and there is a powerful market drive towards that?
Mr Delnevo: But there are very few sites in that category operated by banks. The truth is that if 20,000 new surcharging ATMs are installed doing 300 transactions a month, you are talking about 50 or 60 million transactions a year out of the total of 2.4 billion done last year, 20,000 ATMs adding that smaller number. That is marginal. The vast majority of ATM transactions are free now and will continue to be free. It is only 3% now, not 5%. You are saying the ceiling that we imagine for the foreseeable future is about 5%. That is what we are saying, and we stick to that forecast.

Q576 Mr Cousins: Is not it also the case that low transaction locations at the moment may be these locations on the A82 or the innermost recesses of pubs where people prefer to pay rather than to walk out of the pub and go somewhere else and reap some social advantage that they are on the point of achieving by so doing—convenience comes in many forms—but we are moving away from that. We are moving away from that, we are moving away to a situation in which the cost pressures and the cost structures we are talking about will lead to most of the low transaction locations, according to the banks' definition, ie the 3,000 transaction spots, not the 300 transaction spots, going over to charging.

Mr Delnevo: The banks have very few ATMs in that category at the moment, so there are very few ATMs to switch over. It is a marginal issue. It is not a big issue. The Abbey National sold 50 ATMs to MoneyBox. Those were the 50 that were not profitable. There is no sign that the Abbey National is going to get rid of rest of their ATMs. Fifty out of their whole portfolio they thought were marginal enough to dispose of. That is the kind of order of things we are looking at, a very small number.

Mr McNamara: There are very few bank ATMs that have been so badly sited, if you like, from the banks' point of view that they do that lower number of transactions; so I agree with your analysis that there are not very many machines in that category.

Mr Dean: Typically our companies are operating at something like a tenth of the transaction volume, and therefore cost is far more important than it might be for the banks and far more important than perhaps is seen, but this is how we operate. This is how we do what we do, by squeezing the cost out. I think to the general question: is there likely to be some trend from low sites by bank standards (which is probably 10-fold where we might typically be) to over time shift towards the independents? Yes, it is probably realistic that that will be. I think we are assessing 5% on the basis that is almost double where we have been in the last couple of years.

Mr Delnevo: We also run the ATMs better than the banks did. We are focused entirely on running ATMs. The banks treat it as a very peripheral issue, so basically our ATMs have to be up, we make nothing if they are not up, so we make sure they are up, which is not something the banks focus on at all. We have taken over free sites from banks, kept them free, installed an additional ATM and added 50% to the free transactions on that site. It is not black and white about charging and free; it is about service and it is what is viable in a particular location. Speke in Liverpool has been mentioned. The banks pulled out of Speke in Liverpool 10 years ago. I heard about that branch. It is the first time I heard about that branch that was still open, but when I looked at the map this morning there was one free ATM about half a mile from the centre of Speke and there were a couple of others at Liverpool Airport, but the reality is that the banks pulled out and we are providing a service for those people there and they are grateful for that service. They are not angry about it; they are grateful.

Mr McNamara: I would make one point. We operate a very large number of free ATMs for building societies where in some cases we process transactions and in some cases we own their ATMs, and there is no view ever than those transactions will become charging from those building societies; and that is partly a reflection of the fact that we are lower costs providers of transactions because we have to operate at very low volumes than the banks.

Mr Delnevo: We went to three building societies and offered to operate free ATMs for them and they turned us down. They were not interested in providing the service. This is not all of us trying to profiteer. We are trying to go out there and make a business for ourselves, but even when we have offered free ATMs to certain building societies, they would not let us put in free ATMs. That is the situation.

Mr Dean: That is more likely to be the trend, and I hesitate to use the term, but there is a third way from here, which is that the independents will grow estate but will increasingly manage the banks' estates, or ex-banks' estates, or parts of, but that does not necessarily mean to say that it is £1.50 all of a sudden that is going to crop up on the transactions. As Ron just said, that is often not the case.

Q577 Mr Cousins: Leaving the banks to one side for a moment and the switching that has gone on between the banks and the independents, and Mr Mills and I had a run on that one a little while ago, nevertheless, you are all out there actively trying to grow this market, are you not?

Mr Dean: Yes; absolutely.

Q578 Mr Cousins: So a lot of the growth in the independent side is going to come from you persuading people to take up these machines, and you are doing that very aggressively, are you not? Mr Delnevo, your promotion to retailers says, "By locating an ATM on your premises you can create profit for your businesses"?

Mr Delnevo: Absolutely.

Q579 Mr Cousins: "Cash withdrawn from the ATM will end up in your tills"?

Mr Delnevo: Absolutely, and that is very important because independent retailers—

Q580 Mr Cousins: This is how it is going to go on growing, is it not?

Mr Delnevo:—independent retailers in this country are being squeezed by the multiple retailers and this gives an opportunity for in the independents to make some money, and they need that money to stay in business. That is about choice.

Q581 Chairman: Is that not a cap on your ambitions?

Mr Delnevo: I have very realistic ambitions. I would love to get to a position where 5% of the transactions—

Q582 Chairman: We do not want caps on your ambitions.

Mr Delnevo: What we are prepared to say, you have raised the issue £10.00 charging ATMs. I think to be honest with you the Royal Bank were disingenuous this morning.

Q583 Chairman: To be fair, I do not think so.
Mr Delnevo: Can I finish my point?

Q584 Chairman: I do not recollect the Royal Bank saying that they charged £10.00.
Mr Delnevo: There was one machine that was charging £10,00.

Q585 Chairman: I do not recollect that, so to be fair to them—
Mr Delnevo: Okay, that is fine, but there was one machine that was quoted at £10.00. I do not think it is necessary for ATMs to charge £10.00. We have already made that point. The fact is that ATMs in this country that are provided by the independents are providing a very useful service, and we are not going to apologise for that.

Q586 Mr Plaskitt: You are all trying to grow the network though, are you not? Mr McNamara, you are going after university students?
Mr McNamara: We do deploy in universities, yes. We have free machines in universities very frequently.

Q587 Mr Plaskitt: I have been reading your statement to your shareholders. Tell us a bit about your 24-hour kiosk unit which you are targeting at pedestrian zones and campuses where you expect high volume. What is the strategy there?
Mr McNamara: These are basically aimed at tourist locations that attract higher footfall for people who wish to do fee paying transactions.

Q588 Mr Plaskitt: No wonder you were not very sure about accepting the word convenience earlier on in the exchanges. If you could put one into Leicester Square you would do it, would you?
Mr McNamara: Yes, oh yes.

Q589 Mr Plaskitt: This is what blows apart the whole convenience discussion, because if you go to Leicester Square now there are 3 free cash machines on the south side of the square and Travelex has got a charging machine on the north side of the square. If NatWest can run 3 free machines, where is the argument for convenience that says there has to be a charging machine in Leicester Square?
Mr McNamara: Clearly, to be quite straightforward about it, we are very thoughtful about how close they are to free machines because it damages our economic model of a charging machine. We would obviously try and put them as far away as we can from a free machine because that makes for better economics for our kiosk site which will charge customers. I think our argument would be one of there is a very clear visibility that that is going to be a charging machine in terms of the labelling on the machine and the process that we have gone on some time today about.

Q590 Mr Plaskitt: You have told your shareholders that you are slowing down deployment of the in-store fully managed ATMs and instead you want to grow the higher yielding kiosk resources. It is nothing through with convenience; it is where you can get them, where you can get a high footfall and where you can collect more charges?
Mr McNamara: No, part of the reason for that is that all of us have been around now for about 4 years, so there has been a very extensive deployment into convenience stores and so many of those sites are now occupied by ATMs where they are viable. Clearly we are looking for other sites that are viable to put in place charging machines, and that includes high visibility kiosks in high footfall areas, many of which will be attractive to tourists and other people in that area.

Q591 Mr Plaskitt: And you have got university students in your mind?
Mr McNamara: I think the university student comment is misleading. We also have a completely separate business, nothing to do with ATMs, which charge for cash.

Q592 Mr Plaskitt: What are you referring to when you use the word "campuses" in your Chairman's Statement?
Mr McNamara: We install machines that are to do with pre-payment for food, meals, tuition, and so on, in university; nothing to do with ATMs. We do not think there is great economics in charging students £1.50 to withdraw cash. It is an unlikely business model.

Q593 Mr Plaskitt: So your 24-hour MoneyBox kiosk units are not targeted—
Mr McNamara: Not to campuses in the sense of campuses in universities.

Q594 Mr Plaskitt: They are not university campuses?
Mr McNamara: Not for free charging ATMs, I am stressing. I think that is misleading.

Q595 Mr Plaskitt: You chose the word "campuses"?
Mr McNamara: I apologise. Then I am misleading you.

Q596 Mr Plaskitt: No, it is your shareholders I am worried about. Explain it to them, not to me?
Mr McNamara: I will have a careful look at that and come back to you.
Mr Cousins: I think you should.

Q597 Chairman: Why is it not economically viable to charge students?
Mr McNamara: I do not think there would be many models that would make a sufficient expenditure for an ATM site on student locations.

Q598 Chairman: Do not students need cash?
Mr McNamara: Absolutely, and they are usually well provided with free machines, which we are delighted to have and operate, and banks operate on most campuses.

Q599 Angela Eagle: I wonder why you all acknowledge that charging a fixed fee for withdrawing cash, particularly on low income customers. Often they make very small withdrawals. We had evidence from the Citizens Advice Bureau and various other consumer-based organisations that were worried about the percentage fee in terms of low withdrawals that your fixed fees have when low income customers use your machines?
Mr McNamara: I think that is a quite valid comment. What I would stress is that we as ATM owners do not know the financial circumstances obviously of the user of the machine. Quite clearly the bank or the card issuer does know about the circumstances and there are mechanisms to enable people to access machines at lower cost that are perfectly possible. One of the points we have made in our submission, as you are aware, is that we feel that some of that cost of remote sites and disadvantaged areas should be borne by the interchange fee being available to machines that presently surcharge to enable a lower cost to the consumer, but that is only one answer. There are many others that are possible.

Q600 Angela Eagle: If you change that arrangement so that you could double dip, I think they call it, what would be to stop you keeping both of these?
Mr Delnevo: We have a screen on our ATM waiting to show refunds from Banks and it shows exactly what that refund is. We are still waiting after all these years because there has been no refund of it, but it is there on the screen, the customers would see it: "This what we charge, this is the refund from the bank and that is your net payment", but we have never had any of these refunds, have we? No.
Mr McNamara: Can I add one quick comment on that? It is worth a bit of thought as to how such processes could be put in place, because quite clearly we as deployers always seek to get the best equation in terms of volume and fee that we generate from each transaction, and clearly it would be in our interests to have a lower fee if economically we can make that make sense and that is very straightforward. It has been under-utilised—shall we put it that way—the technology that is capable of achieving that type of aim.
Mr Mills: If I may add, the issue of somebody withdrawing a small amount that we face is that it is a fixed cost relatively apart from the very last part, which is the physical number of notes. So we have got the same fixed cost pretty much whether it is £10.00 or £250, but in all of our businesses—I am generalising slightly—the average withdrawal is about £50.00. The average bank withdrawal is about £60. By definition, if somebody does come and withdraw £10.00 from one of our machines, somebody else has withdrawn £90 to £100,000, that is how you get your average. We are faced with a fixed cost transaction and we have no way of determining somebody's choice to withdraw a small amount.

Q601 Angela Eagle: I understand that. I suppose the worry from a public policy point of view is that banks, as Mr Delnevo has already observed, have pulled out of quite a few deprived areas and have not been present there, branch closures, *etcetera,* that there is no other way for people to get hold of their cash without paying a charge; and if, say, they are on benefits or they are on a basic bank account, £1.50 out of £10.00 or £20.00 is a big fee to pay.
Mr Mills: You say that, but, with respect, the retailer is perfectly entitled to do cash-back, the supermarkets give cash-back.

Q602 Angela Eagle: But many of the areas we are talking about, if you do not have a car, and there are still people who do not, access to supermarkets is not easy either, so your option is either to pay a high bus fare to go somewhere where you can get cash-back or pay your charges perhaps for convenience?
Mr Mills: But that does not change if our machines are there though, does it, because the banks have not got a machine there. We put a machine in. People are still perfectly entitled to take the bus at a higher cost and get a free withdrawal, but when you give people the choice, they then decide possibly to use our machine. The unfortunate thing, which is a question presumably you are actually levelling to the banks not to the independents, is that the banks' public policy should include putting machines into deprived areas.
Mr McNamara: Could I make a suggestion which you could explore, which is that it is perfectly possible, because only the banks themselves know the circumstance of the customer, for there to be an advantageous cost recovery for a basic bank account customer withdrawing a small sum of money. That is technically perfectly feasible.

Q603 Angela Eagle: Technically it might be possible, for example, if you are a basic bank account customer on benefits, because that is probably why you would have a basic bank account, that it could be free?
Mr McNamara: Somebody has to pay for the cost of the transaction at some point in time—

Q604 Angela Eagle: The transaction to that person could be free?
Mr McNamara:—but clearly the card issuer knows who their customer is and is able to recognise that customer and recompense accordingly the cost of the transaction. The system is designed to work that way.
Mr Delnevo: You have also mentioned Post Offices.

Q605 Angela Eagle: There is another issue with them, yes?
Mr Delnevo: The fact is that there are often Post Offices around and you can withdraw with many

banks money free of charge at the Post Office counter, but there might also be an ATM that charges. People go into the Post Office, they see a queue of 20 to 25 people standing at the counter and they opt to use their choice to use the ATM even though it charges, even though they know if they stand in a big queue they can get a free transaction, so we do come back to the choices. Whether it is in housing estates or rich villages, the fact is that there is a choice operating there.

Q606 Chairman: Mr McNamara, your submission noted that the independent ATM deployers are either allowed to receive the LINK interchange fee or to charge the consumer but not both. What are the drawbacks of this approach for the consumer?
Mr McNamara: That approach was put in place when the ATMs and the card issuers were all owned by the banks, and clearly it was to stop the consumer being charged twice, and that was the mechanism that was then put in place. In our point of view, that scheme that now exists causes the charge that we levy on our surcharging machines at low footfall locations to be higher that in needs to be, because, in effect, the bank, as was pointed out this morning, is paying nothing for those transactions at remote locations, convenience stores or, in effect, where there is a surcharge. Therefore they have, as you indicated this morning, every incentive not to cover those sites.

Q607 Chairman: But your submission goes on to note that if independent ATM deployers were allowed to receive the interchange fee of 30, 31 pence, as it does at the moment, then the charge to the customer could be reduced.
Mr McNamara: Yes.

Q608 Chairman: How can you convince us that this would be the case? Is it not more than likely that one would use the additional revenue to enhance profits rather than reducing the charges to the consumer?
Mr McNamara: We have every incentive to make sure that the volume of our transactions is as high as possible, and clearly there is a price sensitivity. We have talked about that. People are obviously reluctant to pay increasing sums of money to withdraw cash, so the less they have to charge the less sensitivity there is to paying a fee. Therefore smaller fees mean more transactions for us, which is why we do not charge any more than we need to. It is as straightforward as that. We obviously always seek to get the best mix of volume and margin for each transaction, and volume is very important to us.

Q609 Chairman: Some consumer groups have suggested to us in the area of financial exclusion that a sliding-scale of charges may be fairer for consumers. Would such a sliding-scale be feasible and technology possible in your views? One of the things we have been told is that people on lower incomes more regularly withdraw smaller amounts of money, so the percentage of money they are paying for the charges could be quite considerable. If we had a sliding-scale, a certain percentage for a £20 withdrawal but much more for a £200 withdrawal?
Mr McNamara: There is, as I said, a very high fixed element in each transaction that take place, and the question is how you cover the cost of that fixed component of the transaction. Obviously one of our suggestions is the interchange would reduce that component, but there is no reason thereafter why you could not make a variable transaction to cover those outturns.

Q610 Chairman: Mr Mills, would you agree with that?
Mr Mills: It is technically feasible, but I think Mr Higgins rehearsed the point this morning that the starting point is actually quite high, so how much of an advantage would there be?
Mr Dean: I think it is of interest generally, because it may be an interesting competitive tool. When you combine with some potential on the inclusion of the interchange, or removal of the interchange from that fee, between the two things, may make a significant difference to what somebody on a low income might pay.
Mr Delnevo: I know you are fond of yes, no answers, Mr McFall, so I will tell you.

Q611 Chairman: Because we have been here three hours, that is why.
Mr Delnevo: Yes, it is time to go then. You were asking about the interchange. I will make a commitment. Anything the banks will refund to us in terms of that interchange we will pass that on 100% to the customer and we will not increase the prices on that ATM for a year, so the customers will see the benefit. That is our commitment.

Q612 Chairman: I will ask you one question, Mr Delnevo, and you can flour your answer. You have mentioned this morning that it is not worthwhile for somebody spending a few minutes searching around for a free ATM. If you make the process more difficult by being less transparent, not displaying clear notices in the amount of money you are making, you are not making the market as efficient. I think your idea would be for consumers to shop around, would it not be?
Mr Delnevo: No. Mr McFall, let me make clear, I am not accepting that there is a serious lack of transparency. I am not buying into this fact that people use those ATMs in the pubs because they are fooled into thinking they are free and they could use the free ones outside. They use them because they choose to.

Q613 Chairman: That is fine in the market as far as you are concerned?

Mr Delnevo: I believe that the transparency in this market is better than in any other country in the world at this moment.

Q614 Chairman: Mr Mills, your knee-high consumers, can you see it going up the body in terms of the information they get?
Mr Mills: Again, you have to look at—

Q615 Chairman: We have had different views on transparency here this morning.
Mr Mills: We have got the back-drop of having built businesses where every transaction was free and all the machines were free, and we have all got high repeat usages, so I think it cannot be brushed away that our customers are voting with their feet by coming to us rather than going away from us.

Q616 Chairman: Mr McNamara—the rational voice of the IADs—you wish more transparency. Is that correct? You could do better?
Mr McNamara: I think the right to have the transparency is good. I just believe it has to be universally applied.

Q617 Chairman: Mr Dean, you and your stickers, you could go a wee bit further forward on transparency as well, could you not? Use the Royal Mail and give them a break.
Mr Dean: Yes, although I would ask you not to question my motives or question our enthusiasm for maintaining our low cost base.

Q618 Chairman: I am just quoting from your submission. I am treating you fairly. Could I sum-up some of the points you have made to us this morning. The LINK the rules regarding the transparency of charges you have mentioned you have decided at a confidential meeting for secret votes, and I think you could improve on that. That was the view I got from you this morning[8]. Also the issue of enforcement being inadequate, and that is a factor that needs to change as well.[9] None of you seem to have any objections to all companies signing up to the Banking Code and being subject to the provision of monitoring and enforcement, which is helpful to us. [10]We accept that there is an issue of consumer choice whether an individual uses a free machine or whether they use a charging machine, but consumers need to be provided with clear information regarding the charges so that they can make an informed choice, and it is that informed choice that is very important. Also what has come out this morning is that generally the industry are not fulfilling the responsibilities totally in this regard and there is progress that can still be made on that. I know you signed up to the LINK agreement on 12 December, but progress can still be made in that area. There is still a need for clear signs showing the amount of charging, larger signs, and on that point you have all agreed with the principle this morning.[11] Is that correct? Can I thank you for your attendance this morning. It has been very helpful. It has been a mammoth session, but I think we were getting more than yes, no answers from Mr Delnevo whenever he had the opportunity. Thank you.

[8] *Note from Bank machine:* In Q618, the Chairman attempted to use the opportunity to sum up the outcome of the discussions with the Independent ATM Operators. Bank Machine wishes to make the following points :None of the Independents actually agreed this in the meeting. Bank Machine certainly did not.

[9] *Note from Bankmachine:* None of the Independents actually agreed this in the meeting. Bank Machine certainly did not.

[10] *Note from Bankmachine:* Mr Delnevo said in the meeting that he would support signing up with the Banking Code if it assisted in transparency. This remains to be established.

[11] *Note from Bankmachine:* The Independents did NOT agree to the need for larger signs with prices on. In particular Mr Delnevo told the Committee that there is currently excellent transparency in terms of ATM charges: in fact the finest in the world.

Thursday 10 February 2005

Members present:

Mr John McFall, in the Chair

Mr Nigel Beard
Angela Eagle
Mr Michael Fallon
John Mann
Mr James Plaskitt

Witness: **Mr Stuart Bernau,** Executive Director, Commercial and Treasury, Nationwide Building Society, examined.

Q619 Chairman: Good morning, and welcome to the Committee. Can you identify yourself, please, for the shorthand writer?
Mr Bernau: I am Stuart Bernau, an Executive Director of Nationwide Building Society.

Q620 Chairman: Thank you very much for attending and for your submissions on the cash machine inquiry that we are undertaking. While everybody accepts that the number of cash charging machines is growing, and may reach half the total number of machines quite soon, nevertheless the overall number of free machines is also increasing. Is there in practice any danger of a reduction in the number of free machines?
Mr Bernau: I think there probably is. If you look at the figures, the free machines have really stayed reasonably neutral. As you know, there are something in the region of 54,000 machines, and that is broken down to 19,000 that are in bank and building society branches, which are free. They are increasing very slightly, the bank and building society, because they are adding additional machines to existing locations; but it is the so-called remote machines, where there are in the region of 34,000 machines, that you are seeing the figures change. Obviously, some banks have been selling their remote machines, and although organisations like ourselves are trying to increase their numbers of sites, for every one that we put in place, we are in danger of losing one, because we find that site owners have been offering inducements to switch across into a charging machine.

Q621 Chairman: On that aspect, would you say that operatives like yourself come under pressure to sell your sites, or where the machines are located the site owners come under pressure?
Mr Bernau: It is not us who are under pressure. The site owners are being quite aggressively marketed to, especially those sites that are high foot-fall sites. We have quite a number of locations, but it is something like 60% of our own cash machines that are in these remote locations—and we have doubled our number in the last five years. But we know from the correspondence and from contracts that get cancelled that these people are obviously being offered more inducement than we are paying to switch across to a charging machine. The reason that people can offer a higher rental than we can is because it is effectively being paid for by the consumer, so we have got quite a number of examples, which we put in our submission. If you take a Butlins site, which has a very high foot-fall, we have previously had free ATMs which have been profitable to ourselves, but they have been switched across to charging machines because people have been prepared to pay a higher rental, and that rental is obviously being paid for by the charges that are made by the charging operators.

Q622 Chairman: Is there any information available as to the extent to which free machines are increasingly concentrated in terms of site, so that even if the number of free machines does not decrease, the number of places people can access free machines go down? There is an argument put forward that there are more free machines in areas of deprivation, but in a number of the commercial centres, they can be labelled as areas of deprivation, where there are more machines. I believe that Canary Wharf is designated as an area of deprivation, but you only need to get the Tube down to Canary Wharf to see that there are not many people in that whose salaries are less than five or six figures maybe. Is that type of thing happening throughout the country?
Mr Bernau: Out of the 34,000 machines that are remote, 21,000 of them charge already, and that is where we have seen the biggest increase over the last two years. It has been fuelled by the fact that some banks have sold their remote machines, so that has boosted up the numbers; and by the fact that, as you said earlier, site owners are being offered higher rental payments and inducements to switch across. I would say that, yes, you have 21,000 out of 34,000 that are currently charging, and I think you will see that percentage increase over a period of time. Looking at the previous evidence, there has been this talk about a 5% ceiling, and I just think that that is a misconception. If you look at what has happened in the US, which we often mirror, 40% of the transactions in the US are through charging machines. If you applied that percentage to the UK, the £140 million worth of charges that were made last year would be £800 million worth of charges; and unless you have this focus—this is a public interest area—you will find that over a period of time we would have just moved to the same sort of percentages, and therefore the amount that consumers were paying to access their own money would go up very significantly.

Q623 Chairman: So you would not accept a 5% figure, which was bandied about here last week; that you will never see cash charging machines exceed that percentage?
Mr Bernau: I think that is a misconception. I think it will rise above 5%. It is only because of a number of groups—ourselves, consumer bodies, the media and the fact that there is this Committee—that the profile is being raised of what is a public interest issue. That might slow it down, but I think that the 5% figure is very much a historical figure. As the number of the so-called convenience machines increase, you will see that 5% figure breached quite rapidly. It has happened elsewhere, and there are examples you can look at, where it has gone right through 5% and up as high as 40%.

Q624 Chairman: It has been suggested to the Committee that Nationwide's interest in campaigning for free machines is basically commercial self-interest. Is that the case?
Mr Bernau: We are owned by our customers. I have seen that we have been accused of being obsessive. My view is that if we are obsessive about looking after consumers' interests, then I am quite happy to be labelled "obsessive". If it had not been for a number of people raising this issue, I think you would have seen a movement across into more charging machines at a much more rapid rate than at the moment. We are a member-owned organisation and we are obviously trying to look after the interests of our members, and we are pleased to do so.

Q625 Chairman: Charging machines can only survive if the market allows, that is where in some way consumers find it convenient to use them. Apart from the issues of financial exclusion and transparency, which we will turn to shortly, what is the problem with this? What is the public policy issue involved here?
Mr Bernau: We do not have any problem with people who have charging machines. As an organisation, we are committed to free machines; that is where we come from, and that is what we believe is best practice. If there is a place in the market for people to charge, we believe that you have to have transparency around the charging. Through the pressure and the media interest and campaigning, you have seen over the last year, starting in April and then further changes this year, that there are going to be various areas around transparency, so if there are going to be charging machines, at least let the consumer have absolute clarity in relation to the fact that they are going to be charged. That has been a very positive thing that has come out of the debate already, but I would like to make it clear from our point of view that we are committed to free machines, but if there is a market for charging machines it is really a question of getting transparency so that the consumer can make a clear, informed choice. We believe that the changes that are going through are in the right direction, but we do not believe that they go far enough.

Q626 Chairman: The day of the knee-high signs on cash machines should be over!
Mr Bernau: That should be over from 1 July, but we have concerns, as the Committee has I believe, about the size of some of the notices around it. We really believe that under the banking code, where we are dealing with banking products, if we want to introduce a new charge, or change a charge, we have to give 30 days' notice. You will know from our submission that we would like to see the same thing; that where you are getting a change in a free machine to a charging machine, there should be a clear notice period; so if you are using a regular machine on your way to work or on the way home, if it is going to change, you can get absolute clarity that it is going to change. If you want to make alternative arrangements, you can then do so. We believe that the steps that have been taken are in the right direction, but that they could go further.

Q627 Mr Beard: A moment ago you said that some of your machines had been usurped because the landlord was taking the bid from someone running a paying machine. How many of your machines have had to go like that, and what proportion is that of your total?
Mr Bernau: We would have to give you the figures separately.

Q628 Mr Beard: Perhaps you could write to us.[1]
Mr Bernau: Yes. All the time, we are looking for sites to put in convenience remote machines. We have doubled the size of our remote network in the last five years, and we are always looking to negotiate, to put machines into locations that meet our requirements and our members' requirements. However, for each machine we put in, obviously we are suffering because some of our site owners are switching across. We have had some site owners who have switched across to charging machines and they have subsequently found that the volume of their business within their convenience location has gone down, and they would like to switch back again, because when they had a free machine it attracted machine it attracted more people into their premises. Not everyone finds that it works in their favour.
Mr Beard: It would be interesting to see the figures.

Q629 Chairman: Your submission proposed a code of practice for charging cash machines. LINK introduced new requirements for transparency at the meeting of 14 December. Incidentally, we have received a letter from one of the independent developers, that when they voted against the changes to the rules, their objection was to the passing with minimal notice and no proper discussion about the significant expense of additional signage in charging machines only. By the open admission of LINK officials, its main purpose was to head off expected criticism of LINK in the Treasury Select Committee hearing of 21 December! LINK have been very helpful to us, by the way, so that is not a criticism of LINK.

[1] Ev 173.

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Mr Bernau: We are only where we are with these changes coming through, not because the industry itself has voluntarily put in place these changes to increase transparency; but because there has been campaigning by Nationwide, by the media and consumer bodies in seeking to do this. Our belief is that if there had not been that focus, you would have seen charges coming in much quicker. I am absolutely delighted with the changes that have been brought in. As I said before, I think that they could go further, but the only reason we are in this position is actually because of the focus. We have had a certain amount of disagreement with other members of LINK around our campaigning, but we believe that it has highlighted the issue, and at least we have got into a situation where there is going to be more transparency and consumer information that will make it fairer for the consumer.

Q630 Mr Plaskitt: You say you would like to go further. You have already suggested the 30-day notice; is there anything else you think should be done to deal with the issues?
Mr Bernau: We believe there should be a cap on charges. I know that there are areas that have been raised about being anti-competitive, but the interchange fee itself has effectively been agreed with the Office of Fair Trading. We know that the Post Office has put in place a cap on its charges, so we do not believe it can be beyond the wit of the industry to agree that there should be a maximum charge and that increases in that charge should be linked to inflation of the consumer index, because at the moment there is nothing to stop someone saying they will increase charges from £1.50 to £2. Although in theory there is an anti-competitive issue, I cannot believe that within the industry you could not have something that would be agreed by the Office of Fair Trading that would be in the consumers' interest. At the moment the charging takes place within a financial transaction, but I think you will know that quite often other financial services are advertised, and we would obviously like to see a commitment that there are not going to be charges for non-financial transactions. People already get an element of interchange fee for a non-financial transaction, and we believe that that is sufficient.

Q631 Mr Plaskitt: Do you have a view where the cap should be?
Mr Bernau: We would put the cap in at £1.50, which is what we would say is probably the average charge at the moment.

Q632 Angela Eagle: I was interested in your view of the dynamics of this market, because a few years ago Barclays tried to introduce charges on their home machines, and there was such an outcry and objection from various other members of the LINK organisation that they withdrew. What we have seen since then is this growth of so-called convenience charging machines, and there are worries, which you seem to agree with, that there is a kind of stealthy, slippery slope to ATM charging happening in the dynamics of this market. First, do you agree with that, and, second, how do you think the LINK organisation could be structured to ensure that we do not wake up one morning and find not that we have 5% of transactions being charged but that it is the norm for consumers to have to pay to have access to their own cash?
Mr Bernau: I agree with your first point, that there would have been charges coming by stealth. We were very much involved with the issue around Barclays, where they wanted to charge their non-customers for using their machines. They backed down that from the media interest and publicity that came through. Subsequent to that, we have seen people looking to sell off their remote machines. You talked to people last week who have sold off their machines. I have to say that, following that, we received a letter from one of the charging machine operators inviting us to consider the same route. I thought that they had not done as much research as they possibly could have done, but we were invited to go down the same route. I can only imagine that if we were receiving letters like that, that all the main card operators were receiving letters inviting them to consider selling part of their remote network. If I go back to the United States again, that is where it started. You get a double-whammy in the United States to a certain extent. The original charges started with banks charging their customers who used somebody else's machine—a disloyalty charge. The bank that had the machine was then charging the same customers, who were their non-customers, for using their machine. In the United States you do not just get one charge, you can suffer two charges. Our view is that if there was not the focus on this, that is the way, by stealth, that we would go eventually.

Q633 Angela Eagle: How can the dynamics of this market be stopped so that we do not wake up one morning, after all of this aggressive campaigning to acquire people's networks of ATMs that is going on, and discover that this is a big public policy problem, and that without that much warning consumers suddenly wake up and discover that they have to pay to access their own cash?
Mr Bernau: I think it is the glare of media publicity, the glare that comes from having a committee such as this, and the points that are made by the consumer bodies that highlight these all the time. We are in a market where there is nothing wrong with people setting up a business proposition to charge customers; they can do that. We would like to get absolute clarity, so that at least people are not paying a charge by default and not realising what they are doing.

Q634 Chairman: On that aspect of clarity, to what extent does the latest LINK agreement meet your objectives, and what further improvements would you like to see in that transparency?
Mr Bernau: We believe that the LINK agreement does go some way. It will strengthen the notices not just on the machine when you are doing the transaction, but it will make sure that the warnings about charging are at the right level. It is laying

down a set size. We do not believe that size is large enough. It will make sure that on any advertising machine it will be there. That is very, very positive. Our belief is that it does not go far enough because we would like to see machines that are changing from free to charging having a very clear notice period so that consumers get warning. We would like to see 30-day notices around any change in charges that take place, and we would like to see a commitment that there will not be any charges for non-financial transactions. So we believe it can be strengthened and at least from the consumer's point of view, they are perfectly able to make a decision, because they have the information and the clarity in front of them.

Q635 Chairman: On enforcement, I believe that LINK depends on the suppliers saying where the cash machines are. Our staff looked at some of these locations and whether they had cash machines or not on the LINK network. Where it is on the LINK network, there are no machines there now at all. There seems to be something more that needs to be done in terms of enforcement.

Mr Bernau: We certainly through our own research have found that following from the original decision from 1 April last year, let us say some operators were just a little bit slow in getting compliant signage. Obviously, there are new rules coming in from 1 July. Maybe there should be some sort of sanction, and if people find that they are not providing these that there should be a sanction against people if they have had due warning. I think that is for LINK to decide. As I said before, I welcome the changes that are being made; but I just do not believe that they go far enough.

Q636 Chairman: You have asked for the Banking Code to be incorporated here, in terms of better transparency. What sort of opposition are you receiving from others in the industry for this proposition?

Mr Bernau: I think there is probably a fair amount of support from the clearing bankers.

Q637 Chairman: We had HBOS here before us last week, and both their representatives agreed that they would support inclusion of the Banking Code.

Mr Bernau: I think the clearing banks very much would be in support. They are used to complying with the Banking Code, and I think that existing banking players in the market would be quite comfortable with the Banking Code being applied to this. I could not speak, obviously, for the charging operators, but we would certainly support it, and I think the main clearing banks would be in exactly the same position.

Q638 Mr Plaskitt: Do you consider that LINK is the right organisation to force change in this business, given that it is dominated by the big boys themselves, who are ultimately seen to control the votes and effectively have vetoes over what is decided in the organisation? Do you find it is an appropriate vehicle to push the agenda for the consumer, or is it a block to that?

Mr Bernau: I think it is much better than what was in place before, because before LINK was in existence there was a series of bilateral agreements between individual lenders on what we would do between our machines, so having a network that covers the providers is by far the best thing to do. LINK itself is chairing that meeting and representing it, so I think it is the right forum. I know that there has been some discussion around it. Maybe there should be consumer representation, or maybe the minutes should be made public. We would support those things. I think it is the right body, and to be perfectly honest LINK has tried to put some of these things in place. We would like it to go further from our point of view, but it is dependent on the voting that takes place at these meetings. If there were more public scrutiny or more openness about that, my view would be that the media pressure that would come through would very much start to push more of a consumer agenda.

Q639 Chairman: It is clear that those on lower incomes suffer most from charges, partly because they often withdraw small amounts. Arguably, it is only where, as for example in much of Speke, which has been mentioned earlier to us, that people particularly had access in a locality and now no longer do, that the situation has worsened. Do you have any concrete examples of where this has happened?

Mr Bernau: Speke, I suppose, is a good example. I have to say that we have tried to look at whether we could put a cash machine into Speke; but you first have to find a site, and some of the sites that have had cash machines in the past have had attacks and so site owners are saying they do not want another cash machine in. From our point of view, we would always look at sites like that. We need the combination of someone who has a site and a security around that site; and if we can find those, we are obviously always looking to put machines in place. Coming back to your point about more vulnerable areas, we are concerned that in some locations it might be young people who are drawing out money. I certainly know from my own children that they prefer to draw out £15 or £20 rather than a larger amount, and if they are being charged £1.50, relatively that is quite an amount. If they are drawing out £10 or £20 every other night, it is quite a big charge in a month. I am not saying that is not a convenience location, because a pub might be a convenience location, but it is more vulnerable people who have low incomes that might be paying the charges.

Q640 Chairman: What about the Post Office and Speke, putting them on your cash machines? Do you enter into a deal with the Post Office to supply free cash machines?

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Mr Bernau: We do enter into a deal. We have—

Q641 Chairman: They have got an exclusive deal with Alliance & Leicester.
Mr Bernau: We have 160 machines with the Post Office and they are all free machines. I know you are obviously speaking to the Post Office later. They have a considerable number of machines, and we are in discussions with them all the time. We would like to increase our 160 machines to a higher number. As you know, we do not deal with site owners at the Post Office; you are dealing with the Post Office centrally. We are in discussions with the Post Office all the time to increase our number of machines from the current 160 up to a larger number. There is not anything that says a free machine does not work in the Post Office. We would like to have more.

Q642 Chairman: I have looked at my own constituency regarding the composition of free and charging cash machines. There are 35 free, and 21 surcharging ATMs in my constituency that transacted during December 2004. There are also 27 post offices, and the research indicates that there is a clear pattern showing that the more deprived an area, the greater number of cash withdrawals and the greater number of post offices in that area. That is 83 in total. If we assume that all the post offices are charging, that gives us almost 60% of machines in my constituency that are charging, and 40% that are free. If I assume that only half the post offices are charging, then I end up with a 50/50 situation. It would appear to me from those figures and the anecdotal evidence I have that we could be on our way towards an environment in which there is free machines located mainly in the commercial centres and the high streets, but everywhere else has charging machines. If we get to that situation, then that will not be a very good situation for the customer, particularly if we go back to the original concept of holes in the wall, which is that banks wanted people to have access to their money 24 hours a day, but also to take them away from the bank branches, because it was much more expensive to give out money in bank branches. There seems to be a big public policy issue here, as far as I am concerned. Do you agree with that?
Mr Bernau: That is why we are obsessive about it! We are committed to a free network. There is another misconception; you cannot run a free ATM network and make a contribution, a profit. We have 2,333 machines, 60% of which are in remote locations, and we have a positive contribution that comes to us from the interchange fees. Our view is that you are perfectly able to run this, and you can also do advertising through these machines. You can do mobile top-ups and you can supplement your income.

Q643 Angela Eagle: On the 5% limit we are told that although 40% of machines charge, it is only 5% of transactions, but the presence of charging machines in deprived areas, where people are less able to afford the charge, must mean that they are bearing the brunt of what is effectively a charge to get your own money out, surely?
Mr Bernau: That might very well be the case. Our view of the 5% is that you have a lead and lag here; you have seen an enormous increase in charging machines last year—and of course that is what is going to break through the 5% because the machines, to be perfectly honest, are not being located generally in rural areas; they are being quite aggressively marketed to high foot-fall areas. If they are located in a high foot-fall areas, obviously the percentage of usage will go up through 5% very quickly.
Chairman: Mr Bernau, thank you for your evidence this morning.

Witnesses: **Sir Mike Hodgkinson,** Chairman, **Mr Dave Miller,** Chief Operating Officer, and **Mr Graham Halliday CBE,** Director of Banking and Financial Services, Post Office Ltd, examined.

Q644 Chairman: Good morning, and welcome to the inquiry into cash machine charges. Sir Mike, can you introduce yourself and colleagues for the shorthand writer, please?
Sir Mike Hodgkinson: I am Mike Hodgkinson, Non-Executive Chairman of Post Office Ltd. My colleague on my left is Dave Miller, the Chief Operating Officer of Post Office Ltd, and on my right Graham Halliday, who is the Banking and Financial Services Director for Post Office Ltd.

Q645 Chairman: Welcome. In February 2000 there were only 160 cash machines in post offices; now there are around 2,500, and you have ambitions to increase this to about 3,000. Why has there been an expansion in the number of cash machines in post offices in recent years?
Sir Mike Hodgkinson: I think we need to give you a little bit of background. As you will be well aware, the Post Office has only recently moved into banking and financial services. That has followed the change in the benefit system that the Government introduced some 18 months ago. We have spent the last two years trying to get ourselves properly involved in banking and financial services. It is quite important to give you a little bit of background as to just where we are. We now have approximately 15,000 locations of which only 550 are directly owned and directly managed by Post Office Ltd. We have some 14,450 that are owned by independent agents who are almost invariably running a convenience store or other store alongside their post office, so that is important. Secondly, the Post Office does not own any ATMs itself, and is not a banking provider in its own right. In other words, we are not

a pure bank in our own right. We have no charging machines in our own managed and our owned post offices.

Q646 Chairman: Is that a principle?
Sir Mike Hodgkinson: It is. It is our current policy that these are—

Q647 Angela Eagle: Ah, that is not a principle then, is it?
Sir Mike Hodgkinson: You will see in a minute how we move on. We have however also negotiated the contracts that in fact our sub-postmasters operate to ensure that charges are capped, so we do have an overall agreement that we implement so that the ATMs located in our branches are not able to charge more than the £1.50 per transaction fee[2].

Q648 Chairman: Why do over 75% of cash machines located in post offices levy a charge on the consumer up to £1.50?
Mr Halliday: When we have put our network out to the ATM deployers, they have looked at the foot-fall and the potential in each location, and also looked at the sub-postmaster's desire to have a cash machine there. When they have assessed that, that then dictates to them whether a particular type of machine is viable for them. They put in the machine with the sub-postmaster's agreement that is most viable for that particular location. In a number of locations clearly they are charging machines.

Q649 Chairman: You will remember the statement in *Hansard* on 29 May 2000 during Prime Minister's questions. It was announced that there were to be 3,000 machines installed in post offices. Do you think he had charging machines in mind when he made that announcement?
Mr Halliday: Perhaps I can give you some background where that announcement came from. When the Post Office was establishing its banking strategy one of the things it considered at the time was that it was desirable to have a network of ATMs situated alongside the banking business that we do. As I indicated earlier, we went out to the ATM industry to ask them to provide those machines rather than us put them in place, and at about the time we did that, the changes, which I know other witnesses have explained, on the back of the Cruickshank Report came along. That changed the dynamics of the ATM industry. We ended up with a mix of ATMs going in place. The 3,000 figure was an aspiration; it was an aspiration based on something like 13,000 sub-postmasters saying they wanted ATMs in place, and therefore the only way that the Post Office and the sub-postmasters were going to achieve that aspiration was to reflect what was happening in the industry.

[2] *Note from Witness:* The cap arrangement is written into the contracts will all of our ATM suppliers, other than the Alliance & Leicester, where this is a less formal agreement. Post Office Ltd have been advised by Alliance & Leicester that they have no plans to increase the surcharge levied at any of their machines beyond £1.50.

Q650 Chairman: You will have seen in the Scottish press the comments from a sub-postmaster in Garmouth in the north of Scotland. I have a copy of the letter that the Post Office sent to him. Before I read parts of that out, what is the relationship between the Post Office and the sub-postmasters? What freedom do the sub-postmasters have with regard to installation of cash machines and deciding what is best for their own premises?
Mr Miller: We have a policy where certain of the transactions that take place we restrict, that is to say we want the sub-postmasters to take suppliers that we have negotiated deals with. We do that for a number of reasons. We do it primarily because if we did not have that restrictions policy, we run a 15,000 network in the UK and that is a very costly network to run; we support that with a computer system, with cash and stock delivery, and with a lot of advertising that we do and pay for. We are concerned that we do not have other, particularly competitors, riding on the back of that network and the back of that expenditure. This is subject to law, and there are changes in the law coming in in May around bringing UK law into line with European law. Like a lot of other people, we are reviewing our policy in this area, as we speak. We will of course abide by the law, whatever comes out; but I would have to say that the restrictions policy is there from our point of view to ensure that we have a nation-wide network of post offices. We would be concerned, if those restrictions were not there, that people would be able to cherry-pick. I think we would find that a relatively small number of post offices would be favoured by suppliers and that we would have less post offices as a result.

Q651 Chairman: This letter was sent to Mr Ian Taylor, which you will be well aware of because it has been in the press. The letter from yourselves states: "A&L (Alliance & Leicester) have considered it necessary to introduce a convenience fee surcharge so that the ATM can remain on site and continue to be available to customers. With effect from 4 October 2004 the ATM in your premises will charge customers a fee for withdrawing money, currently set at £1.50. To help explain the basis of this decision, analysis shows a number of transactions conducted at your ATM, and as you can see for the period shown the number of transactions falls well short of the volume required to allow the machine to remain as non-charging." The first thing is that this sub-postmaster wanted a free machine because he has experienced a reduction in foot-fall. However, from that letter there was no negotiation with the sub-postmaster; you are telling the sub-postmaster what to do. You tell him it is A&L and you have your relationship with A&L, but that sub-postmaster does not have any flexibility in that at all, and that, to me, seems contrary to the statement that the Prime Minister made in the House about the installation of charging machines. They are now being imposed on sub-post offices and it just seems to run contrary to what was intended.

Mr Halliday: The contract that we have with A&L—if I can not go into full details of it, because obviously it is confidential—the contract allows A&L to place ATMs in post offices, and it allows them to place the ATM which is most viable for that location, and it gives them an option to review whether that ATM is the right ATM for the location. What is happening on this occasion is that according to their criteria, the ATM is not producing enough transactions to make the ATM viable, so they have changed it. It is interesting because we have had a discussion with A&L about how we can tackle situations like this for the future, and they are happy to have a further discussion with us about allowing a sub-postmaster an option as to whether he accepts that charging machine or not.

Q652 Chairman: That approach seems dictatorial, with little choice for the sub-postmaster. You mentioned that the volume does not merit having a free machine. What is the foot-fall?
Sir Mike Hodgkinson: Can I say one thing which is quite important?

Q653 Chairman: Hold on! What is the foot-fall that it has to fall below to trigger a charging machines in a shop?
Mr Halliday: That is A&L's decision because only they know their cost model, their profit model, and what their aspirations are. I cannot speak for them. It is a question best addressed to them.

Q654 Chairman: Another thing you told us in your letter to me is that you do not make much money out of these things. But in your letter to sub-postmasters of 2 February you reveal that there are around 600,000 withdrawals every month through the 1,856 charging machines in post office branches. That means there are around 7.2 million withdrawals every year. Using the LINK database, the average charge for a charging machine in the Post Office is around £1.40 per withdrawal. That means that charging machines in post offices are generating around £10 million in revenue each year. Is that correct, or largely correct?
Mr Halliday: The maths would sound about right, but can I stress that—

Q655 Chairman: Your letter to sub-postmasters also says that the Post Office does not make a profit from charging ATMs, and sub-postmasters also complain of not making any money from charging cash machines. For example, with the Garmouth one you were telling the owner that for cash withdrawals in a month between nil and 1,100 you would pay them 4.9 pence of the £1.50 that was charged; for over 1,000 you would pay 14 pence—but that is quite a target to attain. You are stating that you are not getting much money from it. If you are not making much money, then it does not seem that at 4 pence sub-postmasters are making much money. Where is the £10 million going?
Mr Halliday: We are paying to sub-postmasters the bulk of the money that we receive. We are actually not making any money out of surcharging—

Q656 Chairman: £10 million! Somebody must be making money—£10 million, for goodness sake!
Mr Halliday: I think that is a question that needs to be addressed to the deployers of the machines because they are actually—

Q657 Chairman: So you are getting ripped off. You are not making any money! My God! You are allowing the machines to be placed in your post offices; it is making £10 million and you are making nothing. Your company has no profits here.
Mr Halliday: We do not want to make money from surcharging ATMs.

Q658 Chairman: Why could you not enter a negotiation with somebody like Nationwide for free machines going into your post offices?
Mr Halliday: We have. Nationwide have already—

Q659 Chairman: No, 70% odd of your post offices have got charging machines.
Mr Halliday: Nationwide have already—

Q660 Chairman: And the trend is going up.
Mr Halliday: Nationwide have already deployed over 150 free machines in post offices, and we are in continual discussion with them about where they might like to deploy further machines.

Q661 Chairman: This is a bit worrying, because the next time at Prime Minister's questions, maybe a few people on this Committee will be popping up and saying, "Prime Minister, could you give a word of sympathy with the Post Office; here they are, poor financial illiterates here; they have cash machines in their offices; they are making £10 million, but hey presto it is going down the pan; they do not know where it is going."
Mr Halliday: It is not actually going down the pan. The bulk of it is going to the sub-postmasters to support the sub-postmasters in their businesses.

Q662 Chairman: But 4 pence a time?
Mr Halliday: There are a variety of—

Q663 Chairman: I think you would have to supply us with this information, Mr Halliday.
Mr Halliday: I would be very happy to provide you with more detailed information, if I can just stress—

Q664 Chairman: But you have written to us already, and it has never cast a light on it for us already, so I think you need to be clear in terms of these finances.
Mr Halliday: We will, but can we stress that there are different models—

Q665 Chairman: I would have thought you would have been clear before that. Can I ask maybe the last question before passing on. Did any of the charging cash machine suppliers make one-off payments to the post office for exclusive access to the branch network?

Mr Halliday: Not that I recall.

Q666 Chairman: So that is not in place.
Mr Halliday: Not that I recall.
Sir Mike Hodgkinson: Can I say one thing that it is important for people to understand? People have to remember that we have invested £100 million to ensure that everybody can draw money over the post office counter free, and as we have introduced free banking over the counter for people's cash through our 15,000 network, of course some of the machines that had high volume transactions have lost volume because people can now draw cash through our 15,000 outlets across—
Chairman: I will tell you that the ordinary person's view of that, Sir Mike, is this. First of all, they cannot get anything out if they are members of HBOS, RBS or HSBC because they have been before us and have said, "this is a competitive issue", and I specifically asked that question to the representatives. That is 43% of the network that cannot get access through your counters. Any post office you go into—and I do not think my post offices are any different to anybody else's—you could be talking about a 15-minute wait in a queue to get served. You get a choice between a 15-minute wait in a queue or only a cash machine which is charging. That does not seem to me to be a fair balance. When you talk about investment of £100 million, I think it could have been invested more judiciously.

Q667 Mr Beard: We understand that you have applied to join LINK. On what basis have you applied to become members of LINK, and what is the progress so far on that?
Mr Halliday: We have applied to become members of LINK in the hope that LINK will register the scheme to enable all banks that are members of LINK to then allow all their customers, including the banks that the Chairman has just mentioned, to use our counters for access to free cash.

Q668 Mr Beard: It is a matter for the counters rather than the—
Mr Halliday: It is for the counters. Our network, as we have mentioned, is very extensive, 15,000 locations—far more locations than there are ATMs in post offices. By doing that, we can extend the access to free cash in virtually every community in the country.

Q669 Mr Beard: Where have you got to?
Mr Halliday: That application is still resting with LINK. They will be considering it, hopefully this month. The indications are that because we are applying for a different classification of service, which is a manned terminal, rather than ATM, then that may very well be declined, but we await the outcome of the approach.

Q670 Mr Beard: Why does the Post Office make arrangements with independent ATM deployers rather than installing its own brand of ATMs, which would allow it to become a member of LINK automatically?
Mr Halliday: It is quite simple: on top of the money that we were investing in the banking services, which the Committee may recall were labelled "universal banking services", which we had to invest in to ensure there was a service available in all post offices, we quite simply did not have the capital to invest in the further network of ATMs across our network.

Q671 Mr Beard: How many of the cash machines in post offices are supplied by the independent ATM deployers, and which are your main suppliers?
Mr Halliday: We have a very strong relationship with Alliance & Leicester, but the rest of the suppliers are quite well spread, and I would like to provide you with that information on a confidential basis.

Q672 Mr Beard: You cannot give us a broad percentage now?
Mr Halliday: Not at the moment, no.

Q673 Mr Beard: Does the Post Office have any special arrangements with any individual ATM operators that allow them first refusal on any potential sites on which to place their machines?
Mr Halliday: Our historical relationship with Alliance & Leicester has meant that A&L in the past had what we would call first look at the network, but that now does not exist.

Q674 Mr Beard: How is it decided? Who will have what site?
Mr Halliday: The opportunity to put an ATM on a site is put out to the ATM deployers, and then the sub-postmaster decides which ATM he would like to have.

Q675 Mr Beard: When tendering for companies to install machines, did the Post Office approach all ATM suppliers to see if they could install a free machine, before re-tendering the contract amongst those who install charging machines?
Mr Halliday: We tender widely on an informal basis across all ATM suppliers as far as I am aware.

Q676 Mr Beard: To see whether they would provide a free machine?
Mr Halliday: To see if they would provide any machine.

Q677 Mr Beard: The point is, did you start by asking for tenders from people who provided free machines and then go to a paying machine?
Mr Halliday: Initially, we focused on free machines because the thrust to put ATMs into offices arose before the changes to the market, which actually resulted in the growth in the placement of charging machines.

Q678 Chairman: The original point about installing cash machines in post offices was a recommendation of the report published in June 2000 *Modernising the Post Office Network* from the Downing Street Performance and Innovation Unit, was it not? So did you go back to the Innovation Unit and say, "we

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have tried to get free cash machines in post offices, but we have failed, so we have got to go the charging route"? Did you report to the innovation unit and make that statement?
Mr Halliday: Not that I recall.
Chairman: No, maybe you did not really try too hard!

Q679 Mr Beard: If you were letting a tender tomorrow in some particular site or sites, would you first of all ask for tenders for free machines and only then go to ask for tenders for paying machines; or are you asking in these circumstances for a tender for paying machines straight away?
Mr Halliday: No, we would ask for tenders for all machines.

Q680 Mr Beard: Some would be free and some would be paying.
Mr Halliday: Again, without knowing the exact pricing and costing models of the individual ATM deployers, it is fair to say that the level of transactions, the size of the foot-fall in certain locations, just would not support a free ATM, and therefore if those sub-postmasters want an ATM, they should have the opportunity of knowing that a particular type of ATM is available to them.
Sir Mike Hodgkinson: To clarify that, were the previous speaker to offer a significant range of free ATMs, we would be taking that up with great alacrity.
Mr Halliday: Indeed, we would like to speak—

Q681 Mr Beard: That is your policy? That is the Post Office policy?
Mr Halliday: Yes.

Q682 Chairman: But you must have an agreement with A&L. What is your agreement with A&L? You just cannot drop that agreement with A&L tomorrow and install free cash machines, surely?
Mr Halliday: We have an agreement with A&L for the provision of machines.

Q683 Chairman: What is that?
Mr Halliday: But we also have an agreement with other suppliers for the provision of machines.

Q684 Chairman: What is the agreement with A&L because they are increasing their numbers? What is your contract with them—for how long?
Mr Halliday: If I am to provide you with details of the contract with A&L, then I think I need to do that privately, and I will drop you a line about that.[3]

Q685 Chairman: The reason I am asking the question is that we are trying to get through this fog, to find what that agreement is, because you cannot, I do not think, draw out from A&L tomorrow; so the concept of charging cash machines is here to stay for quite a time, and indeed it could increase. Is that correct?
Mr Halliday: It could.

Q686 Mr Beard: The existing contract between the Post Office and sub-postmasters restricts the ability of sub-postmasters from carrying out independently many types of business, and requires them to use suppliers chosen by you, the Post Office. What is the rationale behind that arrangement?
Mr Miller: I touched on this earlier. Currently, we are reviewing, against the change of law within Europe, what our restrictions policy will be going forward. Whatever the law is, we will comply with that. What we are concerned about is that we run 15,000 outlets in the UK and invest heavily in those outlets. We spend a lot of money supporting them, in terms of computer systems. We spend money in terms of cash and stock distribution. We spend money in terms of the way we promote products for those outlets. What we do not want, frankly, is competitors cherry-picking the bits of that network in order that they can ride on the back of that investment, because that is what people will do.

Q687 Mr Beard: Can you confirm that cash machines are one of these restricted products?
Mr Miller: They are at present, yes.

Q688 Mr Beard: Why?
Mr Miller: For similar reasons to other products—because we feel people will ride on the back of that network.

Q689 Mr Beard: The correspondence received from the sub-postmaster indicates that for each withdrawal made from the charging machine in their post office they received just under 5% under the present arrangement. However, as a shop-owner allowed to approach the Alliance & Leicester directly to install an Alliance & Leicester machine, they would receive 97.5% per withdrawal; and that means that if there are 1,000 withdrawals a month they would receive around £50 from the Post Office, but if they went direct with Alliance & Leicester they would receive £975. Why are the figures so different?
Mr Halliday: I have already said that we will provide you with further details of how those contracts work, but it is important to stress that we do not know the nature of the offer that has been received direct from Alliance & Leicester, and we do not know whether we are comparing like with like here. A lot can depend on, for instance, whether the ATM deployer is maintaining the machine and providing the cash; or whether the retailer is feeding his own cash into the machine. It can make a huge difference, and there is a variety of different contracts between those ranges. I think it is best if I provided that detail privately.

Q690 Mr Beard: It does look to be a very big gap, between 50 and 975. It raises the question of what is happening to the £925 difference.
Mr Halliday: I have already provided you with some information about how the money that we receive from these machines is split, and a significant amount of that goes in national insurance and VAT.

[3] Ev 144.

Chairman: We look forward to getting that.

Q691 Mr Plaskitt: Can I go back to a couple of earlier answers and get some clarification? In your introduction, Sir Mike, you talked about the 550 offices that you run and own directly. That is the Crown network, is it not? Am I not right in thinking that you are in the process of franchising quite a lot of that out to private operators?
Sir Mike Hodgkinson: A small element.

Q692 Mr Plaskitt: You are franchising the one in my constituency.
Sir Mike Hodgkinson: Yes.

Q693 Mr Plaskitt: So that 550 is dwindling, in terms of the amount of control you exercise over what happens inside those branches. For a Crown office such as the one in my constituency that has been franchised out, presumably the operator in future will be free to bring in ATM machines if he wanted to, but they could be charging machines.
Mr Halliday: Yes.

Q694 Mr Plaskitt: So that 550 core is dwindling, is it not?
Mr Halliday: Yes.

Q695 Mr Plaskitt: In another answer you said that you were in the process of negotiating choice for sub-postmasters. I am not quite clear what choices you are talking to them about. Is it between having a charging machine and no machine, or is it a choice of a charging machine and a non-charging machine?
Mr Halliday: If I can recap, the answer arose because of a specific Alliance & Leicester situation, which I believe was the sub-postmaster in Scotland. The issue was that the sub-postmaster felt that he had been required to have a surcharging machine in place of the free machine. We are in the early stages of discussions with Alliance & Leicester to discuss how we can handle that situation for the future to give the sub-postmaster an option. We do not know how those discussions will turn out yet, but it may well be that the option will be to have a surcharging machine or no machine. I accept that.

Q696 Mr Plaskitt: But the option is not going to be between a surcharging machine and a free machine; the deal you are putting on the table is a charging ATM or no ATM.
Mr Halliday: And that would be the case in just about every location, not just sub-post offices, because the machines have got to be viable for the operators. I am sure they will say that, and I believe indeed they did say that in their evidence two weeks ago[4].

[4] *Note from Witness:* It is the ATM deployer, not Post Office Ltd, that decides whether a machine will be free or will levy a surcharge. It may therefore be that in areas where the ATM deployers are unwilling to locate a free machine, the only option that they will present subpostmasters with is having a surcharging machine, or not having a machine.

Sir Mike Hodgkinson: I think it is important to recap what we were saying earlier. As we have introduced free cash withdrawal over the counters, then the volumes through some of those ATMs have gone down. It is quite important to bear that in mind.
Chairman: You should give us the figures, if that is the case.

Q697 Mr Plaskitt: I wanted to come back to that because you did indeed say in your submission to us: "Post Office Ltd has the network and the ambition to become the universal provider of free cash to personal customers." Is not the gradual trend, possibly accelerating trend, in post offices, of the appearance of charging ATMs running directly counter to that objective?
Sir Mike Hodgkinson: Again, I think it is important just to recap on where we are. We have been in banking since April 2003, so this is very new. We had hoped that all of the banks and financial institutions would have signed up with us to get free cash over the counter. In the event, everybody did not do it. We then spent not only the computer systems and all of the background office work to be able to do that; and our next focus was to ensure that we had adequate, or some coverage in Scotland and Northern Ireland, because when we started we had very little coverage in Scotland and Northern Ireland. We managed to get the Bank of Ireland on board, and Clydesdale Bank in Scotland on board. The next part of this exercise has been to try and become a member of LINK, which would enable everybody to have access to the cash. We are in the very early stages of trying to do what we all want to do, which is to ensure that we do have free access to cash over the counter.

Q698 Mr Plaskitt: While you are inching your way towards that situation, you are acquiescing in the growth of the charging ATM network in post offices; so you are actually contributing to this landslip we are seeing take place from a free network to a charging one. Are you comfortable about the fact that you are contributing to that?
Sir Mike Hodgkinson: As I say, we are in this dilemma at the moment where a lot of the transactions through the machines—the very fact that we have offered free cash to 15,000 outlets with quite extensive opening hours—of course the use of the ATMs is actually dropping, which is a kind of natural corollary. We are still in this interim period.

Q699 Mr Plaskitt: When a charging ATM appears in a post office, do you put a notice on it that says to your customers that they can withdraw cash for free over the counter?
Mr Halliday: Over the past two years we have advertised and displayed extensively noticed about our over-the-counter service. We have spent £6.5 million in the past two years running television adverts, radio adverts, newspaper/magazine, ad shells and also posters in and around our branches, saying that we have an over-the-counter service. I believe that we have done a lot and will continue to

do a lot. We also require our staff, where they can, to advise our clients of the existence of the over-the-counter service.

Q700 Mr Plaskitt: Would you not be contributing more effectively to your stated ambition to become the universal provider of free cash to personal customers if you were taking a more robust stand against the spread of charging people to withdraw their own money from their own account? Is that not what you should be doing, as the Post Office?
Mr Halliday: As Sir Mike has said, we are in the middle of a journey here to build the free service over our counters. It already is popular and growing, but we have not completed that job yet. In the meantime, an ATM market has been created which our sub-postmasters want to participate in, and I think we would find it extremely difficult to stop them from doing that. It is better that we do it and co-ordinate it so that there is a universal approach to how these are deployed, than to allow a free-for-all.

Q701 Mr Plaskitt: This is why I find the Hobson's choice you are presenting to your sub-postmasters so strange. You are saying, "you can have a charging ATM or you cannot have an ATM at all". Your plea to be trying to further this objective would be understand and credible if the choice was between a charging ATM and a non-charging ATM, but that is not the choice you have got on the table, is it?
Mr Halliday: It tends not to be the choice, because the individual deployer's assessments of the locations based on expected foot-fall, and therefore expected transaction levels, indicates to them what type of ATM would be viable for them. They will offer to deploy the most viable option that they can.

Q702 Mr Plaskitt: But have you not just taken the foundation stone out from under your objective to be the universal provider of free cash to personal customers?
Sir Mike Hodgkinson: Again, you have to go back to our core philosophy at the moment. The network is in the process of losing 40% of its revenue as a result of the change in government benefit payments. We are spending a great deal of money as part of that process in providing free cash over the counter. We are spending a great deal of money in introducing new products that can provide foot-fall and financial business for our sub-postmaster network, and it is a question of priorities as to what we actually do to provide the sub-postmaster with a viable living for the future and ensure that we do have a network out there. If we can keep this network going, which is what we are absolutely intent on doing, then there will be 15,000 outlets where people can get access to free cash. We cannot do everything. We would like to do everything, but physically within the resources we have we have to ensure that we are providing both free cash to people who need it, which we are doing in the over-the-counter service, and the next priority which is to provide new products and a new methodology of re-inventing the network so that the sub-postmaster network will remain viable into the future, and ensure that we keep this network going.

Q703 Mr Plaskitt: You are in effect saying that you are making yourself, the Post Office, part of this process of the spreading of charging ATMs and that you are driven to do that by your own financial circumstances?
Sir Mike Hodgkinson: We are not in a position to ensure that we subsidise the outlets to have free ATMs, which is a slightly different position.

Q704 Mr Plaskitt: It is a different gloss on the same position.
Sir Mike Hodgkinson: But it is the reality of events.

Q705 Chairman: Could I return to Mr Plaskitt's point, just to try reinforce it? Do the notices next to your surcharging cash machines clearly inform customers, many of whom may be collecting benefits, that they can withdraw cash free over the Post Office counter?
Mr Halliday: When we deployed those notices, and we do it in phases—

Q706 Chairman: No, I am asking: is it a policy that you have notices in Post Offices?
Mr Halliday: We do not have a policy that the notices are up permanently.

Q707 Chairman: The reason I am asking that is quite simple. In figures supplied to us by LINK, at least 38% of customers choosing to use the charging machine in one Post Office could have made a withdrawal free over the Post Office counter—two out of five. Although undoubtedly a number of these people may not have wanted to queue, do you not think that demonstrates the need for clear signs on the ATM informing customers of certain banks that they can withdraw cash free? That figure of 38% figure leads me to the conclusion either that people see a big queue and they do not want to wait or else you are not making it clear that they can withdraw that cash. If you are not making it clear, what we are asking you to do today is to put on to every one of those machines, through your dealings with A&L and others, that this is a charging machine. A lot of people on benefits use Post Offices, the preponderance in my area anyway, in deprived areas. In terms of a financial conclusion, which Angela Eagle is coming to, that is one of our requests to you.
Mr Halliday: What we have done up to now is to rely on the LINK scheme rules regarding advice on charging customers at ATMs. What has been recognised, as a result of the work that Nationwide has done and also the work of this Committee, is that there is a lack of notification, a lack of transparency, however you want to put it. We are very pleased that there are going to be changes to that and we will be active in enforcing those changes.

Q708 Chairman: You have not answered my question. Are you going to put notices on these machines?
Mr Halliday: Together with the deployers and with LINK, we will ensure adequate signage on the machines or around the machines.

Q709 Chairman: That seems as if you are sliding out from answering my question.
Mr Halliday: I think we would like to see what LINK are going to come up with to make sure that any signage that is deployed is adequate.

Q710 Chairman: It is another concern, Mr Halliday, that four out of 10 of your customers could get free withdrawal and yet they are paying money in your Post Offices.
Mr Halliday: I think it is fair to say that the figures you might have been provided with by LINK exclude those customers who actually access our banking services at the counters where the transactions do not come through LINK.
Chairman: There is a big issue here and we look to you to address it.

Q711 Angela Eagle: Before I go on to financial exclusion, Sir Mike, you said earlier, and it was not that reassuring, that your current policy was not to charge for machines in your Crown post offices, which indicates to me that there may be a sudden decision, or a decision at some point in the future, to switch completely to charging machines?
Sir Mike Hodgkinson: We have no plans in that direction at the moment.

Q712 Angela Eagle: You have a commitment and you do very well, I think, with basic bank accounts to give people access to their own cash, but this side of the business, as my colleague James Plaskitt was talking about, seems to be at odds with that aim. You are not really being as reassuring as I would like about your attitude and principle to charging for ATMs.
Sir Mike Hodgkinson: I think the issue is quite clear. Our philosophy is to ensure that people can access their cash over the counter. We would have liked all of the banks to have participated, but they did not. Our next line of attack on that is to try to join the LINK system, which will improve that. We are then faced with a lot of the existing ATMs that are just not viable because the volumes of transactions are so low and so in many of these cases where there are charging ATMs, the choice for the ATM deployer is simply to shut them down and pull them out or leave them as a convenient option in the Post Office, which is an option alongside the ability to get free cash over the counter.

Q713 Angela Eagle: As the Chairman has just pointed out, it is confusing for your customers who are paying when perhaps they do not need to do so by using the machines.
Sir Mike Hodgkinson: We need to check those figures and understand how those figures were arrived at.

Q714 Angela Eagle: The sub-postmasters are making almost no money out of charging ATMs. There is a £10 million profit running through your network. Who is getting that? Is it you or is it A&L? You have a load of charging machines and are you not even making any money out of that. Is it all going back to A&L?
Sir Mike Hodgkinson: It is quite important that the £10 million is a gross figure before the costs of those machines. That is quite an important point to log.

Q715 Angela Eagle: So it is less?
Mr Halliday: We do not make a profit out of fee-charging machines.

Q716 Angela Eagle: I wonder why you bother having them at all?
Mr Halliday: We have them because we had an aspiration, along with sub-postmasters, to put ATMs in Post Offices. That aspiration was expressed earlier in this discussion. The bulk of the money from ATMs which charge, and there is money paid over by the deployers to us, goes to the sub-postmasters. We do not make a profit from fee-charging ATMs.

Q717 Angela Eagle: When you have decided whether to install a free machine or a charging machine in a particular area, do you take into account the deprivation that is around in a particular area, or do you look purely at the so-called economics?
Mr Halliday: We do not decide what type of ATM goes into a particular area.

Q718 Angela Eagle: So you wash your hands of any social policy issues to do with deprivation?
Mr Halliday: We do not own the machines; we do not fund the machines. As we have already stated, we do not have the finance to support unviable machines. Therefore, we rely on the suppliers of the machines to decide what is the best machine for each individual location.

Q719 Angela Eagle: So there is no free machine in Speke but there is a load of free machines downstairs in this building. That is the outcome of opting out of any view on what effect charging might have in the communities you are in, is it not?
Mr Halliday: There are two Post Offices in Speke which actually provide free over-the-counter services, particularly for people who do not want to use an ATM.

Q720 Angela Eagle: Or cannot?
Mr Halliday: Or cannot use an ATM—

Q721 Angela Eagle: But that is only for people who do not have bank accounts with the 40% of banks that have not signed up to your free cash services, is it not?
Mr Halliday: All basic current accounts can be used at Post Offices. That is an agreement that we have with the banks. Our own Post Office card account can of course be used at Post Offices.

Q722 Angela Eagle: That means that anyone who has had a benefit payment through a basic bank account can get to their cash free?

Mr Halliday: Correct.

Q723 Angela Eagle: Is that an inviolable principle for you?
Mr Halliday: It is an absolute rule.

Q724 Angela Eagle: That is not a current business practice.
Mr Halliday: It is an absolute rule which forms part of the universal banking services agreement between the Post Office, the Government and the banks.

Q725 Angela Eagle: Do you see any public policy issues about what appears to me to be a concentration of free machines in areas where people can get to easily, especially if they have cars, and the almost total absence of them from areas where people perhaps do not have access to cars or transport and therefore have a choice of charging when they may be taking out quite small amounts of money anyway, and so the overall charge—and I appreciate that at least you have a cap—is a big percentage of the money that they take out?
Mr Halliday: From the information that we have seen, the spread of charging ATMs and the spread of free ATMs does not seem to support the view that there is a weighting of charging ATMs in what you would class as deprived areas. I think LINK might have done some similar work and they might be able to give some further help in this area. Our role is to ensure that there is availability of free cash for those customers who particularly want to have their cash free close to where they live. Through our 15,000-strong branch network, our aspiration, and indeed current capability to provide free cash, I think answers that issue.

Q726 Angela Eagle: The Treasury has a list of postcodes where there is a concentrated financial exclusion at the moment. They know what 25% of financially excluded people are concentrated in 3% of the postcodes. Do you think that you have any public policy responsibilities to provide a service in that 3% of postcode areas where there is a massive concentration of financial exclusion? How well do you do in representing yourselves in those areas to ensure that the areas with the most financial exclusion have actually got access to free cash in a convenient way?
Sir Mike Hodgkinson: First of all, the urban deprived form a special category.
Mr Miller: I would like to respond to that. There are 3.5 million Post Office card accounts, which is how benefits are paid to many of the more disadvantaged people in our society. There is something that the DWP calls the exception service, which is also rising up to about 2 million. These services are available at all Post Offices free over the counter. We are talking about 5.5 million people, probably many of whom are the more disadvantaged people, who are able to get those services free over Post Office counters.

Q727 Angela Eagle: Do you have a list of these 3% of postcodes that contain 25% of the deprived and financially excluded? Have you planned and have the Treasury and the Government liaised with you to focus particularly in these areas to ensure that the free services that you have are available in a convenient way in those areas?
Mr Miller: Those free services are available in those areas.

Q728 Chairman: The point is this. Has the Treasury supplied you with that information on the postcodes?
Mr Miller: We have that information about the urban deprived, certainly. It is all part of the currency.

Q729 Chairman: What action have you taken as a result of being supplied with these postcodes? What different polices have you implanted in these areas of financial exclusion?
Sir Mike Hodgkinson: Dave Miller can give you the detail. My understanding is that there was extra investment and we did network reinvention; there was special treatment for branches in the urban deprived network to ensure exactly the point you are raising that in fact people in these deprived areas could have access to the free cash in a convenient way.

Q730 Chairman: This is a good story for you and you do not have much of a story to tell. You should have been well briefed when coming to this Committee and giving it to us in a snappy way. This is you on the offensive, not the defensive, surely? You have these postcodes from the Treasury. You should be working on them and telling us exactly what you are doing to assist financial exclusion and all we are getting is mumbo jumbo.
Mr Halliday: We have offered assistance within the Financial Inclusion Taskforce at the Treasury, and we are looking forward to playing a part in that.
Chairman: I think we need another batch in writing. A lot of people in your organisation are going to be busy.

Q731 Angela Eagle: It would be interesting to see what kind of presence you have in these concentrated areas. You are aware of them, obviously, and extra focus has been put on them. We would like to have a look at how that works out in practice.
Mr Miller: If you would like information on our presence in the deprived areas, we can supply that to you. We can supply maps and so on and so forth.
Angela Eagle: That would be very useful.

Q732 Chairman: There are a couple of questions on transparency before we finish. What standards of transparency apply to the charging cash machines that operate within Post Office branches?
Mr Halliday: The LINK standards: we require our providers to apply the LINK standards.

Q733 Chairman: The new LINK rules require signs to use a minimum of 14 points. The 14 -point sign, as I mentioned to people last week, looks like *this*, and I am showing it to you. I do not think you can read that, but this one is 96 point and it says: "This machine will charge you £1.50". That is dead easy to read as you approach the machine. You are applying the 14 points but mysteriously down at the Post Office in the House of Commons they are using quite big print, something like 40 to 50 points, which is not being used in the rest of the country. Would you be willing then to put big signage on all your cash machines in the country going beyond the 14 point requirement?

Mr Halliday: Firstly, the notice that is downstairs is on an Alliance & Leicester machine and Alliance & Leicester have actually put notices on all their machines similar to that, either saying the machine is free or there is a charge on that machine for certain customers.

Q734 Chairman: When did that go on them?

Mr Halliday: I do not know when that went on.

Q735 Chairman: That was pretty recently, actually, and it was after 21 December.

Mr Halliday: That is interesting. As I indicated earlier, we support greater transparency; we support better signage; and we will work with the deployers and LINK to ensure there is that better signage so that our customers are aware of any charges that apply on the machine.

Q736 Chairman: Has the Post Office conducted any research into consumer awareness, particularly of those receiving benefits, of cash machine charges and, if you have done so, what were the results and could you share those with us?

Mr Halliday: No, we have not carried out any research. As I say, we have relied on the LINK standards being applied and we have relied on other information that has been available to us.

Q737 Chairman: Consumer groups have submitted evidence to us expressing concern that the fixed fee can impact particularly badly on low-income consumers. You have set a cap of £1.50 as the charge that can be made. Why have you chosen to operate a charging cap and how did you arrive at the figure of £1.50?

Mr Halliday: We chose to operate a charging cap because we could see that the charges were able to be increased, possibly able to be increased at variable rates, and we might have different offerings, if you like, in different Post Offices possibly that customers would visit and therefore they would find that confusing. We did not think that was right and therefore we thought that if there are going to be these machines in Post Offices, at the request of our sub-postmasters, we wished to see a charging regime which was in line with what was then becoming the market norm, but we felt that that was where we wanted the charge to be. We were uncomfortable with allowing a further licence to take us any further.

Q738 Chairman: You have probably heard, when the Nationwide representative was here, figures that I have given for my own constituency of about 35 free and 21 surcharging ATMs. Do you know of any Post Offices in my constituency that have charging machines in them?

Mr Halliday: I think there will be some, yes.

Q739 Chairman: If you say about half, if that is the case, then I have 50% charging and 50% free machines in my constituency and with the free machines located in the commercial centres largely, in the main towns. This is obviously a growth industry and a 50:50 figure does not seem to equate with the 5% cap figure that people were talking about for charging machines. Is it not a worrying trend that we are really going to a charging environment?

Mr Halliday: I think the figures are perhaps distorted by the fact that we are late into the ATM business, or market, whatever you want to call it, compared with other people who are in it, and therefore we are starting from a totally different base. Our free ATMs have increased by 80% from December 2001 to 2004 alongside that. What we are finding is that the ATM deployers recognise that our retail outlets are available in just the same way as any other retail outlets for these particular machines to be deployed, and that is reflected in there.

Q740 Chairman: The research indicates that, in terms of cash withdrawals, it is people with lower incomes largely who make the cash withdrawals. These cash withdrawals at Post Offices in my area indicate that there is a clear pattern that shows the more deprived an area is, the greater the number of cash withdrawals. There is a big financial exclusion agenda for you to tackle there, not just in my area but overall. Would you agree with that?

Mr Halliday: We acknowledge that and we think the best way we can tackle it is to ensure that all customers can actually access the cash that they want over our counters, and that is our aim.

Angela Eagle: There is one thing that ties in with what the Chairman has said about the Post Offices in his own area where very large numbers of people using ATMs in Post Offices are charged when they could actually get their cash free by going to the counter. This pattern is reproduced in other places, including Speke. Spending £6 million on telling them that they can get their cash free is perhaps not the biggest advertising campaign we have ever seen. There must be some lack of information here. You can assume that some people are in a rush and so they pay the fee, but that does not account for the very high percentage of people who are actually subjecting themselves to a fee in Post Offices to get cash when they can get it free. You cannot be communicating with them properly.

Q741 Chairman: When that happens to four out of ten, there is a problem.

Mr Halliday: First of all, can we check the four out of 10 figures just to understand that?

Q742 Angela Eagle: I have some other figures here from Speke that say the same thing is happening there.

Sir Mike Hodgkinson: It is in our core interest to try to get as many people to use free cash over the counter because we are trying to encourage that use through the network.

Q743 Chairman: As my colleague says, you need to man the tills and not have queues of 15 or 20 minutes. That is the issue. There is just one last point about the figure of £10 million. We are really interested to know where that is going because you are not making money and the sub-postmasters are not making money. Goodness knows who is making the money. I think an answer is required on that mystery £10 million. As a large network, you have a unique opportunity to provide free cash machines and improve financial inclusion. In fact, that is the reason why you were invited here this morning. You invited yourselves because you sent us your submissions, which we were happy to receive. We support the efforts of the Post Office to improve over-the-counter services. We will write to the banks and others to see what the barriers are to further progress to try and assist in that.
Sir Mike Hodgkinson: That would be extremely helpful.

Q744 Chairman: It appeared to us this morning, Sir Mike, that you are not meeting your responsibilities at the moment and that increasing charging is contrary to the objectives of financial inclusion. There does not seem to be any measurement of financial exclusion when deciding whether to install free or charging machines. I think we need some more information from you on that. Restricting competition to three suppliers is resulting in more charging machines, not less. The sub-postmasters indicate to us that they need more freedom about whether to install a free or charging machine in their branch. It was very clear from the letter to the sub-postmaster in Garmouth that there was no choice there; a charging cash machine was installed, and there was no choice. That seems contrary to the principles of the market that you are espousing. Given that all the banks are installing free machines in their branches, and they are doing that because it is quicker and more efficient for the consumer, the Post Offices seems to be the only financial institution going in the other direction, and that causes us concern. We will be focusing on these issues in our report and, hopefully, the submissions you make to us will help answer some of these questions.
Sir Mike Hodgkinson: May I say one thing in conclusion? We would be delighted to take up the potential offer this morning from Nationwide to put in a significant number of more free machines in our network. We are already in discussions.

Q745 Chairman: Do not let us kid the public, Sir Mike. You will have agreements with Alliance & Leicester and whoever else and they will be coming to you afterwards and saying, “Wait a minute”.
Sir Mike Hodgkinson: But these things always take time.

Q746 Chairman: It is more complicated than you are indicating at the moment, although your intention is good. We wish you well with that intention.
Sir Mike Hodgkinson: That is what we are pursuing.
Chairman: Thank you very much.

Witnesses: **Mr Stephen Timms,** a Member of the House, Financial Secretary, and **Mr James Parker,** Treasury Financial Systems team member, HM Treasury, examined.

Q747 Chairman: Minister, welcome to this final session on the cash machine inquiry. We will focus this morning on transparency and financial exclusion. These are two of the three themes that we have looked at in our inquiry so far. Could you explain for me what public policy issues are involved in ensuring that there exists sufficient access to free cash withdrawals? We have heard evidence from the Post Office this morning that 75% of cash machines are now charging, so we are concerned about the financial exclusion aspect.
Mr Timms: May I begin by saying that I very much welcome the interest the Committee has been taking in this subject. I have been following the reports of the Committee’s deliberations with a lot of interest. I have been encouraged by I think some quite welcome announcements from the industry addressing some of the concerns that have been raised during the course of the Committee’s proceedings. I think it is very important that people should be able to obtain cash free of charge. I would be very seriously concerned if there was evidence that people, particularly those on low incomes, had no choice but to obtain their cash by paying for it. That is a very important public policy concern. It was built into the design of the arrangement for direct payment of benefits that people should be able to obtain their benefit cash free of charge. As far as I can see, at the moment, it is possible for people to do that, and certainly the Department for Work and Pensions tells me that it is satisfied that its customers are not being required to pay to obtain their cash. Having said that, it is possible to imagine that things might develop in the future in a way that would cause us problems. At the moment, as far as I can tell and as far as the DWP is concerned, people are able to obtain their cash without paying.

Q748 Chairman: We had evidence this morning from LINK which we put to the Post Office that in one Post Office in Speke, which is a very deprived area, at least 38% of customers, four in ten, withdrew their cash from the charging cash machine despite the fact that they could have got free cash at the counter. As I say, there are two conclusions to be drawn from that: one is that the queues are too big at 15 to 20 minutes to wait for that; the second is that there is not sufficiently clear signage on these machines to indicate to people. Presumably, in the spirit of financial inclusion, the Government would support

this extra signage on machines so that people can understand exactly if the machine is charging or not charging. Would you agree with that?
Mr Timms: Yes. You have made the point that the Committee has placed quite a lot of importance on the question of transparency generally, and I entirely agree with that. I think that is the key consideration here. It is important that, wherever there are charges being levied, there should be very clear signage so that people are aware of that as early as possible, either before they get to the machine or, if some of the information only becomes apparent during the transaction, then it is drawn to their attention as soon as it is clear. As you know, Chairman, I wrote to LINK about this general point in November. I welcome the announcements that LINK then made in December, including the commitment to sample compliance with their requirements. Your specific point about Post Offices sounds to me like a helpful one, and I agree it is important that people should recognise that they can get their money free of charge over the Post Office counter.

Q749 Chairman: The LINK people met on 14 December and made the new rule for 14 point print to be put on machines. I do not want to test your eyes, but would you read *that*, Minister? I think that is quite simple to read.
Mr Timms: It certainly is.

Q750 Chairman: You would support the view that signage should be very clear so that people can get an understanding. Is that correct?
Mr Timms: Yes, I think it should be clear and readily understood. I would imagine that one would normally be looking at that information from a bit closer than I am to you. Nevertheless, I think anything that can be done to make the information clearer and more legible I would very much welcome.

Q751 Chairman: We are suggesting LINK could go further than that. LINK rules on the clarity of charges are determined at confidential meetings with secret votes, and there does not appear to be any systematic enforcement of those rules. Remembering that this is a £1.2 billion part of the financial services industry used by consumers every day, do you think we could have a more effective system here?
Mr Timms: First, on the point of the private meeting, LINK is a commercial organisation, obviously, and it works in the way commercial organisations normally do. In terms of whether there is more that LINK could do to monitor compliance, that was, I think, part of the announcement that LINK made on 14 December, that they would introduce random sampling of compliance with their rules. I welcome that. I think we will need to see just how that unfolds over the next few months and whether the sample proves effective and whether the extent of it is up to the job. I do welcome the fact that LINK has introduced a change on the monitoring side as well as to the rules themselves, and I hope that will lead to substantial improvements.

Q752 Chairman: Last time, we had two of the high street banks here, HBOS and RBS. In RBS's case, a subsidiary of their company is Hanco, which is a charging machine company. Whilst the RBS is subject to the provisions of the Banking Code, Hanco is not. We asked both representatives if they would agree to sign up to the Banking Code or support the proposition, to which they said "yes". Do you not think, given that the Banking Code is an independent operation and there was independent evaluation from Elaine Kempson and others, that this is a good model for this industry to follow and that signing up to the Banking Code would be a progressive move?
Mr Timms: I think the Banking Code is an excellent example of self-regulation. I agree with you that Elaine Kempson has done an excellent job. I think everybody who looked at it said that it has worked very well as a self-regulatory model. I welcome what RBS and Hanco have said about complying with the code for their ATM operations. The Banking Code is, of course, much broader than ATMs in its coverage, so there may well be some issues there about what exactly it would mean for purely an ATM operator to sign up to the Banking Code, but in principle it sounds to me like a welcome step. If there is a way of doing it which makes sense, given the breadth of the code, I would welcome that. I would also make the point that in some respects the LINK rules do go rather further than the Banking Code. I would want to make sure that that is not being lost if there is a way of doing it successfully.

Q753 Chairman: I think it would be false to present the LINK code as superior to the Banking Code as it is not in any way. Generally people do not see that but there may be one or two aspects to it. You would agree with signing up to the Banking Code so that you get the main provisions of transparency and other things covered by the Banking Code?
Mr Timms: I would. My point is that there is more detail.

Q754 Mr Fallon: Minister, I just want to be clear how much you think should be left to the market. Some of the banks have told us in their evidence that they are finding the marketplace for machines competitive; they are being forced out of providing free machines by the new independent ATM firms, or indeed by retailers. Do you see that trend continuing?
Mr Timms: I think one needs to look at what has happened in the ATM market over the last five years. In 2000, there were 33,000 ATMs altogether in the UK. I think all of us can remember that if you went to an ATM operated by a bank other than your own, then the chances were you had to pay. Today, there are well over 33,000 completely free ATMs in the UK and that number is continuing to rise. In addition to those, we have seen the introduction over that period of surcharging ATMs and they now

account for a significant proportion of the total number of ATMs, although still a very small proportion of the total transactions. If you look at the picture overall, we are seeing a continuing increase in the number of free ATMs alongside the ability now to obtain cash in locations where in the past it was not possible to do so, and that seems to me to be an example of the market working reasonably satisfactorily and in the way that the Cruickshank Report envisaged it should.

Q755 Mr Fallon: You are quite happy to leave this to the market?
Mr Timms: I think the Committee is absolutely right to be taking an interest in this.

Q756 Mr Fallon: I want your view as a minister. There is nothing in your submission here, the paper you sent us, that indicates there would be any point at which the proportion of charging machines would worry the Government.
Mr Timms: I would not agree with that. I think it is possible to envisage a scenario from here where, in a few years' time, there might be some problems. I think that is a concern that has given rise to the Committee's interest in this, and that seems to me entirely proper. I would think, though, that as things stand currently, it does seem to me that the market is working satisfactorily and there have been quite a number of gains from a customer point of view as a result of the developments over the last five years.

Q757 Mr Fallon: What I am trying to be clear about is what share of the market and what the independent or charging ATMs have to have for ministers to be concerned?
Mr Timms: The key thing for me is that people on low incomes should be able to obtain their cash free of charge. As long as they can do that without undue difficulty, then I do not envisage too many problems. In terms of the share of withdrawals that will come from charging machines, at the moment, I think the latest figure is about 3.6%. That figure is continuing to grow, although the rate at which it is growing seems to be tailing off somewhat. I am told by people in the industry that they would expect the proportion to stabilise at somewhere between 5 and 10%. I do not know exactly where it is going to be. That figure seems to me to be not inconsistent with a satisfactory state of affairs, but we will need to keep an eye on developments, and we will.

Q758 Mr Fallon: It is not inconsistent with a satisfactory state of affairs? What about the organisations that you do have some influence over: would you be happy to see London Underground or Network Rail start to negotiate contracts with charging operators?
Mr Timms: I think it is important just to make the point that there is not at the moment any significant sign that I can see of large-scale switching to charging. Between October 2003 and October 2004 it was the case that 111 free ATMs became charging ATMs, but, in the same period 100 charging ATMs became free ATMs. After that, there was the HBOS sale of Cardpoint and 250 were converted to charging at the end of last year; there may be some more resulting from that change. On the other hand, again last year RBS introduced 480 new, completely free ATMs and Lloyds TSB 300. I do not see, at the moment, signs of substantial switching from free machines to charging machines.

Q759 Mr Fallon: What is the answer to my question? Would you be happy to see London Underground or Network Rail start to negotiate contracts with charging operators?
Mr Timms: I am aware there has been one railway station where there has been a change.

Q760 Chairman: That was Doncaster.
Mr Timms: Yes.

Q761 Mr Fallon: Would you be happy to see this happen?
Mr Timms: All I can say is that if there were signs of large-scale changes, then I would be concerned. I do not see those at the moment.

Q762 Mr Fallon: If Network Rail, for example, decided to negotiate such contracts right across the network, would you be concerned?
Mr Timms: I would need to know more about how many free ATMs there are on railway stations and also to what extent those machines are key to people on low incomes having free access to their money. For me, it is a central consideration that that free accessibility of cash without too much difficulty should continue to be available. I do not have a view at the moment about whether railway stations are a key part of that provision. I would need to do some more work to form a view about that.

Q763 Mr Fallon: I can see why you would want to judge something like the Post Office, for example, on whether there was also sufficient free access for those on low incomes. It seems to me it would be much more difficult for you to make that judgment when it came to London Underground or Network Rail. Is it a matter for ministers?
Mr Timms: I think all I can say is that we will watch developments with interest and, if there are developments that give rise to concern, we will follow those closely. I cannot at this stage say that I would want to rule out this or that development in the market.

Q764 Mr Fallon: What about your own departments, for example the Ministry of Defence? There has been quite a lot of interest in the way servicemen, for example, may be charged for withdrawals on various bases, and so on. Does the Treasury have a view on that?
Mr Timms: It is not something that I have looked at, no.

Q765 Mr Fallon: There is nothing across central government, for example, to make sure that people in these very large sectors like the Ministry of Defence should have a certain amount of access to free machines?
Mr Timms: No. Again, if there was evidence that a group, say MoD employees or service personnel, could not get access to their money free of charge, then I would be concerned, but I have not seen any such evidence.

Q766 Chairman: There was a question on that before Christmas and the response from the MoD was that there were 268 cash machines in the MoD estate, of which 251 charged. The question is: is the squaddie getting a good deal?
Mr Timms: What one would also need to know is: are there Post Offices on those bases? Can people get their money free of charge over the counter at a Post Office? This is an important point.

Q767 Chairman: It was too much for the MoD to answer my question.
Mr Timms: That is something I will not attempt to defend. People can get their money free of charge over the counter at the Post Office. I agree very much with your earlier point that it is important people know that, but, if they choose to use an ATM and pay for it, then that is a matter for them.
Chairman: Minister, you quoted a number of statistics there. Just a word of caution because we have looked at the LINK statistics, and you were quoting LINK, but there are 58,000 entries in the LINK database and in over 7,000 cases there is no information about whether the machine is free or charging. We had a letter from one sub-postmaster which shows up on the LINK database as not charging but it has been converted by the Post Office to charging. That information is wrong. While the researchers for the Committee have been out surveying the machines, they have encountered several examples of machines changing hands, varying the amounts charged or being removed, but that is not yet reflected on the LINK database. Lastly, the LINK database indicates that there are around 3,000 machines in Post Offices but the Post Office is claiming only 2,500, so the information is a bit wobbly. I think we have to keep that in mind.

Q768 Angela Eagle: The dynamics of this market might move quite quickly. They move in an adverse way to your principle of low income people being able to get their cash out free. Many people on really low incomes cannot take advantage of cash-back at supermarkets because they do not have the transport to get to the large supermarkets that offer that kind of service. What worries me slightly is that not only is the LINK data behind the times, but there is clearly aggressive marketing going on amongst the charging ATM network. They are looking to acquire already existing networks that they can transfer to charging, and we may be in a place in this market when there is a sudden, quite rapid shift. If there was evidence of that happening, what kind of approach would the Government have to that?
Mr Timms: I agree, as I said earlier, that it is conceivable that one might see a scenario in the future which would give cause for concern. I must say that what the banks have been saying so far on this I find quite reassuring. All of them have, in the course of this Committee's deliberations, given some encouraging reassurances about their intentions to maintain their networks of free ATMs. Myself, I do not see, at the moment, signs of an imminent rapid change in this. I do think that the Post Office provides an absolutely essential link—that is not the right term to use—or essential component in having a satisfactory arrangement here. The Urban Reinvention Programme, for which I formally had responsibility, has placed on the Post Office a requirement that at least 95% of people living in urban areas should be within a mile of their nearest Post Office. I understand that ultimately the proportion is likely to be well ahead of 95%. That, together with what the banks are saying, gives me a reasonable degree of reassurance that we are not about to see a very damaging move.

Q769 Angela Eagle: My question was about if we saw a sudden dynamic shift in the market towards charging. There are reasons why that may well happen, if you look at the economics of it, and there are certainly some independent operators out there—and it is up to them as they are trying to grow their businesses—who would be very interested in seeing that happen. What would the Government do? At what stage, if there was a shift in the dynamics of this market, would the Government think that this is something they need to be concerned about?
Mr Timms: I think it is quite difficult for me to answer what is a very hypothetical question. If you look at what Barclays is saying, which is a public commitment to free ATMs with no plans to sell any of it—

Q770 Angela Eagle: Yes, but all markets are dynamic. What I am trying to get at is: how much do you, as the Minister, think that this is an issue of public policy on which an eye needs to be kept, except for those who are on low incomes and about which you have already expressed an appropriate amount of concern? People do not want to be charged for getting their own cash back. They want a choice. At what stage do you think the Government would need to intervene to ensure that that was safeguarded?
Mr Timms: Let us start at the beginning. Your first question is: do I think this is an appropriate matter for public policy concern? My answer is: yes, and I do think it is important that we keep an eye on developments. That is one of the reasons I welcome the interest that is being trained on this as a result of this Committee's work. I cannot say that a particular number happening somewhere would prompt Government action. As I say, if you look through what all the banks have been saying, I think it is reassuring. As for the fact that the Post Office provides free access across its counters, I would say I hope that more banks will do what some banks have already done, which is open up all their current

accounts to free access across the counter at the Post Office. I think, if more were to do that, that would be helpful. Yes, we certainly will keep an eye on developments, but I do not see at the moment any cause for undue alarm.

Q771 Angela Eagle: In terms of those on a low income, we have had some alarming figures about the failure of information about the market in the Post Office, if I could put it that way. We have some figures here that in some really deprived areas up to 38 to 40% of the customers who use a Post Office are actually using charging ATMs when they could get access to their cash over the counter. Are you worried about this? It seems to me it is not only an aversion to queuing.
Mr Timms: I agree with what the Chairman said at the beginning about people needing to be told that free access is available.

Q772 Chairman: You have dealt with that. Minister, your submission notes that for the LINK agreement the current exemption from the Competition Act 1998 expires in October 2006. It also notes that, due to recent changes to ensure that the UK system remains aligned with the European system, it is no longer possible for the Office of Fair Trading to accept notifications for decision or guidance under the Competition Act 1998. Could you clarify under what framework any future exemption from competition law for the LINK agreement will be considered?
Mr Timms: I will have a go. As you say, the current exemption is valid until next year. Last year, following the changes in EU regulation that you mention, a legal exemption regime was introduced and under that an agreement, which is covered by a Chapter 1 prohibition but satisfies Section 9(1) of the Competition Act 1998, is not prohibited. In this particular case, it would be for LINK to satisfy itself that it did satisfy the Section 9(1) criteria of the Competition Act. If LINK was satisfied with that, it would, of course, be possible for somebody to challenge whether they were right about that. One would need to see what happened in that instance. Although the fact that the current exemption was granted would, I think, give some ground for encouragement about the prospects for the future, that certainly could not be guaranteed. That is the new framework within which this would be considered after next year.

Q773 Mr Plaskitt: Earlier on, Minister, you said that you could envisage a scenario—that was the word you used—where there could be problems on this ATM issues "in a few years". Can I just press you a little harder on that, following Angela's questions a few moments ago? Can you sketch out that scenario? What is the scenario that would cause you to conclude that we had reached a problem?
Mr Timms: If, as Angela Eagle was suggesting, we were to see very large-scale changes from free ATM provision to charging ATM provision, there would be a great deal of public concern about that, and I think it would be a matter of public policy concern as well. Actually, if you look at what has happened over the last few years, the change has all been in the right direction. There are a lot more free ATMs now than there were five years ago; the number is continuing to increase. That is one of the reasons why I have such difficulty perhaps in envisaging what these circumstances might be, and everything the banks are saying I think is encouraging on this front. If we were to see large numbers of these currently 33,700 free ATMs being proposed to move over to charging, I think there would be a lot of public concern and there would be a concern on the part of the Government as well.

Q774 Mr Plaskitt: I am trying to establish where you think the tipping point might be. Earlier, you suggested that the tipping point may be if you saw a level of transactions going through the charging network break through the 10% level as opposed to the 3% where it is now. Is that the sort of thing you have in mind?
Mr Timms: No, I do not think I did suggest that. I suggested that that is what the industry expects to be the ultimate proportion. My central concern continues to be whether people on low incomes have free access to their cash. If we saw that being placed in jeopardy as a result of large numbers of free ATMs becoming ATMs that are charged for, that would give me cause for concern. Again, I do want to make the point, because I think this is important, that it is moving in the opposite direction at the moment. The number of free ATMs is going up; it is certainly much better than it was five years ago. Even in Post Offices I think five years ago there were 200 free ATMs; there are now over 600. I think one needs to keep what is happening in perspective.

Q775 Mr Plaskitt: We are trying to do that. Indeed, the evidence that we have teased out in the course of these inquiries is that the rate of growth of the charging machines is much faster than the rate of growth of the non-charging ones. That is another set of figures that we have to look at, as well as the proportion of cash withdrawals from the various sources.
Mr Timms: May I comment on that particular point? The rate of growth of the number of surcharged transactions is certainly very much higher, but it is also shrinking, as one would expect, from the early days when there was a very rapid growth; the rate of growth is declining. In the year to December 2002, there was a 40% increase in the proportion of transactions which were surcharged; in the year to December 2003, it was just under 25%; in the year to December 2004, it was under 14%. The rate of growth is declining.

Q776 Mr Plaskitt: I think all we are trying to establish are the factors that you will be watching, from a public policy point of view, which could contribute to you concluding that we have reached a problem that you said earlier on is the scenario that is in the back of your mind. I think you are suggesting to us that the circumstances relating to people on very low incomes is perhaps a key thing

that you focusing on. We have a bit of concern about the evidence that has come out from the Post Office session that there are customers, most likely low income customers, in Post Offices withdrawing cash from charging ATMs when they could in fact get it free across the counter. Would you agree with us that something needs to be done to ensure that there is sufficient information given to those customers to make them fully aware of the options available to them in the Post Office?
Mr Timms: Once again, I do agree with that.

Q777 Mr Plaskitt: That is helpful. The other point I wanted to look at is the issue of transparency. In respect of credit cards, an entirely separate inquiry that this Committee undertook, the Government has moved in using regulatory powers to push that industry further down the road of transparency. I think this Committee welcomes what has been done. If we are considering transparency in respect of ATMs, what are the issues you would look at in assessing whether ATMs are genuinely transparent in the information they give to their customers? What are the criteria you would use?
Mr Timms: What I would look to see is probably pretty much what the Committee would, which is that people should know what charge they are going to incur by using a given machine and that they should know it soon enough to decide sensibly whether or not to use that machine.

Q778 Mr Plaskitt: When is "soon enough"?
Mr Timms: I think it is helpful to have as much information as is sensible available on a sign alongside the machine. What I am aware of is that the precise detail may not be known until the particular card has gone into the machine and there has been some processing and so on. You probably will not be able to put all the information on a sign or on the side of the machine, but some helpful information can certainly be there. Then the rest should be provided on the screen as early as it can be.

Q779 Mr Plaskitt: You would not think it acceptable to be some way into the transaction before you discover what the charge is going to be? The charge needs to be up-front?
Mr Timms: It needs to be as up-front as it sensibly can be, yes.

Q780 Mr Plaskitt: But that is before the transaction begins. There was the case of a machine that I myself tested in Leicester Square where there was no external signage at all indicating the possibility of charging. This was a Travelex machine. It was not until the fifth step, the fifth screen I was looking at, the penultimate point before it spewed the cash out, that it was telling me "You are going to be charged £1.50". Presumably you do not think that amounts to transparency?
Mr Timms: That does not sound like an example of very good practice. It certainly would not conform with the new LINK rules.

Q781 Mr Plaskitt: It would not; that is perfectly correct. That is my final area. Do you have a view on the enforceability of those LINK rules? The evidence we have had suggests that LINK is not able to do an awful lot to ensure compliance. I did ask them directly whether they were confident that all of their members were compliant. They said they were not. I then asked them what powers they had to ensure compliance, and they said "only one and that is expulsion from LINK". When I asked if they had expelled anybody, they said they had not. Are you concerned about the enforceability of the LINK rules?
Mr Timms: I have in front of me the resolution that was passed at their meeting on 14 December. They talk about surveys being commenced as soon as is practicable to determine compliance with all the rules on ATM signage. In the case of non-compliance, there are sanctions, such as fines, a refusal to allow the member to install any more ATMs and disconnection of the non-compliant ATMs or of all the member's ATMs. It sounds to me as though they are taking a reasonable array of sanctions to deal with problems if they arise.

Q782 Chairman: Minister, on the aspect of free and charging cash machines, you are saying that the number of charging ones is going down. There is an issue of concentration here. I think some people have forgotten that aspect. For example, I mentioned this morning Canary Wharf. That is an area of deprivation and there are a lot of free machines but you will know that a lot of the people working there are working for pretty high salaries. It is an area of deprivation. I think that is happening in a lot of areas around the country where you have the commercial centres and banks with their free machines and then almost everywhere else there are charges. For example, I have had information about my own constituency. There are 35 free and 21 surcharging machines and 27 Post Offices as well. If all the Post Offices charged, then the number of charging machines in my constituency would be 60%. If only half the Post Offices charged, and the Post Office representatives thought that was a sensible estimate, the figure would still be 50%. My area has a 50:50 environment. The public policy issue that is of concern and the issue of concentration has to be kept in mind when we are looking at that. Would you agree that figures such as that indicate that there could be room for concern in the future?
Mr Timms: At the risk of being a bit repetitive, I do want to make the point again that at all those Post Offices it is possible for people to get money free of charge over the counter. They do not have to use the machines.

Q783 Chairman: We had examples of four out of 10 who could get the money over the counter who were going to the cash machines.
Mr Timms: That is a problem, I agree.

Q784 Chairman: There is an issue here.
Mr Timms: There is an issue, I completely agree with that. Again, it is important that we make sure all of those people know that they can get their money free over the counter at the Post Office. In terms of are all the new free ATMs going into relatively affluent areas or commercial centres, I have not seen any data on that.

Q785 Chairman: I do have data.
Mr Timms: Certainly I have not seen any data. I do know that of the 300 Lloyds TSB extra free ATMs that went in last year, 130 were in petrol stations. I do not think they are all going into big commercial centres but I have not got any data either way.

Q786 Chairman: You gave a disappointing reply to a Parliamentary Question put down by John Robertson MP which was answered on 8 February when he asked what assessment your Department had made of the impact of ATM charges on basic bank account customers, what assessment had your Department made of the effect of charging for use of cash machines in public places, and what assessment you had made of the impact of ATM charges on (a) financial inclusion and (b) low income groups, and the glorious reply was "No such assessment has been made". It is a pretty poor situation, Minister, you have really got to improve.
Mr Timms: It was a truthful answer. For me, the key concern with financial inclusion, which we are focusing a lot of effort and, indeed, funding on, is the position of people who do not have a bank account, of whom there is a strikingly large number at the moment, a much larger proportion of people in the UK than in many other countries. There are nearly three million adults in households without a bank account of any kind. I think that is a very major public policy concern. Here, of course, we are talking about people who by definition do have bank accounts because they are using ATMs, but I think that is a rather separate consideration.

Q787 Chairman: At the moment there are gaping holes in our collective knowledge, Minister. You should be doing something and the Treasury should be doing something about that as well in terms of trying to get information or finding out the people who have this information so we can make a better assessment.
Mr Timms: My colleagues in the DWP do not believe that there is a problem for their customers getting free access to their cash at the moment. If evidence was to emerge that there was a problem in particular areas then I think I would agree.

Q788 Chairman: There is a laid back approach to this. There has not been any proactive approach to it. What we are asking for here is a proactive approach to find out what the problems are and when we get answers such as this it is pretty dismal.
Mr Timms: I do not agree with that. I think if there was to be evidence, if there was to be a problem, the Department for Work and Pensions would be aware of it and then there would be a need for action. As far as I can see, at the moment, for people receiving benefits, getting access to their cash free of charge is not a problem.

Q789 Chairman: Minister, with respect, you do not know if there is a problem because you have not taken any assessment and this is the issue. We are asking you to look at that again.
Mr Timms: I do not agree with that. I think if there was a problem we would be aware of it.

Q790 Chairman: You mean somebody has to come knocking at your door.
Mr Timms: I think if there was a problem people would be raising it.
Chairman: I do not accept that.

Q791 Angela Eagle: How? How would you be aware of it?
Mr Timms: First of all, as I say, the Department for Work and Pensions in Jobcentre Plus would become aware of it because people would pretty quickly start to complain. I think beyond that we would all become aware of it in our constituencies. I think the Citizens Advice Bureaux would be aware of it.

Q792 Angela Eagle: 40% of people who can get their cash free out of a Post Office are using ATM machines because they are either in a rush, albeit the minority of them, or most of them do not know that they can. Why would they actually complain if they think that is the norm?
Mr Timms: That point I have agreed on a number of occasions, that there does need to be more done to draw people's attention to the facilities for the free obtaining of cash in Post Offices. I just have not seen, and from all that I have seen that the Committee has unearthed I see no evidence at the moment that people on low incomes are having difficulty getting their cash free of charge and if there was some evidence I would be very concerned.
Chairman: I have a letter from a pensioner which I will read out after Nigel has asked you his questions.

Q793 Mr Beard: Do you think that the financial services industry as a whole should take responsibility for ensuring that there is sufficient coverage of free cash machines across the country and particularly in deprived areas, or is it a responsibility of Government through institutions like the Post Office?
Mr Timms: I think it is the responsibility of Government to ensure that people, particularly people on low incomes, know that there is free access to cash available. I do not think it is a matter of great significance whether that is through the Post Office over the counter or through ATMs. As long as the provision is there in an accessible form then I think Government's concerns are met. Beyond that, I think it is the responsibility of the banks to meet the needs of their customers and the commercial pressures on them, I think, are delivering in this area in a reassuring way at the moment with the number of free ATMs continuing to grow.

Q794 Mr Beard: The recent Treasury document on promoting financial inclusion, which was published with the Pre-Budget Report, does not contain any reference to the issue of access to free cash withdrawals for low income households. Can this issue be put, if it is not already, within the terms of reference of the Financial Inclusion Task Force?

Mr Timms: As I said a moment ago, the focus of our work on financial inclusion is on people without bank accounts at all who are suffering very significant disadvantages currently, in my view, because they have to operate in a cash economy and end up paying quite a lot more for a number of goods and services as a result. That is at the heart of the work that the Financial Inclusion Task Force will be helping us with over the next couple of years. That is rather separate from issues around people who do have bank accounts, and by definition the people we are talking about do have bank accounts, from the financial inclusion work that was set out in that report at the Pre-Budget Report time.

Q795 Mr Beard: A particular aspect of this question of information is that in the Treasury submission it says: "The Treasury have not seen any solid evidence to support the assertion that there is a real problem with benefit customers incurring significant costs through ATM charges". Has there been any research that backs that up?

Mr Timms: No, I do not think I can point to any specific research. We had this exchange a moment ago. My view is that if there was a problem DWP would very quickly pick it up and we would become aware of it, but they have not done.

Q796 Mr Beard: So we do not really know how many of the 600,000 withdrawals from Post Offices are undertaken by benefit claimants, for instance?

Mr Timms: Sorry, what is the 600,000 figure?

Q797 Mr Beard: 600,000 withdrawals are made through Post Offices each month and 75% of the ATMs in Post Offices are pay machines.

Mr Timms: Sorry, these are 600,000 ATM withdrawals?

Q798 Mr Beard: Yes.

Mr Timms: No, I do not know how many of those are made by benefit recipients.

Q799 Mr Beard: Also the Guide to Direct Payment that the Department for Work and Pensions puts out does not mention the fact that some cash machines, including 75% of those in Post Offices, actually charge for cash withdrawals. Would it not be reasonable to include that sort of warning or caution in the guidance that the DWP puts out?

Mr Timms: It may well be.

Q800 Mr Beard: It is not at the moment.

Mr Timms: I think this comes back to the point that we have touched on a number of times that people going into Post Offices do need to know that they can get their money free over the counter and they may have to pay at an ATM. I think it is worth just putting on the record once more that the number of free ATMs in Post Offices is much, much higher now than it was a few years ago, so things are moving in a helpful direction rather than an unhelpful one.

Q801 Mr Beard: Several consumer groups have pointed out to us that people on low incomes often take small amounts out of ATMs, just enough to go shopping, so if they are bearing a charge of £1.50 each time that charge is bearing down very heavily on them and they have suggested, therefore, there ought to be a cap on this. Either that or the charge should be some fixed percentage of what is withdrawn. How would the Government look on that sort of suggestion?

Mr Timms: Again, as long as people are aware that they can get their money completely free of charge, however small the amount they want is, over the counter at the Post Office then I think that point is covered. Can I just correct something I said a moment ago? It has been drawn to my intention that, in fact, the DWP did carry out independent research of their customers' experience of Direct Payment last year and that did not reveal any evidence that people were having problems getting money free of charge.

Q802 Chairman: So your response to the Parliamentary Question was wrong?

Mr Timms: I would have to remind myself what the precise wording of the answer was.

Q803 Chairman: I read it out to you: "No such assessment has been made". That was your answer.

Mr Timms: Certainly no assessment has been made by the Treasury, but I am being reminded that the DWP did carry out some independent research.

Chairman: You have not been well served there, I think.

Q804 Mr Beard: Going on from there, when Ministers were announcing the deployment of nearly 3,000 cash machines in Post Office branches at the time of the start of the changeover of benefits, was it expected that a large proportion of this 75% would be paying cash machines?

Mr Timms: I do not recall what the expectation was at that time. I think the ability to get money free at the Post Office over the counter has always been an absolutely essential feature of the Direct Payment arrangements. Being able to get it as well through an ATM, either a free one or a paying ATM, is an extra. The key point is that you can get money free over the counter.

Q805 Mr Beard: The Gershon review notes that there will be further increases in Direct Payment of benefits and it will mean that the Government save around £400 million each year and this Direct Payment over the counter, therefore, faces people in those circumstances with a choice. Either they queue up, probably for quarter of an hour or 20 minutes, to get the free cash over the counter or they have to go to an ATM and pay £1.50. That looks as though

the service is declining for those people rather than, as Gershon was proposing, that the savings should be efficiency savings and services left as they were.
Mr Timms: I do not think it is declining because they would have been queuing up for their benefit payments, sadly, under the old arrangements when they had to take their benefit book in.

Q806 Mr Beard: There will be more of them now because Gershon sees a direct push towards more people taking their benefits this way.
Mr Timms: No. Nothing that is happening with Direct Payment will increase the number of people going to the Post Office to collect their benefit. We have made it absolutely central that people will continue, if they wish to, to be able to obtain their benefit cash at the Post Office and not pay, but they have other choices as well. If they have a basic bank account they will be able to use an ATM in the Post Office or at a bank or they will be able to use cash back. They will have a number of choices instead of having to queue at a specified Post Office, not just any Post Office, which is the current arrangement. In the past they had to go to a specified Post Office and that was the only option that they had. If you look at is the new arrangement better from a customer point of view than the old one, very clearly it is and that is borne out by the feedback from the DWP's assessment of customer reactions to Direct Payment which are extremely positive, much more than I had expected actually.

Q807 Mr Beard: The extent to which they are better is that they have a greater choice of Post Offices at which to queue but they still have to queue if they want free dispensation of money?
Mr Timms: It depends when they go into their Post Office. They can go to any Post Office branch in the country or they can go to an ATM or they can use cash back. That is quite a lot of extra choice beyond having to go to a specific Post Office and queue, which was the past arrangement. It is certainly an improvement.

Q808 Mr Beard: The Citizens Advice Bureaux have put to us that the "growth of [charging] cash machines in Post Offices is contrary to the Government's policy goal of free cash withdrawal from Post Offices". How do you react to that?
Mr Timms: I do not agree with that because free cash withdrawal is available over the counter at any Post Office in the country.

Q809 Mr Beard: The Treasury have a list of postcodes where there is a concentration of financial exclusion and the Post Office have said this morning that they have access to that list of postcodes. Can that be made available to the Committee as well?
Mr Timms: I have no doubt it can be. I will check what the position is about that.[5]
Mr Beard: Thank you very much.

[5] Ev 172.

Q810 Chairman: Minister, on the issue of the pensioner, I will just read out the details because I do not want to read anything personal out of it. The details are that an individual has written to us, a 71 year old pensioner, saying he has to travel a distance to his bank to get his pension and he is paying £1.75 for each withdrawal at a cash dispensing machine from a pension of £81.26. If he keeps that to a minimum of one a week for 52 weeks it is £91 and he feels aggrieved at that situation. I just mention that case to highlight the potential problems because, as you know, 43% of the current account providers have not signed up to the Post Office, that is RBS, HBOS and HSBC, so if you have a current account with them you cannot get that. Maybe this individual was not advised well by the Post Office. There is a grievance there and I just bring that to your attention to illustrate the grievance of some constituents who are writing.
Mr Timms: I understand that. I think it is important for that constituent to know. Presumably he was getting money from the Post Office in the past with his benefit book and it is important he knows he can continue to get his money free of charge at the Post Office with Direct Payment.

Q811 Chairman: There is an issue here when we are talking about queuing. Minister, can I thank you for your attendance this morning. From what I can gather from the evidence you have given us, you are happy to support the proposition of signing up to the Banking Code generally by people, but looking at the detail of that is important.
Mr Timms: I would certainly welcome particular moves in that direction, given that I have said that it is—

Q812 Chairman: Angela was asking about studying the dynamics of the ATM market as part of the OFT payment systems and whether there is any information you can give us on that.
Mr Timms: I am sorry, I am not quite sure—

Q813 Chairman: Some information on the study of the dynamics of the ATM markets as part of the OFT Payment Systems Task Force. We are looking for information for the Committee on that.
Mr Timms: I do not think we talked about the Payment Systems Task Force. Certainly it is the case that the Payments Task Force which the OFT is leading on is looking at ATMs as part of its work and if you would like some information about exactly what they are doing or what the timetable for that is, I can certainly provide that.

Q814 Chairman: Clearer signage and comprehensive enforcement are very sound suggestions, are they not?
Mr Timms: They are.

Q815 Chairman: If further investigation could be done into the ATM provision, Minister, in terms of maybe the adverse effect it has on financial exclusion, in other words a proactive approach to that rather than a reactive approach, that would be helpful.

Mr Timms: I do not want to give the impression that we are about to do something that in reality we are not. I think all I can say is we will keep an eye on developments in this area. I would hope as well that the Committee would acknowledge that, however you look at it, things have got better over the last few years rather than worse.

Q816 Chairman: Yes, but you have agreed the public policy implications of this.

Mr Timms: We certainly need to keep an eye on it.

Q817 Chairman: There was Nigel's question about sharing the postcodes where there is concentrated financial exclusion. Will you look at that?

Mr Timms: I will have a look at what we can provide.

Q818 Chairman: We may be looking at whether people collecting their benefits are adversely affected by cash machine charges as illustrated by the letter received from this pensioner and if some people are alive to that concern that would help us as a Committee.

Mr Timms: I think this goes back to the point about making sure that people recognise they can get their money free as they always did in the past.

Q819 Chairman: Minister, that has been very helpful. Your submission to us has been helpful as well and your words about the inquiry we are undertaking with regard to public policy have been extremely valuable. Can I thank you for your attendance here this morning and, no doubt, we will be exchanging information again when we publish our report.

Mr Timms: Thank you all very much.

Chairman: Thank you.

Written evidence

Memorandum submitted by Alliance & Leicester

Introduction

1. Alliance & Leicester welcomes the opportunity to contribute to the Treasury Committee's inquiry into cash machine charges.

2. Alliance & Leicester is one of the UK's major financial services groups. Our whole business approach is based on delivering our four brand values to customers. We aim to offer them "Better Value" products, to have "Simple and Straightforward" products and processes, and to be "Friendly and Approachable" to deal with; finally we aim to "Recognise Existing Customers" by offering them access to better deals for our products. Our "Simple & Straightforward" and "Friendly and Approachable" values demonstrate our commitment to providing clear financial information and ensuring our customers understand our products.

3. Alliance & Leicester operates both so-called "free" and "surcharging" machines. We also have very close links with the Post Office, having first formed a link with Post Office branches in 1983 and subsequently through our purchase of Girobank in 1990. Some implications of these points are covered in our submission.

Summary

4. The current status of the ATM market reflects many drivers, and the result is a competitive market which offers the UK public an unprecedented number of ways in which to access cash.

5. All Alliance & Leicester ATMs are free to use for all Alliance & Leicester customers.

6. Alliance & Leicester is committed to providing ATMs free of charge to all users wherever possible. Alliance & Leicester charges a fee to non-Alliance & Leicester customers at ATMs only where it would not be economic for us to offer these services to these customers based on income from interchange fees alone.

7. It is very important that customers are aware of the cost of the transaction they are making and we regularly keep this under review.

8. Earlier this year, LINK members agreed to implement one of two options to help address concerns over transparency of charging. The two options were to either place a sticker on members' ATMs or introduce an up-front on screen message warning of a charge. Alliance & Leicester has implemented both of these recommendations.

9. We supplement our branch network and ATMs by providing our customers with free access to cash through all UK Post Offices. Our degree of access to the Post Office is unique to Alliance & Leicester and provides free access to cash in a wide variety of areas, including those of social or economic deprivation which are well supported by the Post Office network.

Market Background

10. The ATM market in the UK has changed dramatically over the past decade, from a position when there were only a few providers, to one with significant competition, choice and diversity. At headline level, the quantum of that change can be demonstrated with a few statistics:

- The number of ATMs in the LINK network has more than doubled from 26,165 in September 1999 to 53,178 in September 2004.
- There are now 32,494 free machines in the LINK network, an increase of more than 24% since 1999. There are 20,684 machines which surcharge.
- 10 years ago, 90% of ATMs were installed at bank premises and owned by financial institutions. At the end of 2003, 57% of all ATMs were installed at non-bank premises, with 30% of these owned by so-called Independent ATM Deployers ("IADs").

11. Despite the changing variety of ATM machines in the market, the vast majority of customers do not pay to withdraw cash when they use an ATM. Data for 2003 showed that over 97% of all ATM transactions in the market were free for the customer. For the remaining 3%, where a charge does apply, customers are warned of the charge and given the option to cancel.

12. The increase in the number of surcharging ATMs in the market over recent years has not been at the expense of non-surcharging machines. Most surcharging ATMs are new ATMs and, as stated above, the number of "free" ATMs installed has increased significantly over recent years.

13. Change in the ATM market has taken place in the context of a very significant increase in the number of places through which the public can access cash for free. As well as the *circa* 53,000 ATMs, customers now have a far greater ability to use the national network of around 15,000 Post Offices and are also able to obtain cashback from a wider variety of other retail locations. This is in addition to access through bank and building society branches.

14. The economics of running ATMs has also developed, reflecting a number of influences including changing customer behaviour and the opening up of competition encouraged by the Cruickshank Review on Competition in the Banking Industry ("the Review"), published in March 2000.

15. The response to the Review included reform to the interchange fees paid by banks and other financial institutions, and an opening up of the national ATM network (LINK) to non-bank providers, so that non-financial services organisations may, subject to meeting objective technical, security and commercial requirements, become members of the network. It was also confirmed that any member of LINK choosing to raise a surcharge from customers should not also receive an interchange fee for that transaction.

16. These changes were designed to increase competition in the market and customer choice—they succeeded in doing so.

17. However, over the period since the Review, there have been reductions in the interchange fees received for ATM transactions. Since mid-2000 the interchange fee for withdrawals from branch-based machines has fallen from 28p to 19.3p, and for non-branch based machines from 40p to 30.2p. One consequence of this reduction is that some providers, particularly smaller providers, have found ATMs an increasingly expensive channel to maintain, and some financial institutions have recently outsourced some or all of their networks to specialist providers to help reduce their costs.

Terminology

18. Before moving on to consider each of the three issues explicitly requested by the Committee, it is helpful to simplify the terminology used in this memorandum.

19. For simplicity of wording in the remainder of this memorandum we will refer to machines which do not charge any account holder as being a "free machine", and a machine which levies a charge to an account holder who is not an Alliance & Leicester customer as being a "surcharging machine". For similar reasons of simplicity, we will refer to accounts which can access ATMs (typically current accounts and some savings accounts) as "bank" accounts, whilst clearly recognising that the issuing institution may not be a bank, but could also be, for example, a building society.

20. It should also be noted that transactions from foreign accounts (ie an account held with a non-UK institution) and credit card transactions almost always incur some form of fee for the customer from their issuing bank or building society, even at "free machines", and that these charges vary between bank/building society. The Select Committee has separately reviewed credit cards, and this point is not considered further in our memorandum.

The Principle of Charging and the Trend Towards Charging

21. Unlike many other high street banks, Alliance & Leicester operates many more ATMs than we have branches—currently we have more than 2,500 ATMs and just over 250 branches. As a result of our history and our product range, a far higher proportion of our customers bank with us through the so-called "direct" channels of the internet, telephone and ATMs than the UK average. The provision of a comparatively large ATM network provides our customers with convenient and free access to their accounts, and also provides a service for the customers of other banks. All Alliance & Leicester ATMs are free to use for all Alliance & Leicester customers.

22. In 1999 we had around 470 free ATMs. Since then, we have almost trebled the number of our free machines, to around 1,400. This is supplemented by a further 1,100 surcharging machines. A high proportion of our ATMs are located in premises which we do not own, principally retailers including the Post Office. We pay the host organisation a fee for hosting the ATM—whether "free" or "surcharging".

23. When considering potential locations to site ATMs, our preference is to operate a "free machine". Our decision does, however, reflect the cost of installing and maintaining the machine, taking into account the requirements of the host retailer and the expected transaction volumes, which depend on the specific location involved and matters such as the proximity to other ATMs.

24. When a potential location is such that the costs of siting a "free machine" are not economic, we will consider the option to site a "surcharging machine". If we did not consider this option, we would simply not site any machines in areas where the economics are marginal. We believe siting machines in such locations increases customer choice, particularly for our own customer base, but also for any other users who may wish to have the convenience of a machine in their area.

25. All our surcharging machines are installed in the premises of other organisations, notably retailers, for which we pay a rental fee. These host organisations value the machines as a source of income in their own right and very often also because the increased footfall into their stores which the machines generate increases their opportunity to sell other products. This source of income and footfall can be an important part of the viability of some retailers.

26. An important retailer is the Post Office branch network. In addition to providing free access to cash at all 15,000 post offices (as discussed further below), we also operate around 1,000 ATMs on Post Office premises, of which about 400 are surcharging.

27. In 2004 we will pay around 15% of total income, before costs, from surcharging machines to the third party site owners, additional costs include buying, installing and maintaining machines, and after accounting for these, our net income represents a low single-figure percentage of the total income generated by these machines.

28. The economics of our machines can be summarised as follows:

— All Alliance & Leicester customers can withdraw money, as well as performing a number of other transactions, for free at all our machines.

— All users are able to check the balance on their accounts at all our ATMs. If the user is checking the balance on a non-Alliance & Leicester account, Alliance & Leicester receives an interchange fee from the issuing bank. This is the approach taken for the entire LINK network, whether machines are surcharging or free.

— Withdrawals of cash by non-Alliance & Leicester customers at free machines result in Alliance & Leicester receiving an interchange fee from the issuing bank, but no fee from the user.

— At surcharging machines, Alliance & Leicester receives a fee from the user if they are not using an Alliance & Leicester card. Under these circumstances, Alliance & Leicester does not receive an interchange fee for that transaction—ie does not receive payment twice. The surcharge at our surcharging machines is currently £1.25 or £1.50.

— For both free and surcharging machines sited in locations not owned by Alliance & Leicester, the site owner receives income from Alliance & Leicester for hosting the machine. This takes the form of a rental or a fee-based on transaction volumes.

29. In summary, Alliance & Leicester is committed to providing ATMs free of charge to all users wherever possible. Alliance & Leicester charges a fee to non-Alliance & Leicester customers at ATMs only where it would not be economic for us to offer these services to these customers based on interchange fees. The hosting organisation receives fees for hosting our machines, whether free or surcharging.

30. Our view, therefore, on the principle of charging is that running an ATM network incurs costs, and these costs need to be funded somehow. We believe the principle of charging allows for greater choice and convenience for customers, by making locations which would otherwise be marginal into viable locations for ATMs.

Transparency

31. Alliance & Leicester is committed to providing our customers with clear and comprehensive information on all our products and services.

32. All Alliance & Leicester surcharging machines have three means of informing non-Alliance & Leicester customers of the charge.

33. Firstly, each machine displays a sticker, next to the keyboard, that informs non-Alliance & Leicester customers that there will be a charge for using the machine.

34. Secondly, all users are alerted by an up-front, on screen message as part of the welcome sequence which states that a fee will be charged to non-Alliance & Leicester users.

35. Thirdly, an on screen message appears before the transaction is completed to further alert the customer of the charge and give the amount. At this point the customer is given the explicit option to quit the transaction without charge. Users can abort their transaction, without charge, at any point up until this final confirmation.

36. Earlier this year, LINK members agreed to implement one of two options to help address concerns over transparency of charging. The two options were to either place a sticker on members' ATMs or introduce an up-front on screen message warning of a charge. Alliance & Leicester has implemented both of these recommendations.

37. We continually review our means of communicating with customers, further to improve customer understanding. Indeed, we are currently reviewing our advice stickers on machines with a view to enhancing the awareness of customers.

38. Our view on transparency, therefore, is that it is very important that customers are aware of the cost of the transaction they are making and we regularly keep this under review.

Financial Exclusion and Location

39. Any assessment of potential implications for financial inclusion should consider the wide variety of ways in which the UK public can withdraw cash. Customers can withdraw cash through ATMs, but also through the Post Office, cashback from retailers and from bank branch networks. The number of locations through which customers can access cash—for free—has never been greater.

40. Looking, for example, at the Post Office. Several UK banks have now followed Alliance & Leicester's lead by making arrangements with the Post Office network to allow customers to transact at Post Office counters for free. This provides customers with access to 15,000 locations where they can withdraw cash for free.

41. The degree of customer access available through the Post Office network varies from bank to bank, with Alliance & Leicester's customers able to make a wider variety of free transactions than any other institution. We have worked closely with the Post Office as they have developed and deployed the counter technology which is now present in all UK Post Offices. As a result of this, in common with many other banks, Alliance & Leicester current account customers are able to withdraw cash and perform other transactions. Uniquely to Alliance & Leicester, our savings account customers with a plastic card are also able to make deposits and withdrawals for free at the Post Office.

42. UK banks, including Alliance & Leicester, have also supported the Government in addressing an important element of financial exclusion through the provision of Basic Bank Accounts, which can be accessed for free through the Post Office.

43. All UK current account holders are also able to access their money free of charge through cashback services provided at many retailers. The number of cashback transactions increased from 164 million in 1999 to 256 million in 2003 and this volume is expected to continue to increase according to APACS predictions.

44. Our view on financial exclusion, therefore, is that there are a wide variety of places across the UK in which consumers can access cash free of charge.

6 December 2004

Letter from the General Manager, Airdrie Savings Bank to the Chairman of the Committee

We write to offer comments from the specific perspective of Airdrie Savings Bank which we hope will be helpful to the Select Committee as it investigates cash machine charges.

By way of background, Airdrie Savings Bank was founded in 1835 and is now the last of the many savings banks in existence at one time still operating independently. We have eight branches in the North Lanarkshire area, some 60,000 customers, and have on issue some 21,000 cards with cash machine capability. The Bank is mutual in character in that it has no external shareholders and the assets of the Bank are vested in our Board of Trustees whose primary responsibility is to look after the interests of the customers. Accordingly, any surpluses are retained in the Bank and are reinvested in the business for the benefit of our customers, primarily in maintaining our branches—we have never closed a branch—to provide the primary focus of our service to our customers.

Until two years ago we operated our own small network of 12 cash machines but in the face of increasing costs of maintaining that network, as well as the costs of offering our customers access to other providers' cash machines, we disposed of those machines to an external (non-charging) provider. Our current position is that through the operation of the LINK interchange fees we pay to providers of cash machines approximately £500,000 per annum in transaction costs for our customers' usage of those machines. We see these costs as very much part of our overall costs. We have also been of the view that customers should not have to pay to obtain their own cash and so we absorb these costs fully and do not pass any on to our customers through specific charges. Of course we have the normal banking range of service charges and interest earning opportunities to generate revenue and so the specific cost of cash machine usage is simply absorbed within a whole range of costs set off against that income. It is however the case that the cost of £500,000 is the largest single item of cost, apart from staff cost, and equates very closely to a full year's pre-tax profit.

The current scenario puts us in the position where the cost of a proportion of our customers using cash machines is borne by all of our customers. Accordingly, and based only on that fact, it would actually be more equitable for those costs to be borne only by customers using cash machines either through direct charging at the machine at the time of use or by our imposing a specific service charge related to that activity. Of course we are perfectly free at any time to introduce such a specific service charge but to do so would be in conflict with our aims to try to be as fair as possible to our customers, a significant proportion of whom are in low income categories, and offer them an equivalent service to that available from the larger banks. In other words, competitive market forces steer us away from such a move.

In a scenario such as ours, the introduction of a standardised and relatively modest charge for cash machine usage imposed by the machine provider for each transaction would actually be a much fairer method of recovering costs than the present approach—a "user pays" principle. In addition, such a charge would have the merit of correcting the present confusing situation under which many transactions are not charged direct to the customer while many other transactions are charged direct at quite high rates of charge. We realise that this view will not be popular in the current climate as there is an attitude, which we have shared, that customers should not need to pay to withdraw their own money. An alternative view is that the provision of cash machines is a very convenient service providing customers with access to their money on a 24 hours a day/seven days a week basis. The provision of cash machines is an expensive service and perhaps many customers do not realise that they are in effect paying for the service through indirect means. For us, a change to this method would release £500,000 of cost which we would use either to reduce other service charges, increase rates of interest paid, or a combination of the two.

Of course it would be difficult to legislate absolutely for a standardised charge and so charge levels would have to be left to market forces. It would, however, be reasonable to assume that competitive forces should keep the majority of charges at modest levels, say around the current levels of average LINK interchange fees. The industry is capable of making such a decision but will undoubtedly be hesitant to do so in the face of adverse public attitudes. In our view, it would undoubtedly help to influence the industry in a different direction if the Treasury Select Committee were to conclude that such a system of reasonable charging in fact provides a very equitable solution for customers as well as for all institutions participating in this market so long as that system is transparent and understandable.

1 December 2004

Memorandum submitted by Association for Payment Clearing Services (APACS)

Background

The Treasury Select Committee has decided to undertake a short inquiry into cash machine charges, to examine the principle of charging for cash withdrawals, the clarity and presentation of these charges, and the impact that the spread of charging may have on low income households. APACS has been invited to respond on behalf of its Members.

APACS is the UK trade association for payments. It provides the forum for the UK's financial institutions to come together on non-competitive issues, to develop banking systems for the future and to provide innovation and developments in payments. It is also the banking industry voice on payments issues such as plastic cards, card fraud, cheques, electronic payments and cash.

APACS' involvement in the ATM market dates back to 1993 when it created the APACS ATM Group to engage in high-level industry non-competitive business, governance and regulatory issues relating to cash machines. Today, the majority of the UK's largest estate owners are members of this group.

1. Introduction

APACS welcomes this inquiry as an opportunity to clarify the payment industry position with respect to charges levied on consumers for the cash machine service.

We believe it is important that the inquiry:

— re-iterates the need for a clear and effective set of guidelines to promote transparency of charging for cash machines;

— recognises that charging remains a marginal component in the market overall with 97% of cash withdrawn during 2003 being from cash machines at which no charge was made; and

— makes clear that the great majority of cash machines for which charges are levied are in "convenience" locations (where a machine would not exist at all otherwise).

This evidence is based upon the APACS ATM Survey 2004, the most comprehensive analysis regularly undertaken of activity in the ATM sector. A copy of the survey is attached. (Not printed).

2. Management Summary

— 97% of withdrawals from cash machines in the UK were free in 2003.

— £140.5 billion from the total of £144.1 billion was withdrawn from machines for which no charge was made.

— The total number of transactions undertaken at these bank and building society (BBS) machines was 2.3 billion (£140.5 billion).

— The total number of transactions undertaken at Independent ATM Deployer (IAD) machines was almost 80 million in 2003 (£3.6 billion).

— 75 cash withdrawals were made every second.

— At the end of September 2004 there were 55,346 cash machines installed in the UK, of which BBSs owned 33,175, and the IADs 22,171, showing an increase in numbers for both sectors since end-2003.

— Cash machines were relied upon to supply more than half (53%) of all cash obtained by individuals in 2003.

— In total 45 institutions deploy cash machines in the UK, of which 31 are BBS and 14 IADs (see appendix 1 of the *ATM Survey 2004* for details).

— The UK cash machine market is the fastest growing in Western Europe.

3. UK ATM Market

3.1 *Background*

The UK's first cash machine, also known as an Automated Teller Machines (ATM), was installed by Barclays Bank Plc in 1967. The early machines had limited functions, dispensing fixed amounts of cash in exchange for tokens. In the early 1970s magnetic stripe technology enabled plastic cards to be used to withdraw cash.

As each year has passed since, cash machines have become more technologically advanced, and today they offer a wide range of banking and other services 24 hours a day, including cash withdrawals, cheque book and statement ordering, account enquiries, payment of bills and, more recently, the top-up of mobile phones.

There are currently two types of institution that deploy machines in the UK. The first are the traditional banks and building societies (BBSs) and the second the non-financial organisations more commonly known as Independent ATM Deployers (IADs) although these are occasionally referred to as Independent Sales Organisations (ISOs).

3.2 *History*

Up until 1999, three networks processed cash machine withdrawals in the UK: LINK, provided network services to building societies; 4 Bank, looked after the interests of Barclays, Lloyds, Bank of Scotland and Royal Bank of Scotland; and MINT, a network operated on behalf of HSBC, NatWest and the former TSB. Current account customers were not charged for cash machine services within their own network, eg an HSBC customer was able to use a NatWest machine without charge. However, this customer was unable to use another networks machine free of charge as the networks were independent of each other. At this time all cash machines were operated by bank and building societies.

In 1998, after a series of bank mergers and negotiations all banks agreed to join LINK Interchange Network Ltd. Today, LINK is wholly owned by 22 of the UK's largest banks and building societies. It has two constituent parts: the Operating Company provides the services (including settlement) that make cash machine sharing possible throughout the UK; the Card Scheme determines the operating rules that define the terms of trade between members. All UK payment card issuers issue LINK-enabled cards and these can be used in virtually all cash machines in the UK (except for a very small number of privately-owned cash dispensers).

One feature of all BBSs joining the LINK Scheme—and UK wide reciprocity—was the emergence of fees where BBSs began to charge their own customers for using another BBS cash machine. These fees were typically set at a level to cover the cost of the interchange[1] fees payable by card issuers.

During the latter part of 1998 one of the most significant changes in the UK cash machine market took place, when a number of IADs, the first being Bank Machine, entered the market by placing standalone machines in convenient locations, such as local convenience stores, entertainment venues and petrol stations etc, ie new locations where BBSs typically could not make a sustained "business case" and where machines had never previously been sited.

In 2000, following a good deal of public scrutiny, including that of the Treasury Select Committee, the BBSs agreed not to levy a charge on any customers withdrawing cash from another BBS machine.

4. Current Situation

4.1 *ATM deployment*

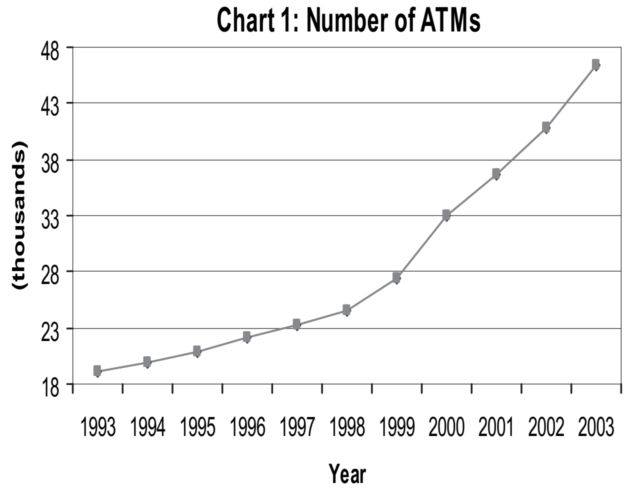
As at the end of September 2004 there were 45 institutions deploying cash machines in the United Kingdom, of which 31 are BBSs and 14 are IADs. The number of cash machines installed amounts to 55,346 of which 33,175 were BBS owned and 22,171 IAD owned[2]. Back in December 1999, shortly after IAD installations first began, these figures stood at 29,102 and 3,898 respectively.

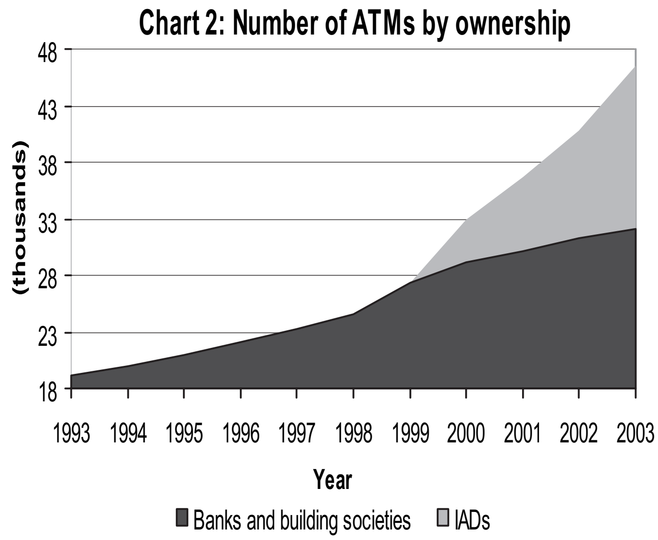
[1] Interchange fees are the fees paid by a card-issuing institution to the owner of the ATM which provides the service to their customer.

[2] These figures have been provided to APACS by its members. It is possible that this figure might differ slightly to that reported by LINK as a result of data being provided at different times.

It is interesting that in the last five years, both types of cash machines have increased in number although the real growth is largely attributed to the IADs and this trend looks set to continue as they experiment with the location, commercial and operation models for surcharging machines, although not all IAD machines surcharge. It is important to note that throughout this time the size of the BBS owned estate has continued to increase albeit at a slower pace than before. This trend was always projected as the market could not support a surfeit of machines in some locations.

Chart 1 illustrates the growth in the total number of cash machines in the UK since 1993. Chart 2 covers the same period and illustrates the shift in ownership.





According to the European Central Bank's Blue Book, the UK cash machine market grew by 11.3% against an average across the EU of just 6.2% in 2002, making the UK the fastest growing cash machine market in Western Europe.

4.2 *Cash withdrawals*

In 2003, cash machines in the UK dispensed £144 billion in 2.4 billion transactions, 4.6% more withdrawals than in the previous year. This trend has continued into the first nine months of 2004 where values of £114.2 billion have been dispensed, an increase of 7.8% on the same period in 2003. During 2003 the average cash withdrawal value was £61 (1999: £55) at BBS machines and £46 at IAD machines. While BBS cash machines accounted for just over two-thirds (69%) of all machines in the UK, they handled 97% of all ATM cash withdrawals by UK customers last year.

Table 1 sets out the volume and value of transactions splitting out the BBS and the IAD estate.

Table 1

VOLUME AND VALUE OF TRANSACTIONS AT UK CASH MACHINES

Year	*Number of transactions (mns)*			*Value of transactions (£mns)*			*Average value (3)*		
	BBS	*IADs*	*Total*	*BBS*	*IADs*	*Total*	*BBS*	*IADs*	*Total*
1993	1,242	..	1,242	60,200	..	60,200	48	..	48
1994	1,335	..	1,335	65,170	..	65,170	49	..	49
1995	1,471	..	1,471	72,090	..	72,090	49	..	49
1996	1,599	..	1,599	80,235	..	80,235	50	..	50
1997	1,745	..	1,745	89,994	..	89,994	52	..	52
1998	1,850	..	1,850	98,230	..	98,230	53	..	53
1999	1,968	..	1,968	107,852	..	107,852	55	..	55
2000	2,027	..	2,027	113,013	..	113,013	56	..	56
2001	2,135	39	2,174	125,669	1,759	127,428	59	45	59
2002	2,215	53	2,268	133,915	2,449	136,364	60	46	60
2003	2,294	79	2,373	140,503	3,621	144,124	61	46	61

4.2.1 *Bank and building societies*

In summary, the aggregate value of cash withdrawn annually from BBS cash machines in 2003 reached £140.5 billion from 2.29 billion transactions, an increase of 5% and 4% respectively on the 2002 volumes and values. On average each BBS machine dispensed £4,387,291 per annum, from 71,231 transactions, or about £500 per hour. This equates to an average of £4,500 per annum per regular ATM user, or about £85 per week.

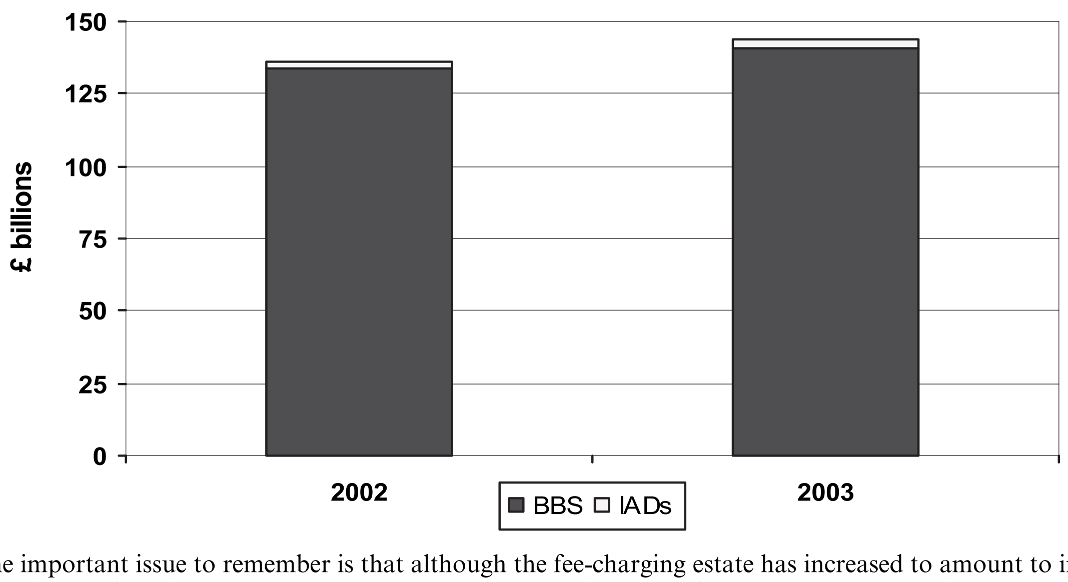
4.2.2 *Independent ATM deployers*

The total number of transactions at IAD cash machines in 2003 was almost 80 million, with a total cash value of £3.6 billion. This achievement was a 48% increase both in volumes and values on 2002. The average annual cash value withdrawn during 2003 amounted to £250,830 per machine (less than 6% of a BBS machine); the average frequency of use was 5,472 transactions per machine per year (a 1/14th of BBS machines).

In terms of total share of the UK cash machine market, the IADs' share remains small—approximately 3% by both volume and value, although the figures above suggest that they fulfil a specific niche in the overall market.

Chart 3 illustrates the total values withdrawn during 2002 and 2003 and the split between BBS and IADs.

Chart 3: Total values withdrawn in 2002 and 2003



The important issue to remember is that although the fee-charging estate has increased to amount to in excess of one-third of the current market and commentators forecast this to grow to over half of the market, the absolute number of free machines has also grown so that customers have increased choice in the machines they can use.

5. Trends and Forecasts

5.1 *Cash machine density and demographic distribution*

By the end of 2003 UK coverage had reached 780 cash machines per 1 million inhabitants. Research undertaken in 2002 as part of the background to the Chip and PIN Programme, indicated that some 91% of people in the UK have access to cash machines within one mile of their home, 93% within one mile of their place of work, and 98% whilst using a supermarket.

The geographical distribution of cash machines within the United Kingdom, based on data at June 2003, is illustrated in Chart 4. This is based on the number of machines per 1 million of population by postcode area[3]. The heaviest density is to be found in central London and the City of London, where there is an average of 2,303 cash machines per 1 million inhabitants. However, this density is a factor of the relatively few inhabitants compared to the large number of people working there.

In some areas of relatively low population, eg Inverness, North Yorkshire, Devon and Cornwall, cash machine densities are above the national average—reflecting the need for a greater number of machines to cover the larger geographical area.

Chart 4: Geographical distribution of ATMs within the United Kingdom

5.2 *Cash machine use*

According to the APACS Payment Markets Report 2004, nearly two-thirds of adults are regular cash machine users, with the proportion rising to 90% in the 25-to-34 age band. Usage is lower as one moves up the age range and along the socio economic spectrum. This reflects the fact that direct receipt of cash in state benefits and pensions is a higher proportion of income for the over-65s and for adults in socio economic groups D and E, and hence there is less need to get cash from a cash machine.

Demographic trends will continue to be long-term drivers of growth in cash machine use. The number of regular users is projected to increase from 31.6 million last year to 36.5 million in 2013, or 73% of adults. The forecast is that the total volume of cash withdrawals will grow from 2.4 billion last year to 3.1 billion in 2013. In 2013 cash machines will dispense £189 billion in 2003 money, including 75% of all cash acquired by individuals.

Relatively high daily allowances for cash machine withdrawals, greater convenience of their siting and wider availability of cashback, are inducing customers to shift away from using cheques and passbooks as the means by which they withdraw cash from their accounts.

[3] *Source:* 2001 Census, [postcode headcounts].

The Direct Payment Programme[4] is expected to have a significant impact upon cash machine use. Some of the customers who previously went to the post office to receive their state benefits or pensions in cash will switch to cash machines once these payments are made directly to their bank account giving the Government considerable cost savings.

The migration of National Savings accounts to card-based rather than passbook-based will also be a factor going forward. It is estimated that around £2 billion was withdrawn from National Savings account in 2003, and many of these transactions will take place at cash machines once the transition is complete.

6. Cash Machine Charges

6.1 *Introduction*

The principle of charging customers for making withdrawals at cash machines has been the subject of much debate over recent years.

Historically there were two types of charges. The first, mentioned previously, where a customer was charged by their BBS for using another BBS's machine, known as a "disloyalty fee". The second, where a customer was charged by the ATM-owning BBS, (assuming it was different from their own BBS) known as a "surcharge".

6.2 *Review of banking services in the UK 1998*

In November 1998, Don Cruickshank led an independent investigation into banking services in the UK. The investigation looked at levels of innovation, competition, and efficiency in the industry and how well it served the needs of business, other consumers and the UK economy.

Cruickshank concluded that unregulated systems, including the ATM system, result in limited competition within the marketplace and unfair charges for customers which were not a true reflection of the actual costs of providing the service. In addition, cash machine owners were advised that details of any charge incurred must be clearly displayed on machines, replacing the upfront screen message which was subsequently moved to a screen prior to the cash being withdrawn.

At that time a small number of BBSs were charging their own customers a fee for using other machines and other BBS customers a "surcharge fee". In some cases it was possible that the customer could have been charged twice for one transaction. Following the conclusion of the investigation BBSs ceased to impose disloyalty fees and, in all but a few locations, surcharges.

The OFT welcomed the findings of the investigation and subsequently announced that the cash machine market should be opened up with more supermarkets, petrol stations, and shops being able to provide cash machines for their customers. Essentially the OFT were inviting organisations other than BBSs to install machines away from the traditional sites.

6.3 *Current situation*

Today, there is generally no charge for a cardholder withdrawing cash from their current account at a cash machine supplied by their own bank or building society. However, a very small number of machines operated by BBSs do charge cardholders for withdrawing cash. In addition, cardholders withdrawing cash from IAD machines typically incur a charge.

The number of cash withdrawals that carried a fee during 2003 was approaching 80 million. The charge levied is typically between £1.00 to £1.75, although in some cases can be as much as £3.00 per transaction, depending on the location of the cash machine. In accordance with the LINK Scheme rules any member choosing to raise a surcharge is not paid an interchange fee.
According to one particular IAD a large majority of their customers are regular users of their machines and are therefore fully aware of the charges for using the service.

6.4 *Comparison with Europe*

To draw a comparison with some countries throughout Europe, it is understood that personal banking customers either pay an account fee for their current account/cash machine card or are charged per transaction. The account fee may include a certain number of cash withdrawals undertaken at machines other than those owned by the customer's own bank but when that number is exceeded, charges are levied.

The largely free current account service provided to customers in the UK is believed to be unique within Europe.

[4] The Direct Payment Programme, introduced by the Government in 2003, relates to the payment of benefits and pensions directly into a bank account or a post office card account, replacing the benefit book system.

7. Commitment to Transparency

APACS' members are committed to providing clear and concise information on cash machine charges to their customers and are fully supportive of the LINK principle that this information should be upfront and transparent to the customer.

One of the many ways in which this commitment is communicated is via The Banking Code, a voluntary code which sets out standards of good banking practice for financial institutions when they are dealing with personal customers in the United Kingdom.

The current Banking Code sets out the information that financial institutions are committed to provide to customers on cash machine charges. This commitment is listed below (for illustrative purposes "you" means the customer and "we" means the financial institution the customer deals with).

- "We will give you details of any charges we make for using cash machines when we issue the card
- You will not be charged more than once for any transaction at one of our cash machines
- When you use a cash card at one of our cash machines, a message on the screen will tell you, before you commit to making a withdrawal, the amount, (if any) you will be charged for the transaction and who is making the charge.
- When you use a card other than a cash card at one of our cash machines, a message on the screen will tell you, before you commit to making a withdrawal, the amount (if any) we will charge you for the transaction. The message may also tell you that the card issuers may charge you for the transaction.
- We will show cash machine charges on your statement of account."

8. Cash Acquisition

Cash is the most popular method of making payments in terms of volumes, and withdrawals from cash machines are the most popular way to acquire cash. However, there are alternatives, the most popular being cashback at retailers and withdrawals over BBS counters and post offices.

8.1 *Debit card cashback*

Obtaining cashback on debits cards from retailers accounted for 2% of all cash value acquired during 2003. However, customers view cashback primarily as a topping up mechanism, with the average transaction value being less than half that at cash machines at £24. Over half of all cashback transactions are for exactly £10 or £20. Cashback is generally a free service provided by retailers who are seeking to re-cycle their cash takings as well as providing an added value service.

8.2 *Cash withdrawals at branch counters*

Credit, debit and cash machine cards are also used to acquire cash over the counter in bank and building societies. Over 6 million adults are estimated to have withdrawn cash in this way last year, making 69 million withdrawals to a total value of over £20 billion.

8.3 *Basic bank accounts*

The Post Office provides a facility whereby all basic bank account holders and some banks' current account holders are able to draw cash without charge over the counter using a LINK-badged card. It is estimated that around 400,000 cardholders drew cash in this way during 2003.

9. Cost Components of Running a Cash Machine Estate

The costs of running a cash machine estate are not insignificant. There are a number of elements which make up the total cost including:

- hardware (the machine itself)
- software and technology upgrades
- telecommunications and system connectivity
- site surveys and installation
- maintenance and cleaning
- cash supply/replenishment/re-banking
- rates (especially remote/convenience sites)
- site rental
- insurance premiums

- security/fraud prevention
- LINK membership fees
- contingency.

These costs vary per installation depending on location; cash supply costs, maintenance and rates incurred. 2004–05 will see a large level of investment made in both hardware and software at cash machines as these are upgraded to chip and PIN in line with all our credit and debit cards. This will limit the risk of fraud.

10. Importance of Cash Machines

With the so-called cashless society still a long way off, cash machines are expected to remain an integral part of everyday life for many years to come. Withdrawing money from cash machines has become a normal routine for the majority of adults in the UK and APACS believes that cash machines will remain the primary channel for dispensing cash through this decade and beyond.

With the way in which the cash machine market is developing and consumers' awareness is increasing we believe the two key components that the Inquiry should consider are choice and transparency and that there is a strong case for understanding better what informs and drives consumer behaviour.

Further to the above, APACS would be pleased to provide additional information to assist the Committee with this Inquiry if required.

December 2004

Memorandum submitted by Association of Convenience Stores (ACS)

The Association of Convenience Stores (ACS) represents 32,000 retail outlets throughout the United Kingdom. Its primary function is to represent these shops to Government. Members include SPAR, Budgens, the Co-op and Premier.

ACS members play a vital community role. They serve local people from a location either in the heart of villages or suburbs, from town centre sites, or on petrol forecourts.

The Convenience Retailing Sector

There are 53,653 convenience stores in the UK. The breakdown of the stores operating in the sector is shown below:

Segment	*Numbers 2001*	*Numbers 2002*	*Numbers 2003*	*Numbers 2004*
Non-affiliated independents	34,250	33,787	32,900	32,576
Total symbols	7,175	7,371	7,794	8,424
Total forecourts	9,766	10,282	9,907	9,401
Convenience multiples	2,756	2,804	2,186	2,213
Co-operatives	1,297	1,381	1,977	2,065
Total	55,244	55,625	54,764	54,679
Joint Ventures	662	845	902	1,026
Total exc. Joint ventures	54,582	54,780	53,862	53,653

Fig 1: Convenience Store numbers 2001–04

Non-affiliated independents are those which are not part of a recognised symbol group or other brand. Symbol groups are fascia brands supported by a wholesale distribution arrangement with the independent retailer. Multiples are wholly-owned and managed from a central office, and co-operatives may be part of any of the dozens of co-operative societies which operate retail outlets.

These figures show unaffiliated independents and forecourts in decline, and symbol groups, convenience multiples and co-operatives enjoying a growth in store numbers.

Overall store numbers in the sector are in decline. These stores run on tight profit margins, typically around 2%. This puts in jeopardy the survival of stores who lose income streams and profit. Any reduction in the profitability of these retail businesses may lead to the community losing that outlet and the vital service it provides to local people.

Convenience stores are faced with growing competitive and regulatory pressures. Superstore companies are increasingly moving into the neighbourhood retailing sector, and this places smaller retailers with reduced buying power and ability to invest in an unenviable competitive position.

While the Government seeks to address the regulatory burden through various initiatives and bodies like the Better Regulation Task Force, the reality facing retailers is more bad regulation impacting on their business. At present, retailers are facing increased costs under the new Licensing Act: typically £475 for three years as opposed to £30 under the current system. Similarly, legislation such as the Animal By-Products Regulation places additional cost and operational pressure on convenience store operators.

The overall picture of the convenience store sector is of a declining number of businesses battling to survive against growing competitive and regulatory pressures. For these retailers, the denial of opportunities to maximise their return from limited retail space would seriously threaten their viability.

Cash machines in convenience stores

IGD's Convenience Retailing 2004 report discusses the value of ATMs to convenience stores. It notes that:

> "ATMs are fast becoming an expected facility in certain segments, forecourts being a prime example."

This is reflected in the growth of ATMs in convenience stores as shown below in the same report.

	Symbol Stores			*Convenience Multiples*			*Co-op Stores*			*Company managed forecourts*		
	01	02	03	01	02	03	01	02	03	01	02	03
% offering ATMs	24	25	27	42	36	56	28	37	50	30	15	33

Fig 2: Penetration of ATMs in convenience stores

These cash machines may be owned and operated by the bank and situated externally. Such machines are generally funded by interchange fees between banks.

Alternatively, ATMs may be sited inside the store. Many of these cash machines are "self-fill", where the retailer replenishes the machine from his own cash. There is usually a charge applied to internal ATMs. These machines are usually operated through an independent ATM provider (IAD).

IGD explain the reasons for the development of cash machines in convenience stores thus:

— Income generation: banks and cash machine providers will pay either a fixed rental fee for the space used, or will make a payment related to the number of transactions the machine is used for. Internal ATMs will generally make a surcharge, a proportion of which is given to the retailer through an agreed contract with the machine provider.

— Footfall driver: Harris International Marketing (HIM) research shows that ATM users visit forecourt stores an average of four times per week, compared with 3.7 times per week for non-users.

— Increased basket spend: the same HIM research shows that ATM users spend on average £5.11 per trip to a forecourt shop, compared to £3.38 for non-users.

The last of these three reasons identified by IGD suggests that ATM users spend some of the money they withdraw inside or immediately outside the store in that shop. HIM research shows that 67% of the funds withdrawn from cash machines in convenience stores are spent in that store.

HIM add a fourth point of value of the in-store ATM:

— ATMs increase the catchment area for shoppers to that store.

Customers value the safety they feel when using a cash machine inside a convenience store. Many customers, especially women, do not feel comfortable using cash machines situated on the street—most notably when beggars loiter close to the ATM. These customers prefer using a cash machine surrounded by other customers and staff in a well-lit and hospitable environment.

There have been significant security concerns over the placement of cash machines in convenience stores. Incidents of ram-raiding, in which the thief would drive through the front of the store to get access to the cash machine, were frequently reported by ACS members. However, in recent years industry security initiatives and better security management of ATMs on site have helped to reduce instances of cash machine ram-raiding.

Internal cash machines are generally installed where banks have decided that there are insufficient transactions to warrant doing so. Bank ATMs generally require around 200 transactions per day to be economically viable. Internal ATMs can operate with transaction levels as low as 15 to 20 per day. These machines are therefore additional to the network of bank-run and free-to-use ATMs.

This low level of usage is demonstrated by the fact that while 40% of cash machines are managed by IADs, only 3% of transaction value is conducted through these machines. They are therefore characterised by being lower-usage sites.

The principle of charging

When a customer uses a cash machine, they are in effect arranging a loan of another party's (the retailer, IAD or bank) cash. For machines where this loan is not arranged between two banks, the costs of this transaction fall upon the customer.

Retail space is at a premium. Space dedicated to a cash machine could be used for other products or services. That space attracts rent and rates, as well as the costs of maintaining it to required levels of lighting and cleanliness. Security measures are further fixed costs associated with including an ATM in store. Furthermore, there are costs and inconvenience involved in fitting an ATM.

Therefore, the provision of an ATM attracts costs to the retailer. Financial reward is therefore a necessity for them. In some cases, banks decide that the gain involved in providing a cash machine allows them to make a payment to the retailer without making a charge to the customer. This is due to interchange payments agreed between banks for one another's customers using cash machines.

Where ATMs are self-fill and/or are obtained through a third party cash machine supplier, the levy of a charge to the customer is likely to the only way in which revenues can be generated to give retailers compensation for the costs of offering this service.

Transparency

The principle of charging for cash machine transactions rests on sound information being provided to the customer, ensuring that they are aware of charges being applied to them, and are able to make an informed choice over how to obtain cash.

LINK has a mandatory rule that customers are warned before commencing their transaction that a charge will be applied to them. Under the LINK system, this information is given to the customer once the relevant bank has informed the machine of its charge.

Individual operators use policies of displaying charges through stickers or other means. This policy is sometimes hard to implement due to the varying charges applied by different banks and machines.

ACS is satisfied that information provided to customers is sufficient to allow the customer to make a free choice of where to obtain cash. This choice is analogous to a customer buying a drink in a pub compared to a supermarket. The pub is likely to be more expensive because the customer has been provided with a convenient and pleasant environment, which brings with it a different cost structure. Just as it would be unfair to expect a pub to match supermarket prices on alcoholic drinks, the value of using cash machines in different contexts cannot be compared like for like.

Financial exclusion and location

ACS strongly believes that the provision through convenience stores of cash machines and other services such as cashback and the Post Office makes a significant contribution to promoting financial services to a wide variety of households.

	Symbol Stores			*Convenience Multiples*			*Co-op Stores*			*Company managed forecourts*		
	01	02	03	01	02	03	01	02	03	01	02	03
% offering ATMs	24	25	27	42	36	56	28	37	50	30	15	33
% offering cashback	13	10	14	96	74	38	100	99	97	1	0	0
Post Office	15	17	16	25	14	26	6	9	12	0	0	0

Fig 3: Comparison of availability of ATMs and cashback facility

Fig 3 shows that cashback is also widely available and offered in many stores. The Post Office is available in a number of outlets.

Some retailers are wary about offering a cashback facility due to the security risk involved in maintaining large quantities of cash in tills. Most retailers try to keep cash levels in tills down to a minimum to ensure that those committing robberies and till snatches will gain poor rewards for doing so.

Many convenience stores operate In low income areas. It is important to acknowledge that the provision of ATMs inside and outside convenience stores is an additional service to customers, and does not replace other opportunities for customers to gain access to cash and other services.

Given the closure of many local bank branches, the provision of ATMs in convenience stores in by far the most cost-efficient way for many customers to access cash.

If these services, funded by a charge of some sort, were removed, two socially-undesirable outcomes would accrue:

— there would be fewer ATM facilities available to customers, as banks would be unlikely to replace these services where transaction rates were so low;
— retailers would come under increasing financial pressures, and their own viability may be threatened.

ACS does not have access to any further information on the demographic distribution of cash machines.

Post Offices

Retailers' ability to choose the right cash machine offer to their customers is inhibited in cases where the Post Office is sited at a store. Post Office Ltd apply restrictions in their contract with subpostmasters that requires them not to take up any ATM deal other than that offered by the Post Office. ACS believes this is an unjustifiable restriction of retailer choice.

Conclusion

ACS is satisfied that at present cash machines offered in or outside of its members' stores are:

— of additional benefit to the customer;
— important to the future health of the convenience store sector; and
— transparent in their charging, offering the customer choice of where to obtain cash.

ACS is happy to provide further views and information to the Committee, and is committed to supporting this examination.

2 December 2004

Memorandum submitted by Bank Machine Limited

Background

1. The first ATM was installed in the UK in 1967. In the next thirty years, Financial Institutions [FIs] gradually installed more, until by 1998 there were about 30,000 ATMs in the UK. Those machines accepted most debit cards, thanks to the advent of LINK.

2. LINK, the brainchild of a number of Building Societies who wanted to allow their customers' access to each other's ATMs, grew to the extent that by the late 1990s all major High Street Banks and Building Societies were members.

3. Until 1998, under LINK rules only FIs were allowed to operate ATMs. This arrangement attracted the attention of the competition authorities and in that year Independent ATM Deployers [IADs] appeared in the UK for the first time. Initially, IADs had to be sponsored by a LINK member [they were not allowed to join LINK in their own right until 2000].

4. For over 30 years (from 1967 to 1998) FIs had the opportunity to install ATMs without competition from IADs. Despite this, retail, leisure and specialist locations (such as Army Camps) were largely left without ATMs.

5. By 1998, Branch closures, the tendency of FIs to locate their remaining Branches together in particular high streets and the high transaction criteria applied by FI's to prospective "Off-Branch" ATMs had left many cardholders some distance from an ATM.

6. It is clear that the gap in the UK market that lead to the introduction of IAD ATMs existed because FIs had failed to meet their customers' demand for an acceptable level of service.

The Independent ATM Revolution

7. The first IAD ATM was installed in December 1998 by Bank Machine [sponsored by the Woolwich] in a Spar store in Stonecross, Birmingham. This was well received by local residents who clearly considered the charge made for the use of the ATM a price worth paying for convenient access to cash. This was the birth of the "Convenience ATM" revolution in the UK.

8. Bank Machine's confidence in the potential of the UK Market was reinforced by experience in the US since the early 1990s, with a ready public acceptance of convenience fees. As a result, the numbers of ATMs in the US has tripled.

9. Site owners, particularly retailers, appreciated the advantages of working with the IADs. Many had been frustrated for years by the reluctance of FIs to locate ATMs on their premises.

10. In the six years since the first IAD ATM appeared in Birmingham, the change in the UK ATM market has been dramatic. It took over 30 years for the first 30,000 to be installed: that number has increased by 90% in the six years since 1998.

11. The Independent ATM revolution in the UK has been possible because of the same public acceptance of the charges that occurred in the US. Whereas there has been considerable public resistance to FIs charging customers for access to money in their accounts, there has been an appreciation that IADs are offering a service that has a price: a price viewed by customers as worth paying for the convenience gained.

12. The average consumers view of convenience has certainly changed in the last few years. Many people are ''time-scarce' and are reluctant to waste any of this precious resource on mundane activities such as obtaining cash from ATMs. This helps to explain why there are now 1600 IAD ATMs within 100 metres of "Free" FI ATMs [Free is in inverted commas because in reality, no service provided by an FI can truly be said to be free]. The majority of these 1600 are located in public houses and bars. Those who use them are well aware of the presence of "Free" ATMs nearby—they simply do not wish to leave the comfort of the establishment they are in to save, on average, £1.50.

13. It is hardly surprising that some consumers prefer to use an IAD ATM rather than going out of their way to use an FI ATM. For anyone earning £10 or more per hour, a ten-minute trip/queue to use an FI ATM would not be justified to save around £1.50. Seen in this light, using an IAD ATM is a rational economic decision for many consumers.

14. There has been considerable publicity regarding those on benefit using IAD ATMs. Two points need to be made in this connection. Firstly, this issue has only arisen very recently. IAD's did not set up their businesses to tap this market.

Secondly, it would be possible for those on benefit to be excluded from using IAD ATMs. This however would not be a step in the direction of social inclusion.

15. Those who live on housing estates, such as Speke in Liverpool, are as deserving of service and choice as any other UK resident. The FI's ceased to provide a worthwhile service in many such areas a long time ago. In the case of Speke, the last Bank (and it did not even have an ATM!) closed during the 1990's. IADs have filled the gap so that residents have a choice of paying for the service on the estate or walking to a forecourt 100 metres from the edge of the estate where there is a "Free" ATM.

16. In 2004, the position has been reached where more than 50% of ATMs located away from FI branches carry a convenience fee. It has to be stressed, however, that there are also more "Free" ATMs than ever in the UK. The number of free machines has increased from around 30,000 in 1998 to around 34,000 in 2004.

17. It is quite clear that the ATM revolution has increased consumers' choice. They have more choice in relation to free ATMs and more choice overall. A true "win-win" situation.

The Popularity of ATMS: Cash is King

18. The 'win-win' situation for consumers is very important because cash is still king in the UK. Notwithstanding the efforts of Banks to push customers into using more and more plastic (and more and more expensive credit), the public still chooses to make nearly 70% of purchases using cash.

19. In an age of spiralling credit card debt, use of cash gives consumers close control of their expenditure. Access to cash through conveniently-located ATMs gives consumers a sensible alternative to excessive use of credit cards.

The Nationwide Stance

20. The Nationwide Building Society is largely responsible for the ill-informed publicity in relation to the advent of charging ATMs. Their stories are often released under the cover of being "Survey Results" or "Market Research." In reality, no substantial survey work is necessary since LINK publishes most of the relevant data each month.

21. Nationwide has elected, for no doubt sound commercial reasons, to install a high number of Off-Branch ATMs. This commercial decision reflects a desire to create both Brand awareness and a platform for marketing specific products, without the expense of increasing their branch network.

22. The Nationwide Off-Branch ATMs are certainly NOT required to service the needs of their own cardholders, since those cardholders can use any FI ATM. In fact, many Nationwide ATMs have a very low usage by Nationwide cardholders (on average, less than 20% of the users of Nationwide Off-Branch ATMs are Nationwide cardholders). They do, however, have a high usage by customers of other FIs, customers who may no doubt be persuaded to switch to Nationwide's mortgages, personal loans and the like. This is achieved through the extensive use of financial services advertising on the Nationwide ATM screens.

23. No one can fault Nationwide for taking a commercial decision to promote their overall business through the placement of ATMs around the UK. Nationwide's continuous publicity campaign is no more than an attempt to protect their own commercial interests: the supposed championing of consumers interest is simply a convenient platform.

24. Interestingly, only Nationwide amongst the remaining UK Building Societies has any real interest in providing an ATM service. When one excludes Nationwide, the other 62 members of the Building Societies Association only operate just over 200 ATMs between them.

ATM Disposals by FIs

25. Much has been made of the disposal by some FI's of all/portions of their Off-Branch ATMs. However, all such disposals taken together make up less than 5% of the current total IAD ATM estate.

26. The disposal by HBOS of their Off-Branch ATMS is in all probability a one-off. There is no indication that any other FI will follow the HBOS example in the foreseeable future. Indeed, many FI's see ATMs as an increasingly important element of Customer Relationship Management. As the perceived value of ATMs increases in this respect, sensible FI's will be unlikely to want to give up their ATM estates.

27. It may well transpire that the HBOS disposal has been ill-judged. They seem to be taking the view that cash will be significantly less important to consumers in the near future. There is little evidence to support this view.

IADs Costs and Profits

28. Much has been made of the "cost" of about 30p to deliver an Off-Branch ATM withdrawal-the LINK Interchange. However, that figure is based on FI ATMs with, on average, 6000 cash withdrawals per month. When one looks at low transacting IAD ATMs, the cost per cash withdrawal, BEFORE any rental is paid to site owners, is more than twice the FI figure.

29. It's clear from the costs quoted above why the profitability of the IADs is not high. Bank Machine, then operating around 800 ATMs, made a profit before tax of £175,000 in 2003. A cursory examination of the published accounts of other IADs does not reveal substantial pre-tax profits.

Signage/Transparency of Charges

30. LINK's revised signage rules, as outlined to the Treasury Select Committee in December, mean that there will be appropriately sized messages in relation to ATM charges on Point-Of-Sale material, on stickers adjacent to the ATM keyboard and on the ATM screens themselves. This represents a fine-tuning of the previous arrangements and further enhances the already high level of transparency in relation to charging on IAD ATMS.

31. Those who emphasise the importance of signage miss the point that most users of ATMs are regular users. In Bank Machines case, over 90% of users visit our ATMs several times each month, for the sole reason that they find it convenient to do so. The idea that charging ATMs depend on "one off" customers is really quite fanciful: the vast majority of such ATMs cater for regular local users. Without such regular users, Bank Machine and the other service providers would not survive.

24 January 2005

Memorandum submitted by Barclays

Introduction

Barclays welcomes the opportunity to submit the following evidence to this inquiry.

For the purposes of this document reference to "ATMs" encompasses Automatic Teller Machines/cash machines.

We would particularly like to emphasise that:

- Barclays is fully committed to ensuring that information concerning ATM charges is transparent to consumers.
- Barclays operates the third-largest non-charging UK ATM network comprising 3,800 machines.
- Barclays is a member of the LINK ATM network and does not charge its own customers or those of other banks or building societies for using its machines.

Also, we understand that 97% of cash withdrawn in the UK in 2003 was from ATMs at which no charge was made.

The Trend Towards Charging

Barclays was the first bank in the UK to install an ATM at Enfield branch in 1967. We are committed to our ATM network and have no plans to sell any of it.

It is, however, increasingly difficult to compete with the new independent ATM firms when tendering for new non-branch sites. Prime locations, such as motorway service stations, attract very high tender prices and we expect this to continue.

Often only the independent operators, who raise income by charging consumers for using their ATMs, can economically justify paying these higher prices for prime sites.

It is noticeable that on sites belonging to organisations such as Network Rail and London Underground non-charging ATMs are found, whereas other organisations, including the Post Office, have charging ATMs on their premises.

Reciprocity and the LINK Network

Prior to the current LINK arrangements, ATM transactions in the UK were based on "reciprocity". Specific groupings of banks and building societies were able to offer free transactions to non-customers in return for their own customers being able to use competitors ATMs' free of charge.

The arrangements between LINK members are based on the LINK scheme rules and interchange fees, which are the fees paid by a bank/building society card issuer to the owner of the ATM which has provided a service to the card issuer's customer. In recent years, however, a number of new members, who are not necessarily banks/building societies, have entered the ATM market and have changed the dynamics of the industry.

The new independent ATM operators are typically "acquirers" only. This means they own ATMs and "acquire" other card issuers' customer transactions. Some, although not all, of these acquirers levy a charge on consumers for using their ATMs for cash withdrawals.

If these acquirers do levy a charge, they will then receive the interchange fee only for the balance enquiry element (if one is requested by a customer) and for any rejected entry fee caused by the customer deciding not to proceed with the transaction or due to insufficient funds being available.

They also increase the costs of the traditional ATM card issuers because:

- LINK interchange costs are higher on remote ATMs (ie ATMs not located at bank branches) than they are on ATMs at bank branches, by virtue of higher rents, maintenance and replenishment costs.
- Many of the remote ATMs prompt customers to ask for a balance enquiry. Each balance enquiry obtained from a third party ATM has an individual interchange fee paid by the consumers' bank, irrespective of whether a withdrawal is then made.

Transparency/Clarity of charges

Barclays is fully committed to ensuring that information in relation to ATM charges is transparent to consumers. We clearly explain to consumers that Barclays does not charge for transactions no matter with whom they bank (See Appendix).

We believe that charging ATMs could be made more transparent. We would support further changes to the LINK rules to make notification more transparent. In particular, requiring "charging" machines to display a mandatory on-screen-warning message before the card is inserted into the ATM. We feel this would be more effective than the current rules that allow the "charging" machine operator to either use a sticker/sign or an on-screen message to explain that the ATM may charge.

Financial Exclusion and Location

Historically, ATMs were located either in branches, or where there was a high usage, for instance in railway stations. Therefore, smaller communities such as rural areas and areas where there was a low penetration of bank account users were unlikely to have as many ATMs.

In recent years the UK ATM coverage has substantially increased with research in 2002 indicating 91% of people in the UK have access to an ATM within one mile of their home.

In areas where ATM coverage is not as widespread, or where an independent ATM operator levies a charge for withdrawing cash, there are increasing numbers of ways for consumers to obtain cash without incurring a charge.

These include Bank and Building Society branch networks and in addition, the agreement that Barclays and others have with the Post Office which enables basic bank account customers and others to obtain cash free of charge over Post Office counters. Also, increasing numbers of shops, not just the large supermarket chains, offer free cashback facilities.

Barclays research supports the recently published figures from LINK and APACS that, although the number of charging ATMs is growing, the proportion of withdrawals at charging ATMs is still very small. We estimate that over the last 12 months only 4.5% of the total cash withdrawals that Barclay's customers made were from other companies' ATMs that charge.

Security

There is no doubt that ATM fraud has increased significantly in recent years and particularly in 2004. Barclays is taking a leading role in reducing ATM fraud.

We are working closely with the police and suppliers to identify ways of stopping the fraudsters. We have also launched a media programme to help educate consumers. We have put an on-screen security notice on our ATMs. The process of recompensing Barclays customers who are victims of ATM fraud has been streamlined and made more efficient.

Barclays does not consider that the increasing number of charging ATMs has contributed to the increase in fraud. We support LINK's efforts to achieve tighter controls and improved minimum standards for ATMs in the UK.

3 December 2004

Appendix

EXAMPLE OF THE TRANSPARENT SIGNS ON BARCLAYS ATMS

Memorandum submitted by the Banking Code Standards Board (BCSB)

Introduction

The Banking Code Standards Board (BCSB) was established in October 1999 and is responsible for monitoring and enforcing compliance with the Banking Code and the Business Banking Code. It also offers advice on interpretation of the Codes.

These voluntary Codes are followed by banks and building societies ("subscribers") in their dealings with personal and small business customers in the UK. They set standards of good banking practice and aim to allow competition and market forces to operate and encourage higher standards of banking practice for the benefit of customers. The first Code of Banking Practice came into effect on 16 March 1992 and now, as the Banking Code, is in its sixth edition.

The Code has achieved almost universal coverage of retail banking and credit card business in the UK, with American Express and GE Capital having signed up for their credit card business in the last month. National Savings & Investments is a subscriber.

What the Codes Say About Cash Machine Charges

There has been specific reference to cash machine (ATM) charges made by card issuers in the Banking Code since the 1997 edition.

Important obligations on Code subscribers that operate cash machines were introduced in the 2001 edition of the Banking Code and are incorporated in the current edition as follows:

Cash machine charges

You will not be charged more than once for any transaction at one of our cash machines.

> When you use a cash card at one of our cash machines, a message on the screen will tell you, before you commit to making a withdrawal, the amount (if any) you will be charged for the transaction and who is making the charge.
>
> When you use a card other than a cash card at one of our cash machines, a message on the screen will tell you, before you commit to making a withdrawal, the amount (if any) we will charge you for the transaction. The message will also tell you that the card issuer may charge you for the transaction.

Similar requirements apply to the Business Banking Code, which covers small businesses of all types having a turnover up to £1 million per annum.

Both Codes include the following obligations on subscribers as card issuers:

> We will give you details of any charges we make for using cash machines when we issue the card.
>
> We will show cash machine charges on your statement of account.

What the BCSB Does to Monitor Compliance

Every year we require each subscriber to the Banking Code or the Business Banking Code to complete a comprehensive questionnaire (the "Annual Statement of Compliance"), certifying that they are fully compliant, or explaining any failure to comply, and signed by both the Chief Executive and the Compliance Officer. The Annual Statement of Compliance includes detailed questions on the Code sections quoted above.

We have a continuous programme of visits to subscribers, during which their internal compliance controls are thoroughly reviewed.

In addition, we carry out various forms of testing and "mystery shopping" of what customers actually experience. We tested comprehensively whether cash machine charges were being disclosed in accordance with Code requirements following the introduction of the new rules in 2001. Initial shortcomings were reported to our Board and were systematically followed up until we were able to report a clean bill of health across the industry. We undertook further tests on selected subscribers this year as part of our research in support of our submission to Professor Elaine Kempson's independent review of the Codes. We did not identify any failures.

Because cash machines are by their nature automated, a high level of consistency in information provision can be achieved once the necessary development work has been done. Backed by the thorough monitoring and testing we have carried out over the years, we are confident that this is an area where there is a high and consistent standard of compliance with the current Code requirements.

Possible Gaps to be Filled

By definition, the Code requirements are mandatory only for cash machines operated by subscribers to the Codes. (Information on charges levied by card issuers and details on statements of cash machine charges that have been incurred are, however, provided virtually across the board in the UK, as the vast majority of cards that can be used at cash machines are issued by Code subscribers.)

The Codes have achieved a good degree of transparency over charges in cash machines operated by subscribers. Customers are told precisely how much any charge will be, if there is one, before completing a withdrawal and can cancel the transaction if they find the charge unacceptable.

This leaves "convenience" cash machine operators that are not banks or building societies outside our purview. Furthermore, a convenience cash machine operator that is a subsidiary of a Code subscriber is not automatically subject to Code requirements, although we would like to see the Code's standards followed as far as possible throughout any corporate group that includes businesses that do subscribe.

In practice, we understand that the LINK system through which cash machines are operated in the UK has extended similar requirements to those in the Codes to all LINK members, including "convenience" operators that are not banks or building societies and who do not subscribe to the codes. LINK's website states that, in addition, LINK Members have agreed that a sign saying "this machine may charge you for

LINK cash withdrawals" will be clearly visible to cardholders before a card is inserted in a surcharging ATM (either by physical notice on the machine or an up-front screen message, at the discretion of the ATM deployer).

On a small practical point, we note that an external sticker affixed to a machine is more vulnerable to omission or damage, and is more difficult to police, than a standard screen message. However, we suspect that, for marketing reasons, a sticker rather than an up-front screen message is the preferred choice of most machine owners.

There is not the same monitoring and enforcement regime governing LINK rules that exists under the Banking Code and the Business Banking Code. This has given rise to the suggestion that the Codes should be extended to cover LINK members that are not currently Code subscribers. This would be a matter for the sponsoring trade associations that own the Codes (ie the BBA, the BSA and APACS), but from the BCSB perspective we would not rule out this possibility, provided our Board could be adequately reassured that any organisation applying to subscribe were suitably "fit and proper".

Alternatively, we at the BCSB would be very willing to talk to LINK about extending our monitoring arrangements to check and report on compliance with relevant aspects of the LINK rules.

The issue of whether there should be ATM charges and at what level is outside the BCSB's brief. The Codes' aim is to allow competition and market forces to operate. Our interest is in monitoring and enforcing high standards of transparency.

6 December 2004

Memorandum submitted by The Building Societies Association

INTRODUCTION

1. The Building Societies Association is the representative trade body for all the UK's 63 building societies. These societies have total assets of over £230 billion, around 15 million adult investing members and over 2.5 million borrowing members. Building societies account for around 18% of residential mortgage loans, and retail deposits, outstanding. Building societies operate through around 2,100 branches and 2,500 cash machines. Including their subsidiaries, building societies employ over 40,000 staff.

Cash machines that charge

2. The LINK website boasts "97% of all cash machine withdrawals are free to the customer". The Building Societies Association fears such a level of free access to cash machines is unsustainable in light of the huge growth in the number of cash machines that charge. Over the last five years the number of cash machines that charge has increased by more than 18,000; over the same period, the number of free cash machines has grown by only 8,000 so that machines that charge now account for 40% of the 53,000 machines in the LINK network.

3. The number of cash machines owned and operated by building societies has grown steadily over this period—from 1,241 in 1999 to 2,520 in 2004, an increase of 103%. At building society cash machines withdrawals by debit card or other cash card are free, both to members of the building society and to customers of other financial institutions. No building society has plans to introduce charges.

4. LINK states that most cash machines that charge are located in "low transaction volume sites". A quick search on its website—whilst not scientific—suggests otherwise. The BSA offices are located in the busy west end of London. The LINK website reveals that within 320 metres of our offices there are 10 cash machines. Three of these charge for cash withdrawals; one charges £5 per withdrawal. The west end is hardly an area associated with low transaction volumes. Of course, people do have a choice and 10 machines within such a small area represents a good selection from which to choose. But, to be effective, choice needs to be informed. Customers need to be aware whether or not a cash machine will charge them for making a withdrawal. In theory, all charging cash machines should already be carrying a warning about the amount of the charge—and this should be either in the form of a sticker on the machine or a timely on-screen message. This has been a requirement of LINK members since April this year, a change for which the BSA lobbied.

5. In practice, however, it seems many customers are still ill-informed. A recent report by Nationwide Building Society, "Free Cash Machines Under Threat", shows that nearly a quarter of people who have used a charging cash machine since 1 April 2004 were unaware—before they committed to the transaction—they were being charged. This suggests the new disclosure rules are inadequate. Nationwide's research shows 97% of people want the warnings to be more prominent. It is certainly true that the current requirement for charging machines to carry a message saying "this machine may charge you for LINK cash withdrawals" is vague. We would like to see a stronger form of words, displayed more prominently. People have become accustomed to seeing much starker messages—such as those on cigarette packets. It is not surprising, therefore, if bland, non-specific warnings on ATMs do not have sufficient impact.

Background

6. In 2000, when certain banks announced plans to charge non-customers for ATM withdrawals, Nationwide and other building societies led the campaign against this move, on behalf of their members. As mutuals, building societies' decisions on such issues are based on what is in the best interests of their members. This contrasts with plcs, which have to put the interests of shareholders first.

7. The operation of all building society and bank cash machines is covered by the Banking Code, the voluntary code of practice which sets standards of good banking practice and is overseen by the independent Banking Code Standards Board (BCSB). Most operators of charging cash machines are not covered by the Banking Code, even where, like Hanco, a subsidiary of Royal Bank of Scotland, they are owned by banks. We would strongly urge all operators of cash machines to sign up to the Banking Code, and thereby be subject to the rigorous compliance monitoring framework of the BCSB.

8. The Banking Code requires transparency of cash machine charges and prohibits double charging—ie by both the card issuer and the cash machine operator—in respect of a single transaction. It does not preclude the imposition of charges, although, as noted earlier, in practice no building society charges its members or any other customers for debit and other cash card transactions at its machines. The BSA understands that none of the banks charge for the use of their high-volume machines, such as those located outside branches, although some do charge for the use of cash machines in "convenience" locations.

Access and inclusion

9. The impact of cash machine charges is felt most in communities where alternative means of obtaining cash are limited—or non-existent. The closure of bank and post office branches, particularly those that are the "last branch in town", places more and more people in a position where they have no effective alternative to paying for their cash withdrawals.

10. The Campaign for Community Banking Services published in October 2004 an estimate that 1,800 bank branches will close over the next five years and that 500 of these will be in communities with no other branches. This is in addition to the 3,021 bank branches (22% of the total) and 2,990 (15%) of post offices that have closed since 1995. Over the same period building societies have closed only 111 (5%) branches, reflecting their commitment to the communities they serve. Building societies have also led the way in branch sharing. The only branch sharing operation to have been agreed by UK deposit-takers is between Britannia and Yorkshire building societies.

11. Using cash machines that charge penalises disproportionately those on low incomes who only want to draw out small sums of money. A £1.70 charge on a £10 withdrawal means 17% is paid to the machine owner.

12. The introduction of directly paid benefits means that there are more people who will be using cash machines to withdraw their pension or child allowance, rather than collecting those payments over-the-counter at their local post office. Many of these are on low incomes and are least able to afford cash machine charges.

The future

13. In addition to the continuing closure of bank branches referred to above, there are other worrying trends. For example, some banks have started selling off their cash machine networks to companies that charge for cash withdrawals. Earlier this year, HBOS announced the sale of about a quarter of its network to a convenience machine company, Cardpoint, which after holding back for a few months, announced last week that it would soon start charging for the use of a third of the 816 ATMs it bought from HBOS. Cardpoint is the fastest growing operator of convenience cash machines. Central to its stated strategy is to "increase charges per withdrawal". Abbey, too, has sold some of its machines and other banks seem likely to follow suit. These are cynical moves by the banks concerned. Their strategy of disposing of machines to third parties, who then charge, is at the expense of consumers yet, so far, none of the banks involved has suffered the public relations consequences which caused Barclays to re-think its plans to introduce cash machine charges in 2000. The Treasury Select Committee will no doubt see through this ruse and highlight the potential for consumer detriment which it involves. The threat to the public from the practices of some banks is at least as great today as it was in 2000.

Conclusion

14. The BSA believes it is in the best interests of consumers for as many cash machines as possible to stay free at the point of delivery. There is a role for cash machines that charge in locations where low transaction volumes make it uneconomic to have a non-charging machine. But there is a low level of public awareness of the difference between free machines and those which charge.

15. Where cash machines do charge, it is essential that the machines display warnings before a card is inserted that are clear, specific and prominent, so consumers know there is a charge before they decide whether or not to commence their transaction. Industry-wide action is needed to address this. As noted above, we would like to see all cash machine operators sign up to the Banking Code—and compliance

monitoring by BCSB—that applies to UK banks and building societies. The proposals for greater transparency suggested in the code put forward recently by Nationwide Building Society are also to be commended. Certainly, the current LINK requirements do not go far enough.

16. In summary, the BSA believes higher standards of transparency need to be embraced by the owners and operators of cash machines that charge as a matter of urgency if large numbers of consumers are not to continue to be misled into paying charges they would prefer to avoid.

December 2004

Memorandum submitted by Campaign for Community Banking Services

Summary

- — Cash machine demand will remain substantial for the foreseeable future.
- — Where ATMs are an alternative to cashier service or are a substitute for restricted or non-availability of a branch there is a moral obligation for them to remain free, whilst personal banking is free.
- — Abolition of ATM fees in 2000, whilst benefiting the majority, is responsible for reducing the access of rural and other disadvantaged communities to free machines.
- — Access to cash is vital to sustaining local economies.
- — Convenient local free access to their cash is particularly important for elderly and disabled people with restricted mobility; post offices can no longer be considered a universal substitute for bank branches or ATMs.
- — Charging fees is acceptable (but not obligatory) in "super convenience" locations such as pubs, health clubs, neighbourhood stores, etc but NOT in centres served, or previously served, by bank branches, nor in public areas which have become high street substitutes except for bank branches.
- — There is need for a big improvement in the visibility of machines' 'fee charging' status.
- — A significant over capacity in urban ATM provision exists which could be reduced in order to benefit disadvantaged communities.
- — Left to market forces the imbalance in free access to cash between prosperous better off communities and less well off and smaller ones will increase further.
- — The high cost of more sophisticated, potential branch substitute, machines needs a multi-bank approach in smaller communities if high usage and/or subsidy is to be achieved.
- — Provision of free cash machines in disadvantaged areas is a specific social banking need already identified for benefit in CCBS's proposal for a Social Banking Foundation.

R. Recommendations for Action by:

R.1 *HM Treasury*

Urge the banks to drop their unsubstantiated resistance to the principle of shared banking as a means of overcoming community disadvantage, and to put in place appropriate decision making machinery to ensure that local and convenient free ATM access is maintained, or (re-)established, where branches are closed, or their opening hours materially reduced, and in locations such as shopping malls to which retail mass, but not bank branches, have migrated.
CCBS's proposals for a shared banking model could encompass this if the banks would overcome their stubborn resistance to co-operation in these matters.

R.2 *HM Treasury*

Give consideration to establishing a self-financing Social Banking Foundation, funded by a levy on bank licensing (and/or the unclaimed bank balances) in order to provide subsidy, where appropriate, for a variety of social banking activities including free ATMs in disadvantaged areas.

R.3 *LINK/APACS*

Explore with participating banks reducing the over capacity of bank owned ATMs in urban areas which unduly inflates the cost of provision at the expense of smaller and disadvantaged communities.

R.4 *LINK/DTI*

Commercial operators should be allowed to conduct a competitive market in ATM provision and fee levels in "super convenience" locations, but their existence should not relieve the account holding banks of their responsibility to provide free access where an ATM is a substitute for cashier capacity or non-availability of a branch.

R.5 *LINK/DTI*

Where a machine is fee charging, it should be clearly advertised as such, including the amount.

1. Introduction

1.1 The Campaign for Community Banking Services (CCBS) is a coalition of 28 national representative organisations which share a concern over the diminishing availability of local access to banking services, particularly for small businesses, the elderly, disabled, carers and those on low incomes. Details of supporting organisations are on the CCBS website www.communitybanking.org.uk 1.2 Branches are more relevant to our concerns than cash machines; however we monitor developments in the provision of ATMs and share other bodies' concerns at the trend to fee charging rather than free machines, especially in rural and deprived urban areas.

2. Need for Cash Machines

2.1 Despite a growing use of cards, cash remains the dominant payment method, used for 75% of all payments made by individuals and amounting to £272 billion in 2003, according to APACS, of which over 70% was drawn from bank accounts (expected to increase since direct payment of benefits); 75% of that (£144 billion) from ATMs. 40% of all retail spend is in cash.

2.2 APACS predicts only a very modest reduction in cash use in the next 10 years, unless the e purse concept unexpectedly takes off.

2.3 **The demand for accessible cash machines will be substantial for the foreseeable future, especially as the number of bank branches continues to decline.**

3. Historical Rationale

3.1 Banks like to forget that 'hole in the wall' machines were originally introduced to reduce cashier costs whereas now they are looked upon as cost centres apart from, in selected locations, a way of gaining inter-bank usage fees from competing account holding banks (not from the customers of those banks directly).

3.2 **As a replacement for cashiers they should be free to use all the time banking remains free of transactional costs for personal customers.**

4. Charges Revolution 2000

4.1 Prior to 2000 fees were not generally charged for ATMs. The relatively short-term practice of a "disloyalty" fee for using another bank's machine was ended in the face of substantial customer opposition to the possibility of double charging as banks prepared to introduce a surcharge on customers of other banks using their machines. Such a practice would have particularly hit communities with only one or two branded ATMs.

4.2 As a result of the uproar all payments by customers for use of ATMs were dropped and the then existing network of bank owned machines became available to all at no charge. Banks, however, agreed "interchange" fees amongst themselves but at much lower levels.

4.3 **A direct consequence of the block on direct charging was that low footfall sites, particularly rural areas (see below) became even less attractive than before in which to retain an existing ATM or instal a new one as bank owned machines can cost, we understand, up to £35,000 per annum.**

— Since the ending of ATM charging there has been, for different reasons, a pause in wholesale branch closures. However, where closures have occurred the ATM has been/will be removed at the same time (for example HSBC in Craig-y-Don, Llandudno and in Carbis Bay, Cornwall) or loss of the branch has not been compensated for by the provision of a free ATM even where, as in Reeth, N.Yorkshire the bank premises was made over to community use.

— 70% of the 2,000 machines operated in sub post offices by Alliance & Leicester are already converted to fee-paying. It will be remembered that the Prime Minister promised 3,000 machines would be installed at rural post offices within two years of February 2000, when the implication was that they would be free. (The future of the Post Office for universal access to bank accounts has been thrown into doubt by its decision to compete head on with the banking sector in the sale of financial products, by means of the partnership agreement with Bank of Ireland).

— Cases brought to CCBS's notice of bank owned machines installed as special cases in rural/deprived communities for example:

Mytholmroyd Yorks	Nationwide	1998
Cotgrave Notts	LTSB	1998
Gaywood Norfolk	Nationwide	1998
Matlock Bath Derbyshire	NatWest	1999
Liss Hants	Nationwide	2001

have dried up since the ending of direct charging.

5. Pricing/Location

5.1 ATMs "remote" from branch premises are a more recent phenomenon and CCBS has no objection in principle to those being fee-paying in "super convenience" locations such as pubs, clubs, hotels, neighbourhood stores, etc However, free access should be maintained, in addition to the traditional town centre branch based sites, in major public areas such as shopping malls and transport interchanges which have become high street substitutes but without the bank branches. Non branch locations have to be paid for and the alternatives are:

(a) direct payment by users

(b) capital and operating costs paid or subsidised by site owner

(c) in some cases, sustained by bank "interchange" fees

(d) an advertising tool for the brand

(e) an extension of the cashier saving principle

Commercial operators should not be excluded but banks have a duty to ensure that suitable free access for their customers is available in such places and a shared approach to the problem is appropriate.

5.2 Increasingly non branch locations are being serviced by the commercial operators (which have no account relationship so no opportunity to cross subsidise) and the transfer of "remote" ATMs from the banks to such companies facilitates option (a) above but that option should not automatically apply to "remote" sites, some of which should continue to be free or paid for in the other ways listed. HBOS has already transferred 816 machines to Cardpoint (250 of which are already being re-categorised as fee paying) and RBS/NatWest has purchased Hanco which is likely to become the vehicle to which non-branch RBS/NatWest machines are transferred prior to becoming fee paying.

5.3 This trend reinforces the need for the nature of the machine ie charging or free to be clearly exhibited in large print, visible on the machine or its surround, together with the current level of fee. At present the fact that it is a LINK machine often overshadows any mention of fees.

6. Financial Exclusion/Location

6.1 CCBS's concerns in this matter focus on preserving free access to cash in rural, suburban and inner city locations, where a branch is open for substantially less than full banking hours, where the banks close branches and remove free ATMs and/or where the closed branch had no ATM.

6.2 Over 800 communities have lost their last or only bank branch and since 1990 5,000 branches of traditional high street banks have closed. A further 1800 branches are predicted to close 2005–10 amongst which are "at risk" branches like:

Lloyds TSB	Potton Beds
Lloyds TSB	Dibden Purlieu Hants
Barclays	Coniston Cumbria
Lloyds TSB	Donington Lincs
HSBC	Cerrigydrudion N Wales

where cash machines have not been installed, so when the branch is lost so is free access to cash.

6.3 The banks' present obsession with branding their own cash machines, although in fact available to all without charge, has brought about an imbalance of provision between urban and rural areas. Research in CCBS's home area illustrates a point which we believe to be nationwide ie:

— Harpenden pop 30,000 has 10 free ATMs within 200 yards on its High Street, free to all, as well as seven banks and two building societies.

— Redbourn pop 6,000 has only one commercial fee paying machine within a village store, having lost its sole bank branch some years ago.

6.4 It is understood from LINK that a reduction of 20% in urban numbers would lose only 2% of activity and that a neutral "white label" network (similar to CCBS's proposals for "shared banking") could reduce machine numbers by a third. It is CCBS's view that such savings could be used to correct the imbalance and provide ATMs in rural and other locations deprived of free access.

6.5 Free access to cash, from an ATM or bank branch, is vital to a community's economy. Research by the New Economics Foundation in 2001 in the Leicestershire village of Ibstock revealed 63% of cash drawn from its ATM was spent locally.

6.6 Convenient local access to their cash is particularly important for elderly and disabled people with restricted mobility and is a factor in sustaining their independence. 2.7 million people are in receipt of disability allowances and 11m are pensioners.

7. Technology and Security

7.1 Machines operated by the commercials tend to be the smaller capacity, less robust, cheaper models suited only to the inside of premises where they are less vulnerable to ram-raiding and sophisticated fraud than the 'hole in the wall' variety, although there exists a user perception that such machines can be more easily used to clone cards. Those not accepting credit cards can be a problem, especially in tourist areas frequented by overseas visitors.

7.2 Banks are trialling more sophisticated ATM capabilities, for example a deposits service able to issue itemised/photographic evidence of a pay-in, rather than the envelope method which is not popular. Such machines are expensive and need a high usage to justify the cost which in smaller communities is likely only to be achieved by a multi-bank shared approach, with or without subsidy.

8. Social Banking Foundation

8.1 In all of its activities concerned with ongoing suitable local banking provision, CCBS has identified a need for a supporting source of subsidy which would supplement, in appropriate cases, local authority, EU and charitable trust sources.

8.2 CCBS proposes a Social Banking Foundation.

8.3 In essence a Social Banking Foundation would be funded by an annual levy on all holders of banking licences (authorisations by the FSA) related not to profits but to the size of their consumer and small business deposit base. This would bring Internet, telephone and postal banks into the net thus achieving a level playing field rather than Government approaching only the traditional high street banks when a social banking initiative needs funding. The traditional banks are likely to welcome a much fairer distribution of the social responsibility burden and could receive partial relief from the levy to reflect their existing efforts.

8.4 A Social Banking Foundation would distribute its resources wisely across a range of social banking activities (but flexibly and in partnership with local resources where they exist) including a neutral community bank network, post office facilities, remote ATMs, credit union support, community finance and micro-credit initiatives; and debt advice.

8.5 The existence of a Social Banking Foundation would enable government to exercise a "light touch" control over social banking provision, having ultimate responsibility for the scale of licence levy, whilst at the same time standing apart from day to day intervention. Similarly the banks, having paid the levy, should not be subject to a succession of funding demands.

2 December 2004

Memorandum submitted by Cardpoint plc

Cardpoint plc was formed in 1999 following the disposal by Mark Mills of his previous business, which supplied a postal service to Petrol Stations.

During the course of the preceding five years, Mills and his colleagues were regularly asked, during fact-finding discussions with potential and actual Retailers concerning postal services, if they knew how to acquire a Cash Machine for use by Petrol Stations' Customers. Whilst the "company owned" Petrol Stations seemed able to negotiate and acquire this popular service from the High Street Banks, the "privately owned and operated independent" Petrol Stations were unsuccessful and broadened their search and criteria for the service by asking other suppliers of other goods and services.

Whilst on business in the US in 1999, Mills could not fail to notice thousands of charging Cash Machines and embarked upon changing the UK landscape to allow a non-Financial institution to deploy the service, predicated on charging a small fee per withdrawal. Mills made a submission to Don Cruickshank's Banking Review Team, presented to the Department of Trade and Industry, corresponded with the Office of Fair Trading and petitioned LINK alongside Banks.

Cardpoint determined that its business model would be high investment, whereby Cardpoint pays for the Cash Machine itself, all of the running costs (except for electricity), supplies the notes to be dispensed, and all other services. This enabled Cardpoint to offer the service of a Cash Machine at no charge to Retailers and in return for investing the risk capital, to retain the majority of the fees generated, whilst also bearing the high operating costs. Cardpoint has no other income from this part of its business but believed that by offering a convenient service on a "take it or leave it" basis giving everybody the opportunity to save time by using its Cash Machines, it could build a useful network wholly driven by supply and demand, despite there being circa 30,000 free Cash Machines at the time. The Retailers' benefit is the creation of further Customers using the conveniently sited Cash Machine subsequently spending part of his or her withdrawal proceeds in the premises.

On 17 March 2000, Cardpoint (under its previous name Cash Card) provided its first cash withdrawal at an independent Petrol Station in London, asking each and every one of its Customers from then to the present day, if he or she accepts the charge, defining the precise amount (£1.50 to £1.75) whilst stating that the charge is made by Cardpoint. Cardpoint's charging Cash Machines are located in Retailers' premises where it is not viable to operate without charging (and to rely upon a maximum interchange fee currently of £0.302 per withdrawal). Cardpoint's Cash Machines are bright orange, highly available, have high repeat usage, and provide a service where no alternative would, could or had been provided. Its charging model has been extremely successful and by organic growth and acquisition, Cardpoint now dispenses over £50 million per month with an average withdrawal of £46. Cardpoint operates free to Customer Cash Machines acquired recently from HBOS dispensing £250 million monthly and it is likely on 556 of the 816 acquired, that a charge will be not levied, provided the volume of withdrawals remains and the interchange fee of £0.302 does not decrease. In Cardpoint's opinion, had these Cash Machines not been transferred to us, they could all have been closed owing to the low usage by HBOS Customers and high operating costs.

Cardpoint has always willingly complied with all LINK and regulatory requirements and will continue to do so, but it will contest as anti-competitive any attempt to fix its pricing. Similarly, Cardpoint will challenge any proposal designed to inhibit its free market operations which could jeopardise its staff's well-being, the Cardpoint service offered to Retailers and the millions of Customers voluntarily using and readily paying for its service monthly.

5 December 2004

Memorandum submitted by Citizens Advice

Introduction

1.1. Citizens Advice is the national co-ordinating body for Citizens Advice Bureaux in England and Wales. We co-ordinate the largest independent network of free advice centres in Europe, providing advice from over 3,000 outlets, ranging from GPs' surgeries, hospitals, community centres, county courts and magistrates courts. In 2003–04 the CAB service dealt with 5.6 million new enquiries. Of these enquiries nearly 1.2 million were debt or finance-related.

1.2. The CAB service has two equal aims:

- to ensure that individuals do not suffer through lack of knowledge of their rights and responsibilities or of the services available to them, or through an inability to express their needs effectively;
- and equally, to exercise a responsible influence on the development of social policies and services, both locally and nationally.

1.3. Citizens Advice welcomes the opportunity to make a submission to the Treasury Committee inquiry into cash machine charges. Many of our clients are on low incomes or benefits, or are disadvantaged in some way. For example, research by MORI for Citizens Advice found that CAB users tend to be in social grades DE and the unemployed.[5] For this reason charges for ATM withdrawals are an important issue for our client group as it reduces the amount of money to live on.

1.4. The issues of the prevalence, principle, practice and impact of cash machine charges should be viewed in the wide policy context of the Government's objectives to promote greater financial inclusion. In a report Citizens Advice published last year with the Institute of Public Policy Research (Beyond Bank Accounts) we highlighted the links between financial exclusion and poverty. Poverty and financial exclusion come together when people on the lowest incomes often pay more than they should to access goods and services; may have limited access to suitable financial services, for example available credit for borrowing may be very expensive and may have more limited awareness of or experience of dealing with financial matters, and thus miss out on entitlements to benefits and tax credits. We have welcomed initiatives to promote access to banking services for people hitherto financially excluded. However, we also identified the growth of charges

[5] Financial Overcommitment, research study conducted for Citizens Advice by MORI, July 2003.

for use of convenience cash machines as a new risk to financial inclusion. Charges for obtaining cash, particularly in small amounts, seem excessive and unfair. In Beyond Bank Accounts we illustrated this as follows:

> "A family with two children receives approximately £107 per month in child benefit. If they were to withdraw £20 per week from a convenience ATM, charging £1.50, this would mean that 7.5% of the weekly allowance would be paid straight to the bank or ATM owner" (Building Societies Association, 2003)

2. The principle of charging and location of charging machines

2.1. Free or low cost access to cash is extremely important for consumers. This principle is being eroded by the significant increase in both convenience cash machines, which invariably charge, and other ATMs which charge those with accounts at other banks.

2.2. These developments are particularly significant to people on low incomes and those in living in deprived areas. For these people, affordable credit, bank counter and bank ATM withdrawal of cash and cash back facilities are often far less easily available, due to the recent programmes of bank branch and post office closures.

2.3. For example, Speke Advice Service, a CAB situated in a part of Liverpool where significant financial exclusion exists, reports that there are no free ATM machines in their area. There is one bank branch in North Speke, but it is small and is open infrequently. There are two charging cash machines in their area—one in a local supermarket and one in a post office. As nearly three quarters of this CAB's client group is in receipt of state benefits, they are concerned about the limited opportunities locally for free access to cash.

2.4. In addition the Government has introduced direct payment of benefits into accounts for virtually all benefit claimants. The aims of this programme included efficiency savings and promoting financial inclusion. One of the selling points used in DWP literature about switching to payment via a bank account was that claimants did not need to take out all of their benefit entitlement at one time: "And you won't have to get all your money out in one go—so you won't have to carry so much cash around".[6]

2.5. It is welcome that the government, Post Office Limited and the banks entered into an agreement to allow free withdrawals from basic bank accounts at post office counters. However although Post Office Ltd and DWP have been publicising post office access to accounts, many of the banks do little to advertise post office access to their basic bank accounts. Citizens Advice hopes that the commitment in the new 2005. version of the Banking Code to tell bank customers about post office access to accounts will change bank practice in this area. Such a change in practice would inform their customers that there are free alternatives to using a charging cash machine.

2.6. We are also concerned at the number of fee-charging cash machines situated in the post-office network—according to Post Office Ltd data, 74% of cash machines in post offices charge fees. Although this provides additional income for the post office network, significant costs are being displaced to post office users. We are concerned that the growth of convenience cash machines in post offices is contrary to the government's policy goal of free cash withdrawal from post offices.

2.7. Convenience cash machines are one source of extra cost which has particular impact on low-income households. For this significant section of society the charges are particularly inflexible and unfair. Charges are often levied at £1.50 regardless of whether a transaction sum is £10 or £100. By definition the proportion of an individual's money which is spent on the charges will be higher if they tend to take out smaller amounts of money. This will disproportionately penalise families who have weekly low incomes (ie those on benefits or in the low pay economy) who cannot afford to withdraw money in lumps of £200. For this reason, Citizens Advice believes that charges should be restricted and possibly capped. All non-financial transactions should remain free.

2.8. For example, a single person aged 25 or over in receipt of jobseekers allowance, a benefit for unemployed people looking for work, is entitled to £55.65 benefit per week. If they were to follow the DWP's advice not to take out all their money in one go, but used a fee charging ATM to take it out in two or three withdrawals, they could face losing up to 8% of their weekly benefit.

2.9. Citizens Advice is also concerned that a second and unforeseen trip to the same cash machine (if the first withdrawal had been insufficient) will accrue yet another charge. We wonder whether it might be possible to prohibit multiple charges to the same account on the same day. It is not always entirely clear to customers how much available money they can withdraw and many people take out more than one amount.

2.10. Citizens Advice is concerned that many charging cash machines are located in pubs, bars and off-licences, when an expansion of cash back facility might be more appropriate.

2.11. Citizens Advice is also concerned that most charging cash machines are controlled by operators who work outside the Banking Code, which prohibits double-charging and puts a strong transparency onus on the operator.

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[6] DWP leaflet on direct payment, Direct Payment—giving it to you straight.

2.12. Citizens Advice also considers that those whose main source of income is state benefits should not have to pay a charge for accessing cash. We consider that the DWP should look at reimbursing ATM operators to allow this group of people free access to their money.

3. The transparency of charges and changes in charging practices

3.1. Convenience cash machines rarely have clear and noticeable external labelling to indicate that charging will follow all transactions. In some cases the labelling may be ambiguous, eg "Free balance check", whilst providing no information about the cost of actual cash withdrawal. It is clear that once a user has entered the process of withdrawal they are less likely to decide against continuing the transaction, especially if there is a queue or they feel they are being observed.

3.2. Other cash machines which charge certain users usually provide a screen prompt along the lines "your bank may charge you for this withdrawal". This is entirely ambiguous and unclear. Citizens Advice believes that all charges must be clarified before the transaction is agreed by the customer.

3.3. In many cases where banks have introduced or re-introduced charges to third party customers, there has been extremely unsatisfactory or non-existent pre-notification.

3.4. To bring greater transparency about charges we would like to see the following:

- All changes in charges should be notified to the customers affected in writing and should be displayed clearly at all ATM sites.
- Machines must display a clear and prominent warning of charges before a card is inserted (either by a notice on the machine or an up-front screen message)
- Warnings should be as prominent as any signs promoting free services, such as free balance enquiries.
- A clear and prominent warning of the charge should be displayed on any other signage (for example, advertisements in shop windows)
- A clear and prominent warning should be displayed at least 30 days in advance where a machine which was previously free is to be replaced by a charging machine or where a charge is to be increased.
- When the new Banking Code comes into force, the Banking Code Standards Board should monitor whether banks are promoting free access to their accounts at post office counters.
- The Financial Inclusion Task Force, as proposed in HM Treasury's pre-Budget report, should monitor access to cash withdrawals, and the charges that may be made.

December 2004

Memorandum submitted by HBOS

1. Introduction

1.1 HBOS welcomes this opportunity to contribute to the Committee's inquiry into the surcharging at some ATMs. Our position is clear: we are committed to providing access to our ATMs, free of charge, to all customers now and in the future.

As the operator of one of the largest free to use ATM networks in the country, we fully support all efforts to increase the transparency of charging. This includes the new regulations recently proposed by LINK, prompted by Nationwide's suggested code of practice.

1.2 The UK is unique amongst developed countries in having a free banking system where access to the vast majority of ATMs does not involve any charge for the customer. It is important that this central fact is not obscured by the recent publicity about the growth in the number of surcharging ATMs. Over the last 20 years major banks, including Halifax and Bank of Scotland, have democratised access to banking in the UK and free ATMs have been at the forefront of this development. There is currently no indication that any major bank intends to start charging customers for the use of its ATMs.

1.3 Over the last 10 years, the number of ATMs in this country has grown dramatically. In 1993 there were 19,140 ATMs in the UK. By the end of September 2004, this figure had grown to 55,346.

The arrival and growth of surcharging ATMs since 1999 has been in addition to, rather than at the expense of, free ATMs. At the end of 1999, prior to the arrival of surcharging ATMs in the UK there were 27,379 bank owned ATMs. At the end of September 2004, this figure had risen to 33,175. The number of free ATMs in the UK is still on the increase; the growth rate in 2003 was 2.3%.

1.4 Customers are very discriminating about how and when they use surcharging ATMs. This canniness on their part is evident from the most recent cash machine usage figures issued by APACS. In 2003, a total of £144 billion pounds was withdrawn from ATMs. Of this, £140.5 billion pounds was from free machines whereas £3.6 billion pounds was withdrawn from surcharging ATMs. So, by value, free ATMs account for 97% of withdrawals.

A similar trend emerges if one analyses the volume of ATM transactions and the way in which they are apportioned between free and charging machines. So, for example, in 2003, 2.3 billion transactions were completed at free ATMs compared to 80 million at surcharging machines. The trend is clear. While free ATMs account for just over two thirds of all U.K. machines, they handled 97% of all cash withdrawals by volume for all U.K. customers. Each free machine dispenses approximately £500 in cash every hour and there is no sign of the demand for this valuable service abating.

These figures are obviously a reflection of consumers' reluctance to pay for cash withdrawals at ATMs. They are also a reflection of the sites which many of these machines occupy. For example, we would not expect repeat transactions to be made at petrol stations.

2. Sale of ATMs to Cardpoint

2.1 HBOS recently sold 816 remote ATMs to Cardpoint. We have no plans to sell any further ATMs.

As an operator of remote ATMs, we rent the space off the site owner. This is a competitive market where retail "wall space" is at a premium and the site owner has the upper hand. Typically, contracts are negotiated between the owner and the bank on a three to 10 year basis; at the end of the contract, there is no guarantee that the owner will continue with that particular bank and an auction for the wall space inevitably occurs. This process sums up the free market in operation.

2.2 We carefully scrutinised the sale of our remote ATM network prior to the sale to Cardpoint. In doing so, we were very mindful of our broader responsibilities to the communities we serve. As a result, cash machines in hospitals and public spaces like museums and galleries were excluded from the sale. We also retained ATMs in communities where there is no other free banking service available. It is worth noting that, of the machines that were bought by Cardpoint, 73% are within 1.6Km of a free ATM and 92% are within 3Km.

The committee may also be interested in how the proceeds of the sale to Cardpoint were allocated within the HBOS group. As a matter of fact, the sale proceeds have been reinvested in improving our customer service across the UK For instance, the group has recruited an extra 2,000 staff and deployed them in our branches and call centres. This was probably the largest single recruitment exercise in the U.K financial services market this year.

2.3 Cardpoint are required, as a member of LINK, to meet regulations regarding surcharging. A customer prompt appears during the transaction, again advising of a charge, and giving the customer the option to cancel the transaction before a fee is incurred. In addition, a visible notice is displayed on the ATM fascia advising that customers may be charged for making cash withdrawals.

3. Our Banking Network

3.1 The considerable role that HBOS plays in the financial services industry is matched by our presence right across the UK In particular, our ATM network is an important extension of our 1,100 strong branch network.

HBOS owns 2,750 ATMs which are free to use for our own cardholders and to all cardholders using the LINK network. Our machines are sited in a variety of locations. The vast majority are located either outside our branches, within the banking hall itself or in our estate agencies.

3.2 HBOS is one of the few UK institutions offering free ATM services everywhere in the UK, unlike some other major banks. For example, our 36 ATMs in Northern Ireland are free to use, just like their equivalents in England, Scotland and Wales. The committee will of course be aware that Which? has lodged a "supercomplaint" with the OFT against the major banks in northern Ireland and ATM charging forms part of that legal challenge.

Four yeas ago, Halifax was the first major ATM provider to announce that it would not surcharge customers for using any of its cash machines. This principle has been maintained since the creation of HBOS in 2001.

3.3 The committee may be interested in a brief analysis of the economics of ATMs. At HBOS, the annual cost of running a "remote" ATM is roughly double that of running a branch based ATM. This significant additional cost is due to telecommunications, security, business rates, travel and site rental costs.

3.4 The issue of access to ATMs is part of a broader financial inclusion agenda which HBOS is playing its part in redressing. Much has been done in the past few years, but there is still a long way to go.

According to the BBA, twenty-five years ago, only 38% of the population had current accounts and a third of all adults had no account of any type. Now 93% of all adults have an account of some sort. All major high street providers now have basic bank accounts that can be accessed at the post office.

3.5 With two-thirds of the market, HBOS is by far the largest provider of basic bank accounts and has been for some time. Halifax's Cardcash account was launched in 1983 and Bank of Scotland's Easycash account in 1991. Our annual commitment to providing these products costs over £25 million.

These bank accounts provide essential banking facilities to underprivileged sections of society. Customers can use their cash card free of charge at any ATM in the LINK network. We open 25,000 basic bank accounts a month.

3.6 As well as our provision of basic banking products, HBOS has pioneered a number of successful community banking projects which demonstrate our commitment to the localities in which we operate.

Bank of Scotland's Community Banking team is working with Prospect Housing Association to give tenants access to financial advice and practical assistance on personal banking and budgeting. Through this scheme, more than 1,000 basic bank accounts have been opened since April 2001. This model will be expanded and built upon by our team.

Halifax is the only financial institution working with the Government on the "Savings Gateway", a project designed to encourage savings by those on low incomes. As the Chancellor announced on the pre-budget report in December 2004, this scheme has been highly successful and will be extended over the coming year.

4. Industry Codes of Practice

4.1 Nationwide Building Society recently proposed a new Code of Practice governing surcharging ATMs. These proposals now form part of a set of new regulations governing transparency which have been put forward by LINK. We have reviewed these draft proposals and formally registered our support at a recent LINK meeting.

We support any initiative intended to improve the clarity and transparency of charging for any banking services, including ATMs. We also support strengthening the regulatory framework within LINK to ensure compliance with these proposals as well as existing regulations. Stricter enforcement of regulations and codes of practice by LINK is supported by HBOS.

4.2 The LINK Interchange Network provides access to all institutions, whether ATM acquirer or card issuer, that meet operational and audit standards.

This means LINK is an enabler of free competition, rather than a barrier to it. On this basis, we consider it is right that both free to use and surcharging ATM owners are admitted to the network.

5. Conclusion

5.1 In conclusion, it is clear that although the number of surcharging ATMs has grown, the vast majority of transactions in the UK are conducted free of charge. Currently, surcharging machines only process 3% of all ATM transactions.

HBOS is committed to maintaining its branch based ATM network and to continuing to provide this service to our own customers and those of other banks. In addition, we are working with the industry to ensure the highest possible standards of transparency on all surcharging machines.

December 2004

Letter from Shane O'Riordain, General Manager, Group Communications, HBOS plc to the Chairman of the Committee

ATM Inquiry

I wanted to write with some information that you may find helpful in your preparations for the Treasury Select Committee hearing on ATMs on 1 February.

Improving Transparency

As we outlined in our December submission to the Committee, HBOS recently sold 816 remote ATMs to Cardpoint. Cardpoint is in the process of taking ownership of these ATMs and a number of them will become surcharging.

We have listened carefully to the Committee's concerns that insufficient notice is given to customers prior to bank owned machines changing hands and their new owners surcharging customers. I am pleased to confirm that, in response to your concerns about the issue, we are placing notices (a copy is attached) on the machines that we transfer to Cardpoint. The notices will alert customers that cash withdrawals may no longer be free at that machine.

The notices are clear and will be placed prominently on machines, at eye level. From last week, all the ATMs that are transferring to Cardpoint are being labelled; we are aiming to give thirty days notice to customers.

Transferral of HBOS ATMs to Cardpoint

After recent media coverage, I thought it would be useful to point out that the decision to surcharge is a matter of negotiation between Cardpoint and the site owner. HBOS has no involvement in this decision and has given site owners no incentive to transfer to Cardpoint on a surcharging basis. For a number of reasons, site owners may prefer to operate free to use machines and this is why, as Cardpoint has confirmed to their shareholders, charges will be levied on around 250 of the 816 ATMs we are transferring to them.

As you will be aware, contracts for ATM sites are usually between three and five years in length. More than 80% of the contracts relating to the machines we sold to Cardpoint were due to expire next year, and there was no certainty that we could have renewed them if we tried to do so.

Financial Exclusion

We have analysed the geographical spread of our ATMs in response to your natural concerns that there may be disproportionate numbers of charging ATMs in some of the poorer parts of the UK Using the ODPM's index of deprivation, we can confirm that HBOS operates over twice as many free ATMs in the fifty most deprived areas compared to the least deprived.

With two-thirds of the market, HBOS is the largest provider of basic, or social, banking products and has been for some time. We open 25,000 accounts a month and our commitment to providing these products to underprivileged sections of society costs us £25 million pounds a year.

These products play a significant role in tackling financial exclusion in the UK. Our Easycash and Cardcash accounts give customers on low incomes access to money transmission services and our ATM network.

I hope that you find this additional information helpful. If you do have any queries please do not hesitate to contact me.

25 January 2005

Memorandum submitted by HSBC

Cash machine charges

Thank you for your letter dated 9 November 2004 addressed to Mr Geoghegan, Chief Executive Officer, requesting that HSBC Bank plc make a written submission to assist you with your inquiry. I am responding on his behalf as he is away from the office. We aim to provide the Committee with information on HSBC's automated teller machine ("ATM") network and our views on the current state of the market.

HSBC's network

HSBC is a member of LINK whose network has 53,507 ATMs, of which 20,895 charge a fee for withdrawals. Our customers have access to all LINK ATMs. HSBC alone has 2,957 ATMs, of which 508 are not located in branches. We do not charge for use of our ATMs, nor do we charge our customers when they withdraw from other providers' ATMs.

These machines provide the following services to customers: cash withdrawals; account balances; Personal Identification Number ("PIN") changes; statement ordering; mini-statement prints; and account transfers between HSBC accounts at the same branch. We have also introduced multi-function machines which combine the features of paying-in machines and ATMs.

The principle of charging

Providing ATM access to customers is a significant operational cost for banks. HSBC receives an interchange fee for every non-HSBC customer using our machines, but also pays an interchange fee every time one of our customers uses a competitor ATM. Overall, the running cost of HSBC's ATMs plus the cost of our customers using other bank machines mean that the net cost of providing cash through ATMs is very large.

We provide our customers with free access to the majority of the ATM network. The members of LINK agree an interchange fee to cover average operating costs, as defined by an annual independent study carried out by KPMG. This process was endorsed by the OFT following its investigation into ATMs completed October 2001 which allowed cost recovery through application of an interchange fee. The OFT also permitted the use of surcharging as an alternative to the interchange fee.

The interchange system is concerned with cost recovery, not profit. Since the interchange fee is based on the average cost of an ATM transaction, the only way an operator can make a profit is by:

1. Operating an ATM network more efficiently than the rest of the market so that the interchange fee exceeds the operator's actual cost. This might involve getting more people to use its machines, so achieving economies of scale.
2. Surcharging instead of receiving the interchange fee for transactions.

Factors affecting growth

We consider the UK market for ATMs to be near saturation point with over 53,000 ATMs. There are very few new high volume sites available now and, therefore, new sites tend to be lower volume and more difficult for the provider to cover costs. In addition site owners now view ATMs as a source of income and are increasingly seeking to maximise returns.

The significant costs of maintaining and renewing ATM networks, particularly in non-branch sites, have led to some financial institutions selling parts of their network. This is not an option that we have pursued.

Transparency

We provide customers with clear guidance on our machines regarding charging. Our ATMs indicate on screen that they provide free withdrawals and if a credit card withdrawal is being made, the customer is warned that their card issuer may charge them.

We believe that any ATM surcharges should be clearly indicated and give the customer the opportunity to end the transaction before committing to the withdrawal. With these measures in place, we consider our customers capable of deciding whether to withdraw funds from a charging ATM or use another method to access their funds.

The LINK rules on notifying surcharging currently state that: "A sign saying 'This machine may charge you for LINK cash withdrawals' must be clearly visible to cardholders before a card is inserted in a surcharging ATM (either by notice on the machine or an up-front on-screen message, at the discretion of the ATM deployer)". However, we consider that some surchargers do not make the fact that they charge sufficiently clear to customers as the stickers indicating that machines charge are not always prominent and a warning screen is not necessarily shown at the start of the transaction. We would therefore welcome any action by LINK to improve clarity.

Codes of conduct

The revised Banking Code covers the issue of cash machine charges and HSBC already complies with its terms. Not all cash machines providers subscribe to the Banking Code. All LINK members have to comply with the LINK rules which are based on the Banking Code. We believe that compliance with the Banking Code and the LINK rules is sufficient regulation to ensure that transactions are conducted fairly and in a transparent way.

Problems of access in remote locations

In the main, surcharging machines are situated in low volume locations where a provider cannot recover the running costs through the interchange fee. These sites tend to be convenience stores, pubs and stations and are not sites that are financially viable as there would be insufficient income from the interchange fee to cover costs.

HSBC is committed to providing banking services to all sections of the community where it is viable to do so.

I trust that you will find HSBC's views helpful.

6 December 2004

Memorandum submitted by HM Treasury

This memorandum aims to provide evidence on the key issues the Treasury Committee is investigating in respect of cash machine (ATM) charges. The Treasury has overall responsibility for banking and payments policy, including ATMs. However, there are some issues relevant to the inquiry for which other departments and the Office of Fair Trading have lead responsibility: the Department for Work and Pensions is responsible for benefits issues, the Department of Trade and Industry is responsible for strategic policy and political issues relating to the Post Office as well as misleading prices, and the Office of Fair Trading is responsible for competition regulation and chairs the Payments Task Force. These departments and the Office of Fair Trading have made contributions to this paper.

1. Introduction

1.1. Over the past four years there have been significant changes to access, pricing and transparency of charges in the ATM industry. These changes have been prompted by a number of factors including media and public pressure as well as concerns raised by the Cruickshank report of March 2000.[7]

1.2. The Government welcomes the changes because they have made the industry more competitive, with clear benefits for consumers. The number of ATMs has risen sharply and, within that, the number of free ATMs has also continued to increase. Where outstanding concerns remain, the Government has put in place mechanisms to ensure that they are addressed. Officials maintain regular contact with LINK and other interested parties to keep up to date with developments in the ATM industry.

2. The Principle of Charging

2.1 There are costs to supplying an ATM service and it would not be commercially viable for an ATM operator to offer the service if these costs could not be recovered. However, the Government believes that, as far as possible, this should be done in a way that does not inhibit competition and market efficiency or allow larger players to exploit their position.

2.2 In 2000, the Cruickshank Report noted that there was very little relationship between prices charged in the ATM industry and underlying costs. Interchange fees were heavily weighted against smaller players, especially firms who might want to specialize in acquiring, and issuer charges were both discriminatory and opaque.

2.3 The Government is pleased to note that there has been progress in these areas. From July 2000 LINK members agreed to ban double charging, so that an ATM user cannot be charged by both their card issuer (issuer charge) and the ATM supplier (acquirer charge). In late 2000 virtually all high street banks and building societies also made a commitment to abolish issuer charges for withdrawals from a bank account, with effect from 1 January 2001.

2.4 Prior to January 2001 banks and building societies had been operating a complicated and discriminatory system of charges for their customers' use of another bank's ATM. The larger banks were generally offering their customers very limited free access to ATMs outside their network, whereas institutions with a small ATM network would often be obliged to give customers free access to other banks' ATMs. High, discriminatory issuer charges therefore enabled the large banks to exploit and sustain their competitive advantage.

2.5 However, the Government welcomes the fact that this is no longer the case. As a result of the changes made, customers of virtually all the main banks and building societies can now withdraw cash for free at almost all ATMs run by these institutions. LINK figures show that there are 33,700 such free ATMs in the UK (63% of the total number of ATMs), with 19,655 at branches of LINK members and 14,045 at other locations. In the UK over 97% of LINK transactions are free of charge to the customer.

2.6 Another concern raised by Cruickshank was that there were substantial entry barriers in the ATM industry. In particular, he highlighted the fact that firms wishing to supply ATMs without also issuing cards were prevented from becoming members of LINK. However, in February 2000 the LINK board made the decision to open up membership to non-card issuers.

2.7 The Government is positive about the removal of this barrier. It has meant that the ATM market has been opened up to independent operators, becoming more competitive, with a significant increase in the number of ATMs offered to consumers. In 1999 there were 21,684 bank owned ATMs in the UK, of which 16,443 were located in bank branches and 5,238 were remote machines.[8] LINK figures show that by October 2004 there were 19,655 ATMs in bank branches and 33,704 in other locations. There are therefore many new ATMs to be found in places like pubs, shops and garages, where previously there was no cash machine and where customers are now presented with a choice about whether to use such a service. The cashback facility has also greatly increased consumer choice on access to cash.

2.8 A large proportion of the new ATMs not found in bank branches are run by independent operators and there is usually an acquirer charge (surcharge) for withdrawals from such machines. There are now 19,659 Surcharging ATMs in the UK and there has been some growth in the number of withdrawals made from such machines. In the majority of cases the surcharge would seem to be commercially justified. There

[7] The Banking Review was announced by the Chancellor of the Exchequer in November 1998 and culminated with the Cruickshank report, "Competition in UK Banking," in March 2000. Its purpose was to examine competition, innovation and efficiency in the UK banking sector and to consider whether there were options for change. Annex D4 of the Cruickshank report covers charging and access to ATMs. It can be found on HM Treasury's website: http://www.hm-treasury.gov.uk/documents/financial—services/banking.

[8] APACS 1999 ATM Survey.

are relatively high fixed costs to running an ATM but low variable costs. Therefore, if the ATM is in a "convenience" location where only a small number of withdrawals are made the LINK interchange fee would probably not be sufficient and it would be difficult for an independent operator to recover the high fixed costs without a surcharge. LINK figures suggest that most surcharging ATMs are in such locations: in October 2004 the average number of withdrawals at a surcharging ATM was 440, compared with 6,900 at a free ATM.

2.9 The Government is aware that some banks have recently sold off a small number of free ATMs to independent operators. However, there is no evidence to suggest that this is a general trend, or that free ATMs are under threat. Although, for example, HBOS recently sold off 816 machines to the independent operator, Cardpoint, the latter has stated that it is introducing a surcharge at only about a third of these. And LINK figures do not suggest that there is a need to fear the disappearance of free ATMs. In the year October 2003 to October 2004, the number of free ATMs in the UK grew by 3.5%. In addition to new free machines being deployed, over the same period 111 free ATMs did become surcharging but 100 surcharging ATMs also became free.

2.10 The Government believes that charges are a commercial matter for ATM operators. Direct regulation of retail prices should only ever be a last resort, implemented where it has been very clearly established that competition is not feasible, or where a monopoly supplier would be the most efficient option. There is good reason for this. Regulators face severe difficulties in assessing the correct level of prices, as those they regulate have an information advantage about, for example, their own costs. Also, price regulation can itself inhibit or prevent competition. For example, regulatory price caps can become a "focal point" for pricing, assisting the formation and maintenance of cartels.

3. The Office of Fair Trading and the Payment Systems Task Force

3.1 The Payment Systems Task Force was created following the Chancellor's Pre-Budget report in November 2003 which said that the OFT would take on an enhanced role on payment systems for a period of four years. The Task Force identifies, considers and seeks to resolve competition, efficiency and incentive issues relating to payment systems, particularly looking at network effects of the existing payment mechanisms. Where appropriate, issues affecting consumers which derive from, or are associated with, features of payment systems will also be considered. The Task Force will take account of previous work on payment systems, including the "Cruickshank" report of 2000 and OFT report on "UK Payment Systems" of 2003, but will also take account of later developments. More information on the Task Force can be found at www.oft.gov.uk.

3.2 The Task Force has identified several workstreams which it will examine over its four year life span. Among these are the access and governance of the Link network, transparency in payment systems, and price inefficiency in payment systems. The scope and timing of these workstreams has not yet been decided, and will be agreed by the Task Force, rather than the OFT. Currently, the Task Force is concentrating on low value, high volume electronic clearing.

3.3 It is possible that the workstreams above may cover some of the same ground as the TSC's inquiry. For instance, the Task Force will examine access and governance arrangements for the Link network. If issues affecting end users, such as cash machine charges, are affected by the access and governance arrangements of the Link network, this will fall within the remit of the Task Force. Currently, the Link access and governance workstream is scheduled for the second half of 2005. Until then, it is not possible to say to what extent the work of this workstream and the TSC inquiry will overlap.

3.4 Similarly, the Task Force plans to form a workstream to address transparency in payment systems in 2007. "Transparency' covers a whole range of issues, through wholesale fees to the governance of the scheme itself, and the Cruickshank report of 2000 raised the issue of the transparency of charges made by ATM operators to end consumers (para 3.147).

3.5 Price inefficiency in payment schemes was also raised in the Cruickshank report. Cruickshank considered that payment schemes run by member banks, such as Link, had an incentive to raise wholesale prices to erect barriers to entry for businesses wishing to offer current accounts. Furthermore, Cruickshank considered that this led to an effect on the geographic distribution of ATMs, with resulting under-supply in poorer and rural areas (para 3.122). Cruickshank said that changes to Link's fee structure, introduced before the publication of his report, could have a positive effect on some of the concerns raised. The Task Force currently plans to start a price inefficiency workstream in 2006, and it is likely that such a workstream would assess the extent to which Cruickshank's concerns remain justified.

3.6 It should be noted that the Task Force, not the OFT, decides on the scope and timing of workstreams. It is not possible to determine the precise extent to which the Task Force's workstreams will overlap with the TSC's inquiry until a workstream has been started and the terms of reference have been decided. However, the Government is committed to seeing competition in payment systems improve and we will legislate in four years if progress has not been made through the OFT Task Force.

3.7 The Government is aware that the Treasury Select Committee has also shown interest in the OFT's regulation of LINK under the Competition Act 1998. Evidence on this, provided by the OFT, can be found in the Annex to this paper.

4. Transparency

4.1 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.

4.2 The Government considers that good progress has been made recently on the issue of transparency. At the time of the Cruickshank report in 2000, banks and building societies, who were then the only operators of LINK ATMs, were operating a complicated, discriminatory and opaque system of both issuer and acquirer charges. Consumers were poorly warned of these charges (although they would still be told the amount of the charge and given an option to cancel just before the end of the transaction) and as a result there was general confusion about when they would be applied.

4.3 With the removal of issuer charges (except for credit cards, which account for only about 3% of transactions) this situation has been greatly simplified. And where surcharges are levied, improvements have been made on warnings and signage.

4.4 As mentioned above, where charges have been applied there has always been a warning of the amount of the charge and an option to cancel without charge just before the end of the transaction. LINK have noted that the UK is the only country in the world where this is the case.

4.5 In April 2004 transparency was improved when LINK members agreed that a customer should be warned before inserting their card that a machine might charge them. This sign should be either on-screen or on the ATM itself. The Government believes transparency is of great importance and is aware that there has been concern that this additional rule has not always been properly applied. As the Treasury Select Committee will be aware, the Financial Secretary to the Treasury recently wrote to the Chief Executive of LINK indicating that the Government welcomes the introduction of this new rule but is concerned that it should be properly applied and that charges should be transparent.

4.6 The Government is pleased to note that LINK have taken additional steps recently on the issue of transparency. At their members meeting of 14 December LINK agreed that, with effect from 1 July 2005, the following changes will take place:

- All surcharging ATMs must carry a message on all screens in the "idle" sequence before a card is inserted stating that "This machine will charge you £xx.xx for LINK cash withdrawals
- All surcharging ATMs must carry external signage saying "This machine will charge you for LINK cash withdrawals." The sign must be:
  - within the normal eye line close to the ATM screen, and
  - use a font size consistent with that used for similar information and of at least font size 14, and of contrasting colour to the background.
- Where there is signage away from a surcharging ATM that directs towards it, this sign must include the words. "This machine will charge you for LINK cash withdrawals."
- LINK will undertake periodic sample surveys of ATM signage and idle screens and report non-compliance.
- In the case of persistent non-compliance, sanctions such as fines, a refusal to allow the Member to install any more ATMs, disconnection of the non-compliant ATMs or all the Member's ATMs will apply.

4.7 The Government welcomes these changes and will be monitoring their effect in the coming year.

5. Financial Inclusion, Location of ATMs and Direct Payment of Benefits

5.1 The Government is committed to tackling financial exclusion. Much progress has been made since the 1999, Policy Action Team 14 (PAT 14) Report. The PAT 14 report made recommendations on basic banking, credit unions and insurance with rent. Many of the recommendations are now in place.

5.2 The Pre-Budget Report and the supplementary document "Promoting financial inclusion", published on 2 December, 2004 set out the next steps on tackling financial exclusion. The Government has announced a Financial Inclusion Fund of £120 million to support measures to address financial exclusion and a Financial Inclusion Taskforce, chaired by Brian Pomeroy, former Chairman of the National Lottery Commission, to monitor progress in three key priority areas: increasing access to banking services, to affordable credit and to free face to face money advice. The Terms of Reference and the membership of the Financial Inclusion Taskforce will be published shortly.

5.3 "Promoting financial inclusion' sets out analysis suggesting that financial exclusion is particularly concentrated in certain areas of the country. For example, looking at families with low levels of financial activity we can see that 25% of the excluded live in the 3% of postcodes with the highest concentrations of financial exclusion. These postcodes are concentrated in areas including parts of East and South-East London, Middlesbrough, Manchester, Birmingham, Glasgow and Liverpool.

5.4 The first priority for the Government in addressing financial inclusion is reducing the number of individuals who have no bank account. Considerable progress has been made on this recently. All the major banks now offer a basic bank account. Basic bank accounts are an important means of dealing with financial exclusion and are a gateway to wider, mainstream services. As the proportion of those with bank accounts increases, it should make the provision of banking services in areas which currently have a high level of financial exclusion more commercially attractive to banks.

5.5 Recent figures from the British Bankers' Association show that there has been a steady growth in the number of basic bank accounts opened. At the end of September 2004, 5.53 million basic bank accounts were open. Of these, 1.85 million can be operated through the Post Office.

5.6 From April 2003, the accessibility and availability of basic accounts was extended with the introduction of universal banking services, where people can use basic accounts at post offices, including for the payment of benefits. This has increased choice for many individuals as to how they operate their finances. Since Post Office access became available in April 2003, over 1 million accounts have been opened and 87% of those can be accessed at Post Office counters. This is an important feature of such accounts, giving account holders free access to their cash in areas where banking facilities may be unavailable.

5.7 Payment of benefits directly into an account has been an option for customers since the early 1980s. Over the years it has become an increasingly popular method of payment. Before the start of the main move to Direct Payment in April 2003, 43% of customers were receiving their payments this way—this compared to only 26% in 1996. Four out of five people now have their benefits and pensions paid into an account. Payment directly into a bank account has increased financial inclusion. It is safer and has given benefit recipients greater choice in respect of when and where they can access their money.

5.8 In addition, the Government is spending £1 billion to provide the Post Office card account over the lifetime of the contract (2003–10). This is an ultra simple account which can be used by those who do not yet feel able to use a High Street bank account. The banking industry made a contribution of £182 million towards the development of the Post Office card account.

5.9 Independent research has show that Direct Payment is proving very popular, with nine out of 10 saying they like being paid by Direct Payment. Customers are finding it easy to open new accounts and pensioners are using PIN numbers successfully. And most people think that the new way they are paid their money is better than order books or cheques.

5.10 The move to Direct Payment and the introduction of universal banking services has also helped to reduce the number of adults in the UK without a bank account. Citizens Advice have praised the Government's efforts in this area. In their booklet on financial inclusion (published in December 2003)— "Beyond Bank Accounts: full financial inclusion"". They said:

> *"The government, the banking industry and the Post Office should be commended for the progress they have made in establishing Universal Banking Services. The ambition to enable all people to own the most basic of financial services—a bank account—is one we share." [Foreword—David Harker and Nick Pearce.]*

5.11 There are a number of options available for those receiving benefits by Direct Payment to gain free access to their cash. There are 33,700 free ATMs in the UK as well as the cash back facility available at supermarkets. In addition, DWP has been working with the Association of British Credit Unions Limited (ABCUL) to implement formal arrangements for the safe and secure payment of benefits into the accounts of credit union members. Payment in to customer accounts at participating credit unions commenced during mid 2004.

5.12 As well as the basic bank accounts described above, the Post Office has made commercial arrangements with a number of banks (Alliance & Leicester, Barclays, Lloyds/TSB, Clydesdale, Co-operative, Bank of Ireland and smile), to give personal current account customers electronic access to their personal current accounts. As a result of these steps, 21 million people can access their bank account electronically and free of charge at the Post Office.

5.13 As the Post Office stated in their written evidence to the Treasury Select Committee, Post Office Ltd has "the network and the ambition to become the universal provider of free cash, over its counters, to personal customer's of any financial institution." The Government has invested 2 billion pounds in the Post Office network over five years and, even after the current restructuring of the network, 95% of people in urban areas will still live within one mile of a Post Office branch.

5.14 DWP has not received any feedback from its customers or its front line staff that a large proportion of benefit income is being spent on ATM charges. DWP leaflets sent to those converting to direct payment explain in some detail how they can gain free access to their money. DWP customers can also consult free help lines for advice. We have not seen any solid evidence to support the assertion that there is a real problem with benefit customers incurring significant costs through ATM charges. Should such evidence become available, DWP will work with all interested parties to ensure their customers receive all the necessary information to make a properly informed choice about where and how they choose to access their cash.

6. CASH MACHINES IN POST OFFICES

6.1 As the Post Office stated in their written evidence to the Treasury Select Committee, in February 2000 there were only 160 ATMs located in Post Office branches. By November 2004, this figure had grown to 2,493, increasing choice for consumers by providing ATMs in many new locations. Although the Post Office's preference has always been to introduce free machines where possible, this growth would not have been commercially viable without the option for many of these ATMs to levy a surcharge to recover their costs.

6.2. However, of these 2,493 ATMs, 637 are still free of charge. This means that since February 2000 the number of free ATMs in Post Offices has substantially increased. The Government believes that, bearing in mind the progress that has been made recently on transparency of charges and the fact that so many bank accounts are now accessible free of charge over the counter at the Post Office, surcharging ATMs in Post Office branches have increased choice for consumers without compromising their option to gain free access to their cash.

12 January 2005

Annex

LINK INTERCHANGE NETWORK LIMITED AND THE COMPETITION ACT 1998

The following provides an overview of the OFT's history with Link Interchange Network Limited (LINK) since the commencement of the Competition Act 1998 (CA98) and the OFT's role in relation to the CA98 more generally. The key comment we should like to make is that the CA98 is a prohibition based regime. The CA98 does not, therefore, directly regulate the behaviour of firms. The OFT's primary role in relation to the CA98 is as an enforcement agency to remedy infringements when a breach has occurred. Compliance with the CA98 is primarily the responsibility of the undertaking concerned and not of the OFT.

The CA98 allows the OFT to conduct an investigation if there are reasonable grounds for suspecting that either the Chapter I or Chapter II prohibition has been infringed. The Chapter I prohibition prohibits agreements between undertakings (whether written or not) and concerted practices which prevent, restrict or distort competition and which may affect trade within the United Kingdom. The Chapter II prohibition prohibits conduct by one or more undertakings which amounts to an abuse of a dominant position in a market and which may affect trade within the United Kingdom. An undertaking is essentially any legal body that engages in an economic activity.

When the CA98 came into force in March 2000 there were provisions in the CA98 that provided that undertakings could apply for an individual exemption where an agreement fell within the scope of the Chapter I prohibition. An individual exemption could be granted to an agreement where it met criteria set out in section 9 of the CA98. There was (in contrast to the Restrictive Trade Practices Act 1976 which the CA98 superseded) no statutory requirement to notify agreements or conduct to the OFT. It was then (and still is) the responsibility of the parties to an agreement or conduct themselves to take on the responsibility for ensuring that their agreements and conduct are lawful. On 1 May 2004, EC Regulation 1/2003 (the Modernisation Regulation) came into force. The CA98 has been amended both to take account of the Modernisation Regulation and in order to ensure that the UK system remains aligned with the EC system post-modernisation. Accordingly, since 1 May 2004 it is no longer possible for the OFT to accept notifications for decision or guidance under the CA98.

LINK Interchange Network Limited (LINK) notified certain agreements to the OFT for a decision on the application of the Chapter I prohibition imposed by section 2 of the CA98 on 13 April 2000. LINK requested a decision that the agreements notified do not infringe the Chapter I prohibition or that, in the alternative, the OFT grant an individual exemption under section 4 of the CA98. This notification resulted in a decision published 16 October 2001.[9]

The notified agreements covered a range of issues. The only one of these issues that the OFT found to be restrictive of competition was the multilateral interchange fee (MIF). The MIF is the fee paid by the card-issuer to the acquirer on shared transactions and it covers the cost of the services provided by the acquirer to the card-issuer on shared transactions. Essentially, it is the fee that one bank agrees to pay another for letting its cardholders use another bank's ATM. The OFT, in examining these arrangements, considered that there were three potentially adverse effects raised by an MIF set by the payment system network: the restriction of members' ability to set their own prices; the distortion of members' behaviour towards their customers; and restriction of competition among payment systems. The OFT consequently concluded that the agreements containing the MIF fell within the scope of the Chapter I prohibition. As such the OFT had to go on to consider whether the arrangements might benefit from an individual exemption.

A Section 9 individual exemption from the Chapter I prohibition of the CA98 applies to any agreement which:

— contributes to improving production or distribution, or

[9] www.oft.gov.uk/Business/Competition + Act/Decisions/LINK + Interchange + Network + Limited.htm

— promoting technical or economic progress, while allowing consumers a fair share of the resulting benefit;

— but does not impose on the undertakings concerned restrictions which are not indispensable to the attainment of those objectives; or

— afford the undertakings concerned the possibility of eliminating competition in respect of a substantial part of the products in question.

The OFT considered that the Section 9 criteria were met in this instance. In relation to the first test, the OFT considered that a universal network of ATMs may not have been workable without the use of MIFs because of free rider and technical efficiency effects. In relation to the second test, the OFT also considered that LINK Members[10] were able to spread the costs of the provision of ATM services across a larger number of users by providing universal access to cardholders. This meant that they were able to increase the number of ATMs that could be used by cardholders without incurring significant investment costs.

In assessing the issue of indispensability, the OFT considered whether the methodology used to derive the MIF would result in an MIF being set higher than it needs to be for cost recovery. In this particular case, the OFT accepted the arguments advanced by LINK and concluded that the methodology employed by LINK was sufficient for the MIF to be capable of fulfilling the indispensability criterion. The OFT has not imposed any bar on alternative methodologies being employed. The only proviso is that any alternative methodology relating to cost recovery employed by LINK either does not infringe the Chapter I prohibition or meets the Section 9 criteria.

The last test concerns the possibility of eliminating competition in respect of a substantial part of the products in question. In this context, the OFT noted that the majority of cardholders used the ATM facilities of the card-issuing bank. Shared transactions (ie transactions passing through the LINK switch) accounted for a much lower proportion of ATM usage than us-on-us transactions. Each of the four largest banks owned an extensive network of ATMs, as did many of the other LINK Members. The OFT considered that these proprietary networks provided an alternative to the LINK network and imposed a competitive restraint on LINK's ability to set prices at uncompetitive levels. They also limited the ability of Members to discriminate against any particular class of Member or any potential entrant to the market.

For these reasons, the OFT granted an individual exemption to the MIF arrangements. The Decision does not in any way fetter or limit LINK's ability to change or enter into new agreements. However, any changes or new agreements would not benefit from the individual exemption (which applies only to those arrangements that were originally notified). LINK would have to ensure that any revision to the arrangements either did not fall within the Chapter I prohibition or, if they did, that they would be able to satisfy the Section 9 criteria.

It may be worth making some additional points in relation to some issues that were not covered in the OFT's consideration of the LINK agreements. In particular, the LINK agreements that were notified did not cover retail charges nor did they impose any requirement on Members to impose surcharges. As LINK have noted before the TSC, these are matters for the individual LINK Members. Members have a choice as to whether to levy a surcharge or whether they rely on the MIF. The OFT believes that if a Member were able to benefit from both surcharge and MIF that this could lead to over-recovery of costs and would be to the detriment of transparency. If the Member chooses to surcharge, it is for the individual LINK Member concerned to determine the level at which the surcharge will be set. LINK are correct in saying that agreements which explicitly and directly fix prices, or the resale prices of any product or service are likely to infringe the Chapter I prohibition of the CA98.[11]

However, we also note that neither the CA98 or the decision of 16 October 2001 prevent LINK or its Members from devising an alternative system for recovering their costs through other means (for example, through charges for current account services) nor do they prevent Members from making alternative bilateral arrangements with other Members. That said, the OFT recognises that LINK may be reluctant to employ alternative methods of cost recovery given that the present arrangements benefit from an exemption from the Chapter I prohibition. The current exemption is time limited and is due to expire in October 2006.

The fees charged by Independent deployers are, as far as the OFT is presently aware, set independently by the undertakings themselves in line with their own commercial discretion. There is no evidence to suggest that the fees have been set through, say, collusion with their immediate competitors. The OFT would be extremely concerned if such was the case.

In terms of active monitoring, the OFT monitors the whole of the UK economy and does not have a "special" regime in place to specifically monitor the activities of LINK or its Members. The OFT will, in terms of the CA98, conduct an investigation where it has reasonable grounds to suspect an infringement of either of the prohibitions contained in the CA98.

[10] At this time there were no non-bank LINK members so the costs we are talking about are ostensibly those of the banks. Independent deployers of ATMs do not themselves issue cards.

[11] The *Resolution passed by the LINK Board on 28 March 2000* provides that no individual debit card transaction should be subject to both issuer and acquirer charging. It also requires that where such charges are levied they must be non-discriminatory. LINK contended at the time of notification that the purpose of the resolution was to discourage over recovery of costs.

In summary, Mr Aiken's final comment at the TSC hearing on 21 December 2004 that "Competition law is our regulator" is probably the most accurate assessment of the position.

Memorandum submitted by LINK

1. Introduction

LINK is the organisation that controls the participation of the Banks, Building Societies and other organisations in the Scheme that provides customers with the ability to draw cash from virtually every Cash Machine in the United Kingdom. LINK has over 50 Member organisations, each of which either issues Cash Machine cards to its customers (referred to as Issuers) or operates Cash Machines (referred to as Acquirers). Most Banks and Building Societies both issue cards and operate Cash Machines.

This paper summarises LINK's submission and the Appendices provide detailed factual information on charging. As requested we will be attending the oral hearing of the Committee on 21 December and will be represented by the Chief Executive (John Hardy) and the Card Scheme Director (Howard Aiken).

We were asked to submit comments under three main headings:

- The principle of charging and the growth in the proportion of Cash Machines that charge;
- Transparency of charging and the enforcement of rules;
- Access to free cash machines in certain localities.

In addition, evidence is also sought on the security implications of recent trends in the provision of Cash Machines.

2. The Principle of Charging

The Office of Fair Trading (OFT) examined LINK's agreements in great detail over a period of 14 months. This resulted in LINK being granted an Individual Exemption under the Competition Act. In their Decision, the OFT noted that in respect of surcharges (ie, any charge that the Cash Machine operator levies) "it is a matter for the individual Member concerned whether they choose to surcharge and if so, the level at which the surcharge is set". The OFT also noted that "The ability to surcharge provides a . . . safety valve and exercises a competitive restraint on the level of [interchange fees]".

Clearly LINK cannot determine or control the amount of the charge that is made to customers nor can it determine which Cash Machines can charge and which cannot. To do so would be anti-competitive and contrary to the Individual Exemption that the OFT have granted LINK.

In the UK over 97% of transactions at Cash Machines are free of charge to the customer, which is unusually high by international standards.

3. Growth in the Number of Cash Machines that Charge

The number of Cash Machines that are part of the LINK network continues to grow. In the past year the number of free Machines has grown by 3.5% and the number that charge has grown by 25%. Whilst aware of individual instances where a free Cash Machine has been replaced with one that charges, we are also aware of instances of charging Machines being replaced with free ones. We see no evidence of systematic replacement of free Cash Machines by ones that charge and the growth in the number of free Machines further suggests that this has not happened.

4. Transparency of Charges

LINK has been at the forefront in providing transparency of charging at Cash Machines. The UK is the only country in the world where customers are told of the amount of any charge at the Cash Machine at the time of the transaction and given the opportunity to cancel without charge. This was introduced in February 1999 at the same time as the introduction of charging Cash Machines. For systems reasons, and of necessity, this notification comes late in the transaction (because there can be an issuer charge and LINK rules prohibit both an issuer charge and an acquirer charge being applied to the same transaction and so the acquirer has first to determine whether there is an issuer charge before applying a surcharge).

LINK also took the initiative and improved transparency still further in April 2004. To ensure that customers would know whether they would be charged before they insert their card into a Cash Machine an additional rule was introduced that requires in addition to the existing notification, that all Cash Machines that charge must also carry a sign (either on-screen or external) that is "clearly visible to cardholders before a card is inserted". That rule has now been in force for six months and a review is now being undertaken to assess both the effectiveness and the degree of Member compliance.

This review is considering whether the sign should be on-screen or external or both. It is also reviewing the size and placement of external signs, and their visual clarity (eg, colours used, font size) and how best to ensure that Members comply with the rule. We plan to present the findings, together with any recommendations for change, to the governing body of LINK within the next two months.

We see no evidence from customer behaviour that there is any wide scale confusion about charging. Although 37% of Cash Machines charge, less than 3% of transactions result in a customer paying a charge. Additionally, we ask our staff and the Members of LINK to report to us any Cash Machine that they see is not properly signed. In total, thirteen such instances have been reported to us (and in every case we have taken action to ensure that the situation has been corrected). Both the *Sun* and the *Daily Mirror* have recently asked their readers to tell LINK of Cash Machines that were not properly signed and this resulted in five of the instances being reported to us. We encourage anyone who sees a Machine that is not properly signed to tell us so that we can get the situation corrected. Indeed we note that the Treasury Committee has invited members of the public to notify them of any charging Cash Machines that are not properly identified and we would ask that any details received be copied to us so that we can ensure that they are brought into compliance forthwith.

We do take the issue of transparency very seriously and, as indicated, we have taken the initiative in providing a high degree of transparency and we will continue to make changes that will improve transparency still further.

5. Access to Free Cash Machines in Certain Locations

Deciding where Cash Machines are installed, and indeed whether they charge or are free, is for each individual Member of LINK to decide and Competition Law prevents LINK from playing any role in these matters. However, we believe that in many cases the choice is not between a free Cash Machine and one that charges, but rather between no Machine and one that charges.

6. Security Implications

All LINK Members, whether they are a bank that installs free Cash Machines or a company that installs charging Cash Machines, are subject to the same security standards. LINK has an on-going regime for ensuring that the standards are met. This requires Members to produce Certificates of Compliance each year that are prepared by competent auditors. The Members' Certificates are subject to independent examination by LINK, which includes site visits to verify compliance.

The major type of fraud at Cash Machines at present is "skimming". This involves copying or reproducing the magnetic stripe of a Cash Machine card by means of a device fraudulently attached to the Machine that reads the data on the card. This type of fraud is virtually unknown at charging Machines, probably because of the low number of transactions that occur at them, and the fact that they are generally in locations where they are constantly observed by staff at the site. This is unlikely to make them attractive targets for fraudsters.

Appendix I

Numbers of Cash Machines

LINK reports the number of Cash Machines that it has (eg on its web site) as the sum of the number of Cash Machines that each Member reports to LINK that it has. This is consistent with the number of Cash Machines that other organisations (eg APACS) report. However, this approach could be subject to slight inaccuracies since it depends upon the accuracy and consistency of the reporting of each of some 40 different organisations that operate Cash Machines in the UK. To provide complete consistency and accuracy we have examined our transaction records to determine how many different Cash Machines were operational and processing customer transactions in October of 2002, 2003 and 2004 to provide the most accurate possible figures for the number of free and fee charging Cash Machines.

Month	*Free Cash Machines*			*Fee Charging Cash Machines*			*Total Cash Machines*	
	Number	*% Growth*	*% of Total*	*Number*	*% Growth*	*% of Total*	*Number*	*% Growth*
October 2004	33,700	3.5%	63%	19,659	24.7%	37%	53,359	12%
October 2003	32,557	4.2%	67%	15,761	56%	33%	48,318	17%
October 2002	31,223	3.1%	75%	10,066	72%	25%	41,289	14%

In October 2004 of the 33,700 Free Cash Machines, 19,655 were at branches of LINK Members and 14,045 were at other locations.

We have also identified, in the past year:

- 111 Cash Machines that were free in October 2003 were fee charging in October 2004 and,
- 100 Cash Machines at which a fee was charged in October 2003 were free in October 2004.

Appendix II

TRANSACTIONS AT LINK CASH MACHINES

In October 2004, the latest month for which data are available:

There were 380.5 million transactions (ie Cash Withdrawals, Balance Enquiries etc) at Cash Machines in the UK and 8.8 million of these were surcharged (2.3%);

We estimate that there were 245.5 million cash withdrawals at Cash Machines and therefore that 3.6% of these were surcharged;

The average number of withdrawals at a Charging Cash Machine is 440 and the average number of withdrawals at a Free Cash Machine is 6,900.

6 December 2004

Supplementary memorandum submitted by LINK

Following the oral hearing on 21 December, the Committee requested further information which is provided below.

1. *Details of the new rules/Code of Conduct LINK members have agreed in respect of transparency, due to come into operation in July*

At a meeting on 12 December 2004 the LINK Network Members Council agreed that with effect from 1 July 2005, all cash machines that charge will:

- Have an initial on-screen message that shows the amount of the likely charge;
- Have external signage on the cash machine itself that indicates that the machine will charge; and
- Any signs that advertise the presence of the machine or indicate its location will also indicate that the machine will charge.

Full details of the resolution passed are given in Appendix I. (not printed)—see unprinted Ev p71) This is in addition to the screen messages that advise of the actual amount of the charge (once it is known) and require the customer either to accept the charge or cancel the transaction.

2. *Some indication of what opposition existed to the proposals in relation to transparency (ie what the grounds were for the opposition from one member and, if possible, the identity of the member)*

Proceedings at LINK Network Members Council meetings are confidential (and LINK is bound by confidentiality agreements with all its Members. However, there were two meetings at which these issues were discussed:

- In August 2003, when the current requirement for either an on-screen message or external signage was agreed. At that meeting, only one Member voted against and that was on the grounds that they did not want an on-screen message; and
- On 14 December 2004 when the new requirements were passed. On this occasion, five Members voted against, presumably on the grounds that they thought that the proposals were unnecessary and unduly onerous.

3. *Indications of the range/types of cost involved in (a) the installation of a machine and (b) the operation of a machine*

LINK examines the cost of operating Cash Machines under the following headings:

- Depreciation of Purchase and Installation costs.
- Site rental/Occupancy cost.
- Repairs and Maintenance.
- Communications costs.
- IT support of the Cash Machine (ie central system cost).
- Cost of capital.

— Cash purchase, delivery, management, insurance and theft.
— Opportunity cost of the cash in the Machine.

The typical cost of operating a Free Cash Machine is £19,000 per annum at a branch, and £33,000 at other locations. The typical annual cost of operation of an ATM installed by an Independent Deployer is £9,500; however, the numbers of transactions that occur at a Machine are at least as important as the cost of operation in the determination of Interchange Fees and Surcharges.

4. *Clear explanation of the difficulties in the way of the placing of clear notices on charging machines of the level of charge which would apply to cash withdrawals (ie indicating the various different circumstances in which the level of charge might be uncertain in advance of the withdrawal request being made).*

Not all cards attract a charge from the Cash Machine operator. A "no double charging" rule in LINK means that if the card issuing bank is going to apply a charge to their customer (eg in the case of a credit, store or charge card) then the Cash Machine operator cannot levy a charge. Until the customer's card has been read, and the Cash Machine operator has passed the details to the card issuing bank and received confirmation back, the cash machine operator cannot know whether or not the issuer is going to apply a charge or the amount of the charge. In addition, the LINK system provides the means for the card issuing bank to pay all or part of the surcharge and, once again, the Cash Machine operator cannot know whether or not this is the case, until a response has been received from the issuing bank.

Finally, we understand that the Committee will be asking for details of the location and availability of free and charging Cash Machines in specific areas. We have not, as yet received details of these areas but, as it was raised in the oral hearing, we enclose (Appendix II) a map that shows the location (and charging status) of Cash Machines in Speke. (not printed)

January 2005

Memorandum submitted by Lloyds TSB

Thank you for your letter dated 9 November 2004, requesting Lloyds TSB's policy and views on the issues to be examined by the Treasury Committee's short examination of cash machine charges.

Before I comment on the issues which fall within the scope of the Treasury Committee's study, I thought it may be helpful if I provided some background information on Lloyds TSB's position in respect of cash machines.

We believe cash machines are a vital part of the overall service we provide for our customers. They want access to their money and accounts at a time and a place that suits them. Lloyds TSB has the second-largest cash machine network of any bank in the UK, with some 4,220 cash machines. In recent years, we have responded to customer demand by expanding our network of remote[12] cash machines, providing 24-hour access in more locations. We have installed 200 new non-charging cash machines over the past two years, conveniently located in sites such as petrol stations and supermarkets, and we intend to site more cash machines in such convenient locations in 2005.

I would now like to respond to the issues to be examined by the Treasury Committee as set out below.

The Principle of Charging and the Trend Towards Charging

Lloyds TSB does not charge for withdrawals from its cash machines and does not charge its customers for using other ATM networks[13]. This has been our position since 1 January 2001. There is a significant cost of providing this service—ranging from purchasing new machines and upgrading technology, to daily maintenance and servicing—but we absorb the cost as part of the overall package of banking services we offer our customers. We currently have no plans to charge our customers for using our network of cash machines.

Most withdrawals from cash machines—96%—are free. There are currently 32,611[14] Link cash machines which do not levy charges for withdrawing cash, and this has increased by 3% over the last 2 years, which equates to an extra 1,000 non-charging cash machines. While Nationwide identifies a significant increase over the last six months in the number of cash machines which charge, we believe it is not the absolute number of charging cash machines that is relevant, but the volume of transactions that take place through those cash machines—which is minimal.

[12] A "remote" Lloyds TSB cash machine is defined as one that is not on Lloyds TSB premises.
[13] However, customers using a credit card at a Lloyds TSB cash machine may be subject to a cash advance fee levied by their card issuer.
[14] The latest figures we have available are from Link as at October 2004: of the total Link network of 53,507 cash machines, 32,611 (61%) are non-charging, while 20,896 (39%) levy charges for cash withdrawals.

Cash machines at which a charge is levied, which as already indicated account for only 4% of total cash withdrawal transactions in the UK, make a charge as they are usually situated in low transaction volume sites or on sites where the site owner charges a significant rental. There is a market for non-branch based cash machine sites, and cash machine providers compete for these sites. The interests of the site owner are central to this market and should be factored in to any review of a trend towards charging. A site owner's decision to remove a non-charging cash machine and replace it with a charging one, possibly benefiting from a share of the income from charges and higher rent, usually is outside the control of the cash machine provider.

Transparency

Lloyds TSB has always supported transparency in relation to cash machine charges. We were the first bank to introduce a cash machine "code of conduct" in March 2000 which included a commitment to provide pre-notification of any cash machines charges before consumers withdrew their cash.

We believe that transparency is key to the discussion on cash machine charging. We fully endorse the Link code which specifies that all cash machines which charge must carry a sign, on-screen or external, that is clearly visible to card holders before the card is inserted, that customers are told the amount of the charge at the time of the transaction and are given the opportunity to cancel without charge. We believe that if cash machine acquirers commit to follow this code in practice it provides a sufficient degree of transparency to consumers.

The decision to notify customers of a change in status from a non-charging to a charging cash machine rests with the site owner. However, we are in support of any initiatives which increase transparency for customers.

Financial Exclusion and Location

Lloyds TSB is the most socially inclusive bank in the UK. Our customer base is more reflective of the UK population than any other bank, with the highest proportion of customers in lower income groups than any of our major competitors. We aim to be as inclusive as possible in our dealings with our customers. Our branches and cash machine are to be found in a wide range of communities, covering both high and low income areas[15]. We were one of the first banks to have an agency agreement with the Post Office, enabling all our customers to withdraw cash, over the counter, free of charge, and we are one of only two high street banks to retain this service for our customers.

I trust that we have provided the Committee with the information it requires on Lloyds TSB's policy and views on cash machine charges. If the Committee requires further information on any point, please do not hesitate to contact me.

6 December 2004

Memorandum submitted by Moneybox plc

1. Introduction

This is a submission to the Treasury Select Committee by Moneybox plc and is made in response to the invitation issued by the TSC in its letter dated November 9th announcing the TSC's intention to conduct a short inquiry into Cash Machine Charges.

Moneybox plc ("Moneybox") has endeavoured to address each of the issues identified for examination by the Committee insofar as it considers they are relevant to the operations of Moneybox.

The rest of the submission is organised into the following sections:

- Section 2—A brief summary of the submission
- Section 3—Background information on Moneybox, its structure and operations
- Section 4—Description of the ATM market, with particular reference to the factors behind and the reasons for the growth of independent ATM deployers (IADs) in recent years
- Section 5—Description of how fees operate in the ATM market
- Section 6—Summarises Moneybox's views on the issues raised by the TSC, and outlines why changes in the charging structure of the monopoly supplier of switching LINK would significantly improve both the transparency of charging and the level of access to free machines in less affluent locations, to the benefit of both consumers and the deployers of ATM machines
- Section 7— Summarises Moneybox's conclusions

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[15] With reference to the low-income communities referred to in James Plaskitt's adjournment debate of 27 October 2004, Lloyds TSB currently has two through-the-wall 24-hour access cash machines in the L5 postal district of Liverpool, in addition to an in-branch cash machine which is available during business hours, and a through-the-wall 24-hour access cash machine in the G34 postal district of Glasgow—these machines do not charge for cash withdrawals.

2. Summary

Moneybox and its operations

2.1 Moneybox is one of the UK's leading Independent ATM deployers ("IADs"), providing approximately 2,800 conveniently located cash machines in areas of the UK where Banks and Building Societies deem it to be not economically viable to locate a machine. Moneybox also operates 168 machines in the Netherlands and 388 in Germany. It is quoted on AIM and currently has a market capitalisation of £70 million.

2.2 The majority of its 2,800 ATMs in the UK charge the customer directly to make a transaction. This is usually £1.50 or £1.75, and is deducted from the customer's bank or credit card account by the card issuer at the same time as the cash withdrawn. Moneybox also operates 120 non-charging machines under maintenance and service contracts with other financial institutions.

The ATM market

2.3 The number of cash machines deployed by IADs has grown very rapidly in the last five years, reflecting changes in the market following the agreements drawn up in 1999 and 2000 between the LINK Network and the major banks which own and control it. These have, in effect, removed the financial and competitive incentives for banks to operate low-volume transaction cash machines in "remote" (ie non-branch) locations.

2.4 While the total number of cash machines operated by Banks and Building Societies ("BBS machines") has continued to grow, rising from around 30,000 in 1999 to nearly 33,000 currently, the same period has seen a very rapid expansion of the number of machines operated by IADs, from nil to currently over 20,000. IAD machines now account for almost 40% of all machines deployed in the UK.

2.5 The overwhelming majority of these independently deployed machines charge customers for withdrawals, while the overwhelming majority of BBS machines recover costs indirectly through a combination of interchange fees, other charges to their customers or through not paying a commercial rate of interest on current account balances. However, it should be noted that some banks do make charges in certain situations. For instance, Royal Bank of Scotland owns Hanco, the largest "independent" deployer, and Alliance and Leicester operates approx 1,000 remote machines, which are free to their customers but which charge customers of other banks.

2.6 Competition within this fast-growing market is fierce: the largest operator, Hanco, has over 6,000 machines. TRM, the UK subsidiary of a quoted US ATM deployer, has approx 3,600. Moneybox and Cardpoint plc each have slightly less than 3,000, and Scott Tod has approx 2150. There are at least five other operators with more than 500 machines.

2.7 Despite the considerable publicity surrounding one recent major disposal of a Bank's remote portfolio, almost all of the 20,000 charging machines are placed in "new" locations, ie they have not replaced or taken over sites from previously "free" machines.

2.8 Moneybox has nearly 2,700 charging machines in the UK of which the overwhelming majority are in local convenience stores, pubs, nightclubs or other leisure outlets, suburban railway stations or petrol station forecourts. With the exception of the acquisition of 50 machines from Abbey plc located at Shell petrol forecourts (all of which would have been closed had Moneybox not acquired them), our expansion has been entirely by organic new opening.

2.9 Competition between deployers for suitable sites has ensured that a significant percentage of the fees charged to customers are paid to the site "host". The exact amount differs depending on the nature of the agreement, and in particular who is responsible for stocking the machine with cash. Typically, payment to the host is between 20p and £1 of the £1.50/£1.75 charge, depending on the business model used.

2.10 For many hosts, particularly local convenience stores, this represents an important source of income. In many cases, it also represents a significant element of annual profit. Moneybox pays its hosts on average £2,000 per annum. This income makes a significant contribution to maintaining the viability of many independently owned convenience stores, which provide a valuable service to their local communities. In addition, the provision of a cash machine in these locations has almost without exception increased the in-store spend at these local convenience stores which has greatly assisted their business at a time when they are under increasing threat from large out-of-town superstores.

Competition and Charging Structures

2.11 However, competition among deployers has not had any significant impact on charges made to customers for withdrawals. This reflects the fact that the charging mechanism is currently stifled by the significant restrictions on the market, which result from the agreements operated by the LINK Network, which is totally owned and largely controlled by the major Banks and Building Societies.

2.12 In particular, the costs of operating the LINK Network are pooled and redistributed among card issuers by way of a flat interchange fee, regardless of the value of the transaction. This interchange fee is then paid to the owner of the ATM. This arrangement has the effect of setting payments to owners of remote ATMs at a level, which makes it totally uneconomic to operate a portfolio of remote ATMs with low transaction volumes.

2.13 Interchange fees are set annually at a level determined by the economics of major Banks operating large portfolios of high volume machines, most of them in branch locations. While LINK allows a slightly higher payment to the owner of a remote machine, this is set at a level which in no way compensates for the real costs of operating in lower transaction volume locations. In 2003, the average number of cash withdrawals per day for a branch ATM was 196, compared to only 15 for an IAD convenience ATM.

2.14 The result has been that the major Banks have now almost abandoned the installation of new remote machines, and have sought by various means (closures, disposals) to divest themselves of existing portfolios of low volume ATMs. Some of these have been migrated to IAD ownership, where more efficient specialist operation and conversion to a charging model allows them to become economically viable.

2.15 It is this practice, which has become controversial, but it should be noted that the IAD deployer has no real alternative to switching to a charging model, if he is to operate an ATM at a low footfall location.

2.16 The LINK Network has another firm rule which determines that a deployer may either run a cash machine on a "free to customer" basis where remuneration from the card issuer is limited to the fixed interchange fee, or adopt a charging model where the customer pays directly and, paradoxically, the card issuer pays nothing at all.

2.17 This is another anti-competitive rule, which artificially raises the level of charges, which IADs have to make in order to obtain an acceptable return on their ATM investments.

Moneybox's views on the issues raised by the Committee

2.18 Moneybox takes the view that the existence of a healthy independent ATM sector is of benefit to consumers for a number of reasons, including:

— It provides a nationwide network of conveniently located cash machines in areas which are deemed to be not economically viable by the big Banks and Building Societies.

— Customers can make an informed choice as to whether or not to pay a fee. The charge is completely transparent: in addition to an advisory notice on the machine, the customer is explicitly warned of its existence on screen, and has to positively signal his acceptance of it in order to complete the withdrawal

— Owners of these convenience locations receive remuneration from IAD deployers. Fierce competition among IADs for the best sites ensures that the hosts receive a significant element of the fee paid by the customer. This in itself has benefits to the customer—most of Moneybox's hosts are local independently owned convenience stores, struggling to stay in business in the face of highly capitalised multiple competitors and providing a valuable service to their communities.

2.19 Customers are fully able to make a decision based on the balance between the convenience of the location and the relatively modest charge. They are at liberty to go elsewhere to use a machine, which does not make a direct charge.

2.20 The fact that, while 40% of the total machines deployed now make a charge, but they only account for 3% of all transactions by value, suggests very strongly that customers are quite able to make their own rational judgements in such circumstances

2.21 Moneybox recognises that the current LINK Network agreements have received exemption from Competition Act strictures, following the OFT investigation of those agreements in 2001. Nevertheless, it considers that changes in the market, subsequent to the agreements being drawn up and receiving exemption, are now producing unforeseen distortions and negative anti-competitive consequences in the market. In particular:

— The "pooling of costs" method of setting fixed interchange fees has encouraged Banks to abandon all but the highest volume machines to the charging sector, with the effect that the interchange fee payable to an ATM owner is artificially set at such a low level that no remote location can ever realistically be financially viable.

— Since all these machines are therefore forced to use a charging model, the card-issuing Banks get an extra benefit—they pay NO interchange fee at all to the ATM owner. Banks therefore profit from the fact that their customers use ATMs whose costs are borne directly by their owners. And this has the consequence of artificially raising the fee that IADs have to charge customers in order to recover those costs.

— The setting of the interchange fee as a fixed rate, regardless of the size of the transaction or the individual circumstances of the customer also distorts the market in favour of operators of high volume branch machines. If interchange fees were variable according to the level of the transaction or the nature (ie remote or otherwise) of the individual location, many more cash machines would be economically viable without charging.

— The LINK Network system also specifically bans any ATM deployer from receiving even this artificially reduced interchange fee if he operates the machine on a charging model. This is another purely arbitrary rule, which also distorts the market in favour of the Banks with their existing high value customer profiles.

2.22 The present "cost-recovery only" basis for calculating interchange fees is, in Moneybox's view, not in the consumer's interest as it only serves to maximise card-issuers' (ie Banks') profits. The present arrangements were put in place when the banks owned all the ATMs in the UK. This is no longer the case (see below).

2.23 Moneybox sees no reason why the LINK interchange fee structure should not differentiate between the OAP withdrawing £20 from a convenience machine located in a corner shop close to her home (where she often feels safer in making a withdrawal than standing on a street corner) and an affluent customer withdrawing £500 from a machine in a casino.

Moneybox's conclusions

2.24 Moneybox believes that the LINK Network agreements should be reviewed by the OFT. The current arrangements should be amended

— To allow interchange fees to be paid to owners of charging machines, subject to the proviso that the total charge to the customer should be reduced pro rata; and

— To allow interchange fees to be calculated on a basis which reflects the nature of the location used for the withdrawal and, potentially, the circumstances of the individual making the withdrawal.

This strongly implies that interchange fees should also be variable in relation to the amount of the withdrawal. Moneybox believes that the computer systems and software are already in existence to allow these changes to be effected with minimal cost.

2.25 This new approach would allow some of the costs of providing a conveniently located ATM network in remote locations to be transferred back to where they belong—as a charge on card-issuers and the owners of the LINK Network. And the ability to vary interchange fees could allow vulnerable or socially disadvantaged groups (such as benefit claimants or low income families with low cost bank accounts) to receive free access to their cash. In these cases, the costs of the provider of the remote ATM would be fully covered by a higher interchange fee paid by the card-issuer.

2.26 Given the mathematics, interchange fees charged on the rest of the annual 2400 million ATM remote transactions handled by so-called "free" machines would have to be raised slightly. Moneybox calculates that the current 30p flat rate might have to go up to approx 35p. This should be a small cost by comparison with the substantial revenues generated by ATM transactions. (see 5.7)

2.27 Finally, Moneybox would point out that the changes proposed would be substantially cash flow and profit neutral to IADs, although site owners and independent deployers might benefit from higher transaction levels. There would also be a benefit to the community from improving the "destination status" of the local convenience store.

3. Background Information on Moneybox plc

The Moneybox Group deploys, manages and maintains cash machines (ATMs) in the UK, Netherlands and Germany. The Group also operates cashless payment and access control systems in the UK through its G2 subsidiary, acquired in March 2004 when Moneybox floated on AIM.

Moneybox launched its first convenience ATM in June 1999. At 30 June 2004, Moneybox operated 2,665 ATMs in the UK, 168 ATMs in the Netherlands and 388 ATMs in Germany. That number has risen to 2,800 on 25 November 2004. In the UK, over 400 customers at more than 1,700 sites use Moneybox's cashless payment and access control systems.

Moneybox deploys ATMs at points of convenience, with consumers paying a convenience fee per cash transaction. This enables the ATM to be located in places that do not attract enough cardholders to support a traditional cash machine, promoting consumer choice and wider accessibility to their cash.

The Moneybox ATM estate comprises owned and operated fully managed ATMs, merchant replenished ATMs and ATMs that are managed on behalf of financial institutions.

4. Description of the ATM market

4.1 Historically, the major deployers of ATM cash machines in the UK have been financial institutions: most of the major banks and building societies have built extensive proprietary networks of ATMs over the last twenty years and these still account for the overwhelming bulk of ATM transactions by value. More recently, however, changes in the market have encouraged the rapid growth of independent ATM deployers (IADs), whose (usually) sole activity is the management and servicing of ATM machines.

4.2 All of these deployers are members of the branded LINK network, which itself is owned and controlled by the major banks and building societies. LINK organises and regulates the central switch facility, which allows so-called "shared transactions", that is ATM transactions where the card issuer and the ATM owner are different. Customers can therefore withdraw cash not just from machines owned and operated by their own bank but also from any ATM machine in the LINK network, regardless of its owner or operator.

4.3 The LINK network sets a multilateral interchange fee (MIF), which applies to any shared transaction and is paid by the card issuer to the owner of the ATM used for the withdrawal. The level of this MIF is determined each year according to the anticipated cost of maintaining the LINK network, divided by the anticipated number of ATM transactions.

4.4 The MIF is therefore a fixed charge payable on each transaction, regardless of its size and value, or the circumstances of the individual cardholder. The only variable in the determination of the MIF payable relates to the location of the ATM: the fixed charge payable is set at one level (currently approx.19p) for a "branch" location, and at a higher level (currently approx 30p) for a "remote" (ie non-branch) location.

4.5 The agreements between the various banks and building societies which govern the operation of the LINK network were initially put together in 1999 and 2000, when under pressure from the DTI, and following a critical report by the Financial Ombudsman Don Cruikshank, the major banks agreed to drop proposals to charge additional direct fees to cardholders using ATMs not owned by their card issuer.

4.6 The principal objection raised by opponents of direct charging was that it would effectively allow the banks to charge twice for the same service (so-called "double-dipping".) One of the key terms in the revised arrangements was therefore a proviso that, as members of LINK, ATM owners could either receive the MIF or make a separate charge for a withdrawal—but not both.

4.7 These agreements were subsequently granted exemption from Competition Act strictures prohibiting anti-competitive agreements among monopoly service providers. Exemption was granted on the arguments (i) that the LINK network was in competition with the banks' proprietary networks, (ii) that the sharing of costs of providing a universal ATM network would have the effect of increasing the number of ATMs available to individual card holders, and (iii) that the methodology used to calculate the MIF would tend to encourage individual LINK members to pursue efficiency savings in their ATM operations.

4.8 However, the consequence of these agreements has paradoxically been to encourage the major banks and building societies to reduce their ongoing investment in remote ATMs, as there is no longer any commercial benefit in deploying and maintaining machines, which generate low transaction volumes. And equally perversely, the methodology of calculating the MIF has indeed encouraged efficiency savings, but by incentivising banks to prune the numbers of low revenue generating ATM machines, most of them in remote locations.

4.9 These developments have created a gap in the ATM market for machines in convenience locations where customer traffic is too low to support a bank machine solely dependent on the MIF. A fast growing new generation of independent ATM deployers (IADs) has sprung up to fill the service gap left by the banks. Moneybox plc, which only began its operations in 1999, has become one of the leading companies in the IAD sector.

4.10 IADs make a direct charge to customers who make withdrawals from these machines and do not, under LINK rules, receive any MIF from the cardholder's issuing bank. Moneybox typically makes a flat charge of either £1.50 or £1.75, depending on the type of location and the nature of any rental payment to the owner of the location. The average value of a withdrawal in 2003 was £50.

4.11 The principle of ATMs making direct charges to customers for access to their funds has recently attracted adverse publicity, not least because the number of charging machines has grown very rapidly, rising from nil in mid 1999 to over 20,000 today. As such, charging ATMs now account for nearly 40% of all ATMs deployed—and that percentage figure looks set to reach 50% by the end of 2006.

4.12 What is not so often noted however is the fact that the percentage by value of transactions accounted for by charging machines is, as one would expect, very significantly lower. Far from approaching 40%, latest available annual figures (for 2003) showed that charging machines accounted for only 3% of all ATM transactions by value, and it is estimated that this figure will have increased only very slightly in 2004.

4.13 Nor has the growth of charging machines had the effect of reducing the number of "free" ATMs. The total number of bank-owned ATM machines has grown steadily in the last four years, from 30,000 at the end of 1999 to nearly 33,000 at June 2004. The average number of transactions per bank machine has also continued to increase, and at a faster rate than for charging machines. This suggests that charging machines are in no way driving out "free" machines: on the contrary, all the evidence suggests that they are supplementing the existing "free" national network.

4.14 The principle of charging for access to funds through IAD cash machines is predicated on the argument that the installation of such machines provides customers with additional choice. Since the volume of transactions generated in a typical IAD "convenience" location would be too low to support a bank machine, without charging the ATM would not otherwise exist. The customer can choose to use the machine or not—and he or she can also choose to travel to a "free" machine.

4.15 There is a degree of public concern about the possibility that banks are choosing to pass their low volume remote machines on to IADs who operate a charging model, and that this amounts to a "betrayal" of their customers. Whether banks should be closing low volume remote machines to save costs is an issue for them—but from Moneybox's perspective, the customer wins if the alternative is no machines at all in those locations.

4.16 Moneybox has limited experience of acquiring ATMs. Its only such move to date was the acquisition of 50 machines formerly operated on forecourt sites by Abbey Plc. All were lossmaking on the MIF model and Abbey's original intention was to close them all down. However, Moneybox acquired the portfolio (for £1.1 million, which reflected only their written down asset value) and converted them to a charging model. As a result, those machines remain available to customers who want to use them—and a lot clearly do because the volume of transactions is nearly 50% of the level when they were "free".

4.17 The economics of operating ATM machines in remote locations and with low transaction volumes are graphically illuminated by the data for the volume and value of transactions, collected and published by APACs every year since the early 1990's. In 2003, the total value of ATM transactions by bank and building society (BBS) machines was £140.6 billion. The comparable figure for IAD machines was £3.6 billion.

4.18 The average BBS cash machine therefore handled transactions with a value of just under £4.5 million, while the equivalent average figure for an IAD machine was only £250,000. The average number of cash withdrawals per day for a BBS machine was 196, but only 15 for an IAD machine.

4.19 The evidence suggests that customers are in practice prepared to pay a relatively modest charge for the convenience, and increasingly, the security offered by many IAD machines. And this strongly suggests that they value the choice.

5. Summary—How Fees Operate

5.1 The costs of ATMs operated by members of the LINK network were estimated at approximately £1.2 billion in 2003. Interchange fees relating to withdrawals spread these costs among the various banks and building societies in relation to where individual transactions took place.

5.2 Banks with significant numbers of cards in issue, and whose customers frequently use other banks ATMs, pay out significant sums annually to other members of LINK who may have extensive ATM portfolios and, relatively, fewer cards in issue. In effect, the basis of LINK's charging regime makes this overall a zero sum activity—net payers are balanced by net receivers and, effectively, banks with extensive ATM portfolios (and significant numbers of "remote" machines) are the gainers.

5.3 However, the annual sums generated by interchange fees are dwarfed by the much larger value of consumer transaction fees generated by ATM transactions. With over 200 million separate transactions every month, many individual customers place themselves in circumstances where the banks are able to levy a fee whose size and impact completely dwarfs the 19p (or 30p) interchange fee applied to the transaction.

5.4 Recent authoritative industry estimates suggest that up to 10% of all ATM transactions trigger a customer transaction fee, usually because the customer either accidentally creates an unauthorised overdraft, or because the customer's balance exceeds an agreed overdraft limit. Most banks make an immediate charge of £25 or £30 in these circumstances, and continue to make similar charges on a daily basis until the account is brought back into compliance.

5.5 There is no advice to the customer using an ATM machine that a transaction fee of this nature will result from his withdrawal, and indeed in many cases will exceed the amount of the withdrawal.

5.6 This lack of transparency is in complete contrast to the Code of Practice adopted by IADs. The technology exists for customers to be advised of any indirect charge consequent on the withdrawal transaction, in the same way as the IAD's direct transaction charge.

5.7 Given the number of ATM transactions each month, and the size of the penalty fees, the sums generated for the card issuing banks are simply staggering. Based on an assumed 5–10% of transactions generating an average fee of £25, banks would be generating monthly transaction fees of around £500 million, ie annual income in the region of £6 billion.

5.8 These and other fees in respect of unauthorised overdrafts (our calculation ignores the additional benefit of "unauthorised" overdraft interest rates, which often approach 30% and are charged on outstanding balances in addition to transaction fee penalties) are used by Banks to subsidise the general costs of current account transactions.

5.9 Naturally the banks argue that these fees are necessary to cover their additional costs involved in unauthorised lending, in particular related bad debts and other write offs. However, whether or not these charges fairly reflect the costs of the transgressions, it should be noted that every ATM transaction is effectively authorised by the card issuer before the customer is able to withdraw cash—so in a very practical sense, every "unauthorised" overdraft created by such a withdrawal has been effectively pre-authorised and is capable of pre-notification through the ATN systems. This software determines the screen sequence on the ATMs that advises the charge made by IADs but although it has the capability does not advise the charge made by card issuers.

5.10 In the context of these hidden billions in both interchange fees and customer transaction charges, the fees charged by IADs are tiny in relation to the sums withdrawn. Even more importantly, they are totally transparent to the customer at the point of withdrawal.

5.11 As explained above, IADs are bound by the rules of the LINK network to receive only one of two possible forms of income—either the fixed rate MIF or a transaction fee (usually £1.50 or £1.75), which must be agreed and authorised by the customer during the withdrawal process. In relation to an average transaction value of £50, this equates to an average charge of 3% to 3.5%.

5.12 This fee is charged to the customer through a deduction from his account made by the card issuer bank at the same time as the account is debited with the cash amount withdrawn. The card issuer bears zero cost from the transaction, since no interchange fee is payable to the owner of a charging ATM.

5.13 The total gross value of all IAD transaction fees is currently approx £120 million on an annualised basis. This reflects the very low average number of transactions (compared with "bank" ATMs) accounted for by the typical "remote" ATM operated by an IAD.

5.14 Costs of these ATMs are also significantly higher than for bank-owned "branch" machines—not least because the transaction fee has normally to be shared with the owner of the "host" location. Other significant areas of cost include depreciation, servicing and maintenance costs, telecommunications and alarm costs, insurance and, in most circumstances, costs of cash in transit to restock the machine and the borrowing costs of the cash itself. Moneybox calculates that its average retained element of profit per transaction amounts to less than 15p.

5.15 Over the last five years, Moneybox has invested a total of £17million in capital costs of setting up its current national network of ATMs. It has also invested heavily in the infrastructure and people required to create a successful business. This has not produced super-profits to Moneybox and its shareholders: reflecting the fact that we are a start-up business, we have made losses every year since commencing operations in 1999 and floating the business in May 2004.

6. Observations of Moneybox plc on the Issues Raised by the TSC

6.1 The TSC has invited interested parties to make observations on three issues of particular interest to the Committee, namely

- The principle of charging *per se,* and the factors underlying the growth of charging machines.
- The transparency of charges and the enforcement of any relevant codes.
- Whether lack of access to free machines may cause problems in certain localities.

The principle of charging

6.2 This submission has already dealt in some depth with the factors, which lie behind the rapid growth in recent years in the numbers of charging machines operated by IADs. It is the case that 40% of all ATMs are now charging machines, and at the current rate of growth, that figure will probably reach 50% before the end of 2006.

However, considerably less emphasis is placed on the fact that the number of "free" ATMs operated by members of LINK is also growing, and currently stands at an all time high of over 33,000. Despite the highly publicised occasional disposal of "remote" ATM portfolios by individual banks, there is at least no statistical case for the assertion that the banks are "betraying" customers by curtailing the availability of non-charging or "free" ATMs.

On the contrary, virtually all of the 22,000 plus ATMs operated by IADs and mostly on a direct charging model, are new ATMs installed in locations where transaction volumes would be insufficient to support an ATM solely dependent on interchange fees. Charging ATMs therefore increase choice to customers and the growth in their numbers is driven by customer demand.

Even so, customers use them only in situations where the value of the convenience or security they offer is deemed to be worth the direct cost to the customer. As mentioned above, most customers have no difficulty in making a simple calculation of convenience versus cost and none of us need to be surprised that 97% of all ATM transactions by value are made via "free" machines.

Moneybox has strict criteria for investing the significant capital cost of putting a new machine in a convenience location. These largely relate to expected transaction volumes and the nature of the arrangement with the owner of the "host" location. Unless the new machine is sited in an area where customers will find it convenient to use and will therefore be prepared to pay a modest charge for that benefit, our business model cannot support it.

This is despite the fact that, as specialists with a clear and narrow focus, IADs in general are far more efficient than banks in actually running and maintaining portfolios of ATM machines. But IADs receive no payment at all, under the present LINK arrangements, from the issuing bank whose customer withdraws cash from a charging machine. If the IAD were to receive a payment, fees charged directly to the customer could be reduced.

And more than that, if that payment were set at a level, which positively discriminated in favour of vulnerable groups or low-income individuals, the direct fee could be waived completely. Remember, the customer does not pay a direct fee at the point of withdrawal, it is calculated on each individual transaction and charged to his bank account at the same time as it is debited for the funds withdrawn.

Customer charges made by IADs have to be set at levels high enough to allow them a financial return. But there is no immutable rule that says that they should be the sole source of an IAD's income. The LINK network is the monopoly supplier of switching in the UK and is owned and controlled by the major banks. That control of LINK has created an interchange fee structure, which excludes IADs and effectively dictates the level of their direct charges to customers.

Transparency of charges

6.3 Transparency of these charges is a paramount concern to the operators of charging machines, and is closely governed by the rules of LINK. Every machine carries a sign saying "This machine may charge you for LINK cash withdrawals" and every transaction involves a screen message warning the customer of the exact charge which will be levied, and requires the customer to positively authorise it before the withdrawal can be completed.

This situation, it may be pointed out, is in direct contrast to the situation regarding "free" machines, where card issuers have the opportunity to recoup their costs by way of account charges, special transaction fees, overdraft penalties or a combination of all three.

Despite the existence of inexpensive software with these capabilities, no bank ATM is currently programmed to advise customers of the charging consequences of any individual withdrawal. Again, this is in direct contrast to the position with charging machines operated by IADs, who follow a strict Code of Practice (laid out in the relevant section of the Banking Code), which demands their compliance in fully disclosing all charges in advance.

At Moneybox, we take our responsibilities under the Code of Practice very seriously. All of our machines carry the external sign warning that there may be a charge, except for some non-charging machines, which we operate and maintain on a contract basis for third parties. And the final stage of every withdrawal is a screen requiring the customer's positive acknowledgement that he is aware of the specified charge and accepts it.

Low-paid and vulnerable customers

6.4 This code of transparency means that no customer can be unaware of the direct cost of his withdrawal. In the case of Moneybox, this is usually £1.50 or £1.75, a level set to cover costs of operation or servicing, and generate an adequate return of capital.

For the relatively disadvantaged and the lowly paid in society, this level of charge could in certain circumstances represent a significant deduction from their limited funds. Moneybox accepts that for some customers it may be a serious deterrent to their use of an IAD machine. And customers wishing to make frequent or small withdrawals are likely to take a different view of the value of convenience when considering whether or not to use a charging ATM.

However, while a fixed charge may be deemed regressive in its impact on the lowly paid, there is no reason to assume that such customers behave irrationally when faced with the prospect of a charge. Like other customers, they make withdrawals, which are large enough to absorb the fee without inordinate costs. As explained above Moneybox's, average transaction value is £50 and in practice few withdrawals of less the £20 are made.

Widening the issue there is clearly a school of thought, which will argue that, in a UK market where soon 50% of all ATMs will follow a charging model, the relatively less affluent should not be denied the benefits of being able to use convenience machines. This particularly applies to the millions of pensioners and benefit recipients who have been encouraged by the Government to operate low cost banking accounts through which their benefits are paid.

Moneybox would actively support any measures, which made its machines more attractive to a wider range of potential customers, provided that the mechanism used did not unfairly disadvantage its business. Indeed, Moneybox takes the view that the current rules operated by the LINK network clearly disadvantage significant segment of society, including the lowly paid and customers in rural or other remote locations which are poorly served by the traditional banking branch networks.

7. Moneybox Proposals for the Committee's Consideration

7.1 In Moneybox's view, the current rigid formulae whereby banks' individual ATM costs are pooled and then re-distributed via interchange fees, are by definition anti-competitive

7.2 The rules of the LINK network also operate in ways, which prevent the IADs from competing effectively in the mainstream market for ATM withdrawals. The MIF is set by the LINK cartel on a cost recovery basis. This produces a low figure, which reflects the banks' preponderance of high transaction volume "branch" machines and handpicked high footfall remote locations. The result is that no IAD operating a low transaction volume ATM in a "remote" location can possibly make an adequate return on a "MIF only" charging model.

7.3 The only alternative for IADs is to make a direct charge to the customer and forego the MIF, which has the perverse effect that there is an immediate benefit of the customers' card issuer who then bears none of the cost of the cardholder's withdrawal at all! The banks and building societies who control the LINK network have, as result of this MIF structure, in effect shifted the costs of operating "remote" ATMs onto IADs, leaving customers who value the convenience of non-branch locations to pay for that privilege.

7.4 This gives the Banks a free ride but may not be quite what the OFT had in mind when granting Competition Act exemption to the LINK network in 2001. The arrangements put in place then to satisfy the OFT have been overtaken by other developments in the ATM market, in particular the emergence of IADs. The LINK network's over rigid management of charges via the MIF has produced consequences, which, Moneybox believes, are less than desirable.

7.5 Most importantly, it seriously disadvantages those sections of the community who can least afford to pay direct charges (such as OAPs, people on benefit or the lowly paid) or who have difficulty in accessing "free" machines in branch locations (such as people who live in rural or outlying suburban areas). These are exactly the groups who have suffered in the past from financial exclusion, and represent customer groups not highly valued in banking parlours.

7.6 Their needs could easily and simply be accommodated if the banks were prepared to entertain a more flexible structure of variable interchange fees, reflecting the status and affluence of individual customers. Moneybox sees no reason why interchange fees should be identical on every type of customer account. What it does see a need for is greater transparency so that customers know what they are being charged indirectly by their card issuer and why.

7.7 Nor, in Moneybox's view, is there any logical case for insisting on the strict prohibition on combining direct charging and interchange fees, when a mixture of charging methods could be used to produce desirable outcomes which would benefit disadvantaged sections of the community. For example, the MIF applied in the case of low cost banking accounts to transactions below a floor level of say £25 could be paid at a level which would allow IADs to significantly reduce direct changes to those customers.

7.8 The ban on any ATM operation receiving both an interchange fee and a direct change to the customer was introduced by LINK to eliminate so called "double dipping". However, the objection to "double-dipping" related to the quite reasonable antipathy to banks charging twice for the same service. Moneybox's proposal would do no more than transfer part of the cost of accessing a remote ATM away from a direct charge on the customer and back to where it should belong, as a service cost to be borne communally by (and shared fairly with) the owners of the LINK network.

7.9 It is an incidental benefit that this approach would also provide a useful mechanism for positively discriminating in favour of lower-income customers. Though largely neutral in terms of revenue and profit for IADs, it would encourage more transactions at convenience locations and, through ATMs located in local convenience stores, would allow consumers greater access to cash in local communities.

7.10 The technology, both hardware and software, to support this approach is already available and would be inexpensive to implement. Moneybox would urge the TSC to press the LINK network to explain why such a structure would not be both possible and desirable.

6 December 2004

Letter from the Chairman of Moneybox plc to the Chairman of the Committee

Thank you for giving me the opportunity to appear on behalf of Moneybox Plc before the Treasury Select Committee at yesterday's hearing. You ended our session by saying it had been a useful opportunity to discuss the issues and we certainly covered a wide range of them.

I did want to take this opportunity to assure you and the Committee that Moneybox Plc is fully committed to addressing the transparency and signage issues raised by you and your colleagues. We have told you that we are happy to sign up to the Banking Code provisions and will report back to the Committee when we have done so.

As a point of information, and to clear up a matter which seemed to be of interest to you, I would also like briefly to explain the reasons why Moneybox voted against the resolution on transparency at the meeting of LINK members held on 12 December 2004. My industry colleagues can of course speak for themselves, but I would be surprised if they did not share the opinions I am about to express.

Our objection was to the passing, with minimal notice and no proper discussion, of a motion which called for significant and expensive additional signage on charging machines only. By the open admission of LINK officials, its main purpose was to head off expected criticism of LINK at the TSC hearing on 21 December.

I would like to repeat that we have no objection to providing our customers with clear, visible and properly displayed information about both the fact of charging and the level of charges applied. We were not even complaining about the fact that the new measures, which have to be introduced within the next six months, will cost Moneybox approximately £400,000.

All we ask is that LINK should apply the same standards of transparency to their full membership by activating the capability built into all LINK software to inform customers of any customer charges resulting from any cash withdrawal. For example, if a withdrawal from an ATM is about to create an overdraft that has not been agreed, then the LINK system is designed to . advise the customer of the fee (£30 for most banks and £25 for Nationwide) and give the customer the choice not to proceed. This advice is designed to take place at the same point that a surcharge fee is advised. These fees are a considerable and avoidable cost to consumers running to an estimated £1.5 billion a year. If consumers had such advice then an extremely high cost could be avoided and leave them with more money to draw out from our machines! Not unsurprisingly, the advice process has not been turned on.

Our main objection, as you know, is to the "direct charging rule," originally introduced to prevent "double-dipping" but now operated by LINK to prevent IADs from receiving the interchange fee. In effect, this allows the Banks to completely wash their hands of the costs of operating ATMs in remote and disadvantaged urban locations, saving that industry an annual sum which significantly exceeds the oft-trumpeted cost of operating "low-cost" bank accounts. We would be prepared to undertake to lower our charges to the extent of any interchange fee we receive.

With voting power within LINK allocated in accordance with total transaction value, the combined voting power of the IAD members adds up to 1%. As you discovered, four or five major Banks can determine any issue raised at LINK's council meetings. Whether or not they invite consumer groups to attend, (and judging by Mr Crosby's reaction to the suggestion, I will be surprised if they do!), will not change that reality.

If there is anything else which we could do to help the Committee with its deliberations, I would be happy to hear from you.

2 February 2005

Memorandum submitted by the National Consumer Council

Cash Machine Charges Inquiry

The National Consumer Council welcomes the opportunity to submit evidence to this inquiry. Our consultation pack *Why the poor pay more . . . or get less?* highlighted the fact that in accessing basic goods and services, people from low-income and vulnerable groups get a worse deal from the market compared with other consumers. Cash machines are another example of where the poor pay more. This is clearly an unacceptable and unjust situation, and we are encouraged by the attention that the Committee is giving the issue.

Fee-charging cash machines should not be introduced as an alternative to free cash machines. Providers of fee-charging machines have said that the charge is a payment for the convenience of the service, and that in some circumstances they provide a service where there would otherwise not be one. However, in areas where there is no free alternative means of withdrawing money, this becomes an issue of access, not convenience. For consumers on low-incomes the charge can be a barrier to accessing cash because they cannot afford the extra £1.50 average fee. The absence of free access to cash in some areas raises the question of whether there should be a social obligation on banks to ensure adequate free provision for all of their customers including those in areas with low footfall. As a minimum banks should be required to carry out a social impact assessment before they can remove a free machine.

Consumers using fee-charging machines pay an average of 7.5% in charges for a £20 withdrawal. Low-income consumers tend to manage their money on a daily basis, and are likely to make smaller withdrawals, resulting in average charges of 15% for withdrawing £10. This is an unacceptable and unaffordable amount of money to pay for a service that is free to consumers who can access non-charging cash machines. Where a charge is levied it should be proportionate, and controls should be put in place to ensure that charges are reasonable. It is unjust for consumers withdrawing £10 to pay 15% in charges, when people withdrawing £100 only pay an average of 1.5%. We have been unable to find data that maps the number of free and fee-charging cash machines across the country. This information would enable easy identification of communities that are disproportionately affected by the absence of free machines and the dramatic increase in the number of fee-charging machines.

Government policies, including the move to direct payment of benefits and the push for greater financial inclusion have resulted in many low-income and vulnerable consumers, having access to cash machines for the first time. If these policies are to succeed it is important that these groups of consumers do not incur financial penalties as a result of being involved in the banking system. We accept that there is free access to cash for many through remaining local bank and Post Office branches, and there are cash machines that provide free access. However, for consumers on the periphery of society, particularly those living in urban deprived and rural areas, where these services have been reduced or withdrawn, there may be limited free access to cash. Future bank branch closures, where free cash machines tend to be based, are likely to exacerbate this problem. Lack of free cash machines in certain areas is also a problem for low-income consumers who are unable to visit a Post Office or bank branch because they are at work.

We are concerned that consumers new to using ATM machines might be unaware that free cash withdrawals are available to them. Current labelling requirements do not deal with this issue. External labelling on charging ATMs informing consumers about the fee levied is not always positioned where the service user is most likely to see it. Charge notification on ATM screens appear quite late into the transaction process, making external labelling more significant, as it can save consumers time, effort and sometimes embarrassment. More effective and obvious labelling is required.

We are concerned at the way that the cash machine market is moving, with the increase in fee-charging machines and some banks disposing of their non-branch based machines. It is important that free access to cash machines is maintained for all consumers as a means of promoting financial inclusion. Fee-charging machines should have better, more visible, labelling and fees should be more reasonable.

We hope that the committee finds our views of interest.

7 December 2004

Memorandum submitted by the National Federation of SubPostmasters

The National Federation of SubPostmasters (NFSP) represents the interest of 16,000 subpostmasters throughout the United Kindgom. Sub post offices make up 95% of the national network of post offices and are run by private business people, subpostmasters.

2. Post Office Network

The post office network is the largest retail branch network in the UK. With 16,000 outlets it is bigger than the major bank and building society networks combined. Post offices offer a range of 170 different postal, government and commercial services. One of the network's key services is access to cash. The Post Office is the UK's biggest cash distributor, handling £140 billion every year.

24 million people make 41 million post office visits a week. Although nearly everyone uses a post office from time to time, post offices are most frequently used by the more vulnerable members of society. Disproportionately high numbers of women, older people and people on low incomes use post offices. Post Office Ltd estimates that around 48% of their customer based comes from the C2DE socio-economic group. In 2000, the Government's Performance and Innovation Unit reported that 59% of the post office customers are female and nearly 40% are aged 55 or over.[1]

3. Direct Payment

The Government's Direct Payment programme is altering the way in which many post office customers access cash at post offices. Direct Payment, which began in April 2003, is a phased programme, which radically changes the state benefits and pensions payment system. Prior to 2003, two-thirds of benefits were

[1] Interchange fees are the fees paid by a card-issuing institution to the owner of the ATM which provides the service to their customer.

paid to claimants by order book or girocheques that were cashed over the post office counter. Claimants are now asked to receive their entitlements electronically by payment straight into an account. The Government argues not only that Direct Payment is a cheaper method of paying state pensions and benefits, but also that it will boost financial inclusion. In a letter to all MPs, Patricia Hewitt (Secretary of State for Trade and Industry) and Andrew Smith (the Secretary of State for Work and Pensions) confirmed their view that "Direct Payment will help spread financial inclusion by increasing the number of people who have bank accounts and giving them opportunities to benefit".[2]

At the point the Direct Payment programme was explained to parliament in April 2000, the Prime Minister assured MPs that "no one will be prevented from continuing to receive benefits in cash at the post office". Stephen Byers, then Secretary of State for Trade and Industry, clarified that under the new system "all benefit recipients and state pensioners who want to will be able to access the exact amount of their benefits in cash across the counter at the post office, without incurring a charge for doing so."[3]

There are three main options for the receipt of pensions and benefits under Direct Payment:

(i) The Post Office card account, which can only receive benefits and state pensions. Withdrawals can only be made in cash at post office counter.

(ii) A basic bank account, available through the high street banks, which enables account holders to make deposits, pay bills by direct debit and access cash via cash machines. There are no overdraft facilities and basic bank accounts have been specifically targeted at people on low incomes.

(iii) A current or savings account at any bank or building society. This option generally includes cash machine access.

The Government has been particularly keen that people choose to have their benefits paid through bank accounts, rather than via the Post Office card account. The debate over whether the three options have been equally presented by the Department for Work and Pensions (DWP) to claimants has been well documented.

By September 2004, 77% benefits claimants were paid some or all of their benefits by Direct Payment. A total of 4.5 million of those who have been asked to switch from order books and girocheques to electronic payments have opted for Post Office card accounts. Around 6.5 million have given the DWP their bank account details.[4]

4. Access to Cash at Post Offices

4.1 *Over the counter*

Research carried out in 2001 found that 23% of residents in rural areas obtain cash from the Post Office.[5] In urban deprivated communities, post offices were the main source of cash, with 38% of residents obtaining cash from the Post Office.[6]

In the three years since this research was published, the Government has introduced its Direct Payment programme. At the same time as the introduction of Direct Payment, Post Office Ltd launched Universal Banking Services. Under Universal Banking Services, UK post offices provide the public with free access to their current bank accounts and basic bank accounts over the post office counter.

Universale Banking Services arose out of negotiations between the Government, Post Office Ltd and the high street banks. It is designed to ensure that in the wake of the Direct Payment programme benefits claimants could still access their payments at post offices. Universal Banking was also heralded as a new income stream for the post office network, following the removal of the benefits encashment revenue. Prior to Direct Payment, 40% of Post Office Ltd's income derived from cashing order books and girocheques.

However, NFSP is seriously concerned that 20 months after the start of Direct Payment, Post Office access to bank accounts is in fact very limited.

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[2] These figures have been provided to APACS by its members. It is possible that this figure might differ slightly to that reported by LINK as a result of data being provided at different times.

[3] *Source:* 2001 Census, [postcode headcounts].

[4] The Direct Payment Programme, introduced by the Government in 2003, relates to the payment of benefits and pensions directly into a bank account or a post office card account, replacing the benefit book system.

[5] Financial Overcommitment, research study conducted for Citizens Advice by MORI, July 2003.

[6] DWP leaflet on direct payment, Direct Payment—giving it to you straight.

4.1.1 Current accounts

Although access to bank accounts at post offices is popular with the public, a significant number of current accounts remain unavailable at post offices.

The banks listed below allow their current account customers to carry out automated transactions using their bank cards and PIN numbers:

	Automated cash withdrawal	*Automated balance enquiry*	*Automated cash deposit*
Alliance & Leicester	Yes	Yes	Yes
Bank of Ireland	Yes	Yes	Yes
Barclays (England & Wales only)	Yes	No	No
Clydesdale Bank	Yes	Yes	Yes
Co-operative Bank	Yes	No	Yes
Lloyds TSB	Yes	Yes	No
Smile	Yes	No	Yes

Cahoot and First Direct (Scotland only) provide their customers with access to manual transactions via the Post Office. However, manual transactions are more cumbersome and require account holders to bring cheque books and personalised paying in slips from their banks to access these services.

Critically, three major banking groups—HSBC, Halifax Bank of Scotland and Royal Bank of Scotland Group—do not offer any Post Office access to their current accounts. This is of enormous concern to NFSP as it seriously undermines the ability of the post office network to offer anything like a comprehensive banking service to the public. NFSP fears that the relunctance of these major banks to work with Post Office Ltd could jeapordise the long-term future of the post office network.

4.1.2 Basic bank accounts

Basic bank accounts are billed as "particularly suitable for meeting the needs of people receiving state benefits".[7] Government communications with claimants switching from order book and girocheque payments to Direct Payment have emphasised the availability of this type of bank account.

Benefit claimants and pensioners are traditionally heavy users of post offices. However, NFSP is seriously concerned that 70% of basic bank accounts are not accessible over the post office counter.[8]

4.2 *Cash machines*

A total of 2,493 post offices have cash machines. This represents 16% of the whole UK post office network. Of the total number of cash machines available at post offices, 1,856 (74%) charge fees.[9]

NFSP supports the principle of providing cash machines at post offices to supplement the free over the counter service. Cash machines offer customers an important alternative method of accessing their bank accounts. Advantages can include speed (not having to queue) and availability (may be available when post office counter is closed). In addition, some customers may prefer to carry out their banking transactiong via a machine.

Cash machines at post offices can also provide the customers of banks who have not signed up to Post Office banking, with local access to their accounts.

However, NFSP has concerns about charging the public to use cash machines situated in post offices. A major objective of developing Post Office banking was to ensure that pensioners and benefit claimants could still access their benefit payments at post offices following the introduction of Direct Payment. Post Office banking was also introduced with the aim of providing the public with a local means of accessing cash.

Since most claimants and a significant proportion of all post office customers are people with low incomes, charges on Post Office based cash machines are likely to hit those using them particularly hard.

[7] The Banking Review was announced by the Chancellor of the Exchequer in November 1998 and culminated with the Cruickshank report, "Competition in UK Banking," in March 2000. Its purpose was to examine competition, innovation and efficiency in the UK banking sector and to consider whether there were options for change. Annex D4 of the Cruickshank report covers charging and access to ATMs. It can be found on HM Treasury's website: http://www.hm-treasury.gov.uk/documents/financial—services/banking.

[8] APACS 1999 ATM Survey.

[9] www.oft.gov.uk/Business/Competition + Act/Decisions/LINK + Interchange + Network + Limited.htm

That claimants using Direct Payment do not have to withdraw all their benefits in one go (unlike under the order book and girocheque system) is promoted by Government as a particular advantage of the new payment system. Moreover, people on low incomes are likely to wish to withdraw small amounts of money at a time from cash machines, since this make financial management easier. However, withdrawals of small sums lead to customers paying frequent bank charges at a high proportion of the sum withdrawn. For instance a £2 charge on a £20 withdrawal is 10%. On a £10 withdrawall it is a shocking 20% levy. Such fees are financially crippling for many people on low incomes.

5. Choice

Post offices have important roles in providing local access to cash. Research strongly shows that people frequently spend cash locally to the place they access it.[10] In this way Post Office banking supports local shops, services and other businesses.

The ability to acess cash locally, is also essential for the social inclusion of many of the most vulnerable members of society. People with mobility problems, older people, those unable to access transport, people on low incomes and rural residents are most likely to need local access to their cash.

NFSP believes that everyone should have the choice of withdrawaing cash locally from the Post Office. However, very large numbers of the population are unable to do so, either because they do not hae the "right" bank account for the free over the counter access or because they are unable to afford charges on ATMs.

NFSP holds that all the major high street banks should offer a comprehensive service for their current, basic and business account holders at post offices. In the absence of this free over the counter service, it is all the more essential that cash machines in post offices do not levy fees for their users.

6. Conclusion

Post offices are now set up so that they can provide the public with free local access to cash. This important service helps secure the economic and social well being of local communities.

Under the Direct Payment programme the Government has steered benefits claimants and pensioners towards the high street banks, partly in order to promote financial inclusion. However, as a limited number of bank accounts are accessible over the post office counter, and increasing numbers of cash machines levy charges, serious questions must be asked about the Government's ability to meet their financial exclusion objectives.

References

1. Performance and Innovation Unit, June 2000, Counter Revolution.
2. Letter dated 4 February 2003.
3. House of Commons Hansard Debates, 12 April 2000, column 356 and column 381.
4. Department for Works and Pensions, Payment Modernisation Programme statistics, 15 October 2004.
5. Postcomm, December 2001, Serving the Community I—evidence of the community value of post offices in rural areas.
6. Postcomm, December 2001, Serving the Comminity II—evidence of the community value of post offices in urban deprived areas.
7. Banking Code Standards Board, press release 18 November 2004.
8. British Bankers' Association, press release 14 September 2004. Out of a total of 5,354,758 basic bank accounts, 1,678,045 are accessible through the Post Office.
9. Post Office Ltd data, November 2004.
10. Countryside Agency, July 2000, The Economic Significance of Rural Post Offices New Economics Foundation, December 2002, *Ghost Town Britain*.

December 2004

[10] At this time there were no non-bank LINK members so the costs we are talking about are ostensibly those of the banks. Independent deployers of ATMs do not themselves issue cards.

Memorandum submitted by Nationwide Building Society

Introduction

1. Nationwide Building Society is the UK's fourth largest mortgage lender, second largest savings provider, and seventh largest high street financial organisation. We are also the world's largest building society, with more than eleven million members.

2. Nationwide is a member of the LINK network. The Society has 2,333 ATMs, of which 958 are in our branches. Our 1,375 non-branch, or "remote", ATMs are located in:

Petrol Stations	327
High Street Retail	280
Supermarkets	230
Post Offices	155
Convenience Stores	129
Other sites (including airports, agencies)	116
Railway Stations (LU)	55
Shopping Centres	49
Hospitals	32

Nationwide does not charge customers a fee for cash withdrawals at any of our ATMs.

3. Nationwide is proud of its record of promoting transparency, honesty and fairness across the financial services industry and we have for some time been advocates of greater clarity and fairness in the cash machine network. The Society welcomes the Committee's inquiry into charging cash machines and is pleased to submit evidence to it.

The Principle of Charging

4. Nationwide believes that the provision of a network of free cash machines represent best practice, whether they are located at bank or building society branches, or in "remote" locations such as railway stations or shopping centres. All Nationwide's cash machines are free, and the Society remains committed to retaining a viable network of free cash machines in the UK.

5. Nationwide has a history of campaigning for a free cash machine network. In 1999–2000, Nationwide successfully fought to retain fee-free cash machines in the UK when its threat to sue Barclays forced the bank to abandon its plans to introduce a charge for customers of other organisations using Barclays' cash machines.

6. In 2003 Nationwide's campaign led to agreement being secured among members of LINK to introduce the requirement for machines charging a fee to warn consumers in advance. This requirement came into effect on 1 April 2004 and since then all fee-charging machines have been required to carry a notice on the machine or an up-front on-screen message warning customers "This machine may charge you for LINK cash withdrawals".

7. Since that time, the number of cash machines that charge customers to withdraw their own money has grown at an increasing rate. Five years ago virtually all cash machines in the UK were free. Today the latest figures indicate that almost 20,000 charging machines are operating in the UK, more than 40% of the UK's network.

8. The rate of growth of fee charging machines has been very rapid, in comparison with the rate of growth of free machines, which has slowed down almost to a standstill. LINK's figures show that from end December 2003 to July 2004, the number of charging machines grew by 29%, compared with overall growth of free machines of just 0.3%.[11]

9. At present, charging machines handle a small proportion of transactions. However, this is likely to change as the number of fee-charging machines increases, and as free machines are replaced by charging machines. The majority of new machines being installed are fee-charging and if that rate of growth continues, then fee-charging machines will outnumber free machines by this time next year.

10. Even though the proportion of ATM transactions on which a charge is levied is relatively small, consumers pay a considerable sum in fees. The latest figures show that in the twelve months to September 2004 consumers made 98.8 million withdrawals on which a charge was paid, and paid around £141 million in ATM fees. (This figure is rapidly increasing—we had previously quoted a figure of £64 million in ATM fees for the period April 2003–March 2004.)

[11] LINK figures: at end December 2003, 15,278 charging machines and 32,237 free machines; as of July 2004, 19,682 charging machines and 32,350 free machines.

11. Nationwide does recognise that charging machines have a role to play in some locations where it might otherwise be uneconomic to install a machine. Nationwide makes ATM location decisions based on a number of factors, primarily: population density, transport hubs, and facilities which create a demand for cash. Small, isolated villages would often be considered difficult areas to run a profitable ATM, as would residential areas of towns or cities where there are few shops, cafes and pubs and so little consistent need for cash. In such areas the Society would accept that there may be a role for a charging machine.

12. However, the Society is concerned that the definition of "convenience" has been stretched far beyond its original intention. According to LINK, "convenience" machines are found "in locations that would not normally justify the cost of installing a cash machine because fewer people are expected to use them". The locations where charging machines are found have multiplied, and they are now in busy motorway service stations, shopping centres, petrol stations, bars, Post Offices, railway stations, hospitals and cinemas. In some locations charging machines may even be found alongside free ones. Charging operators will describe these locations too as "convenience", but in such busy areas as a motorway service station or a main shopping centre it would be difficult to argue that a free machine would be unprofitable.

13. Indeed, a worrying trend for organisations like Nationwide which remain committed to maintaining a free network of cash machines is the aggressive approach of the charging operators who seek to expand their networks by taking over sites where banks or building societies currently operate free machines profitably. Charging operators offer the site owners financial inducements to replace free cash machines with charging ones. Inducements can be as much as 10 times the rental income, plus an increased margin on each withdrawal. Nationwide has submitted, separately and in confidence, evidence of a charging operator offering such inducements to the owner of a site where Nationwide currently has a free ATM.

14. Nationwide believes that much of the growth of the charging network has been at the expense of the customer, as free ATMs are replaced with charging ATMs to deliver greater profits. Nationwide has submitted, separately and in confidence, evidence of sites where we supplied free ATMs profitably which have now installed charging ATMs.

15. Another trend of concern to those seeking to protect free access to cash has been the conversion of free machines to charging machines through the sale of the networks, or portions of the networks, of high street banks. Both HBOS and Abbey have recently sold a portion of their free ATM networks to companies whose machines charge a fee for withdrawals. In the case of HBOS, almost a quarter of its network has been sold to the charging operator Cardpoint. Cardpoint confirmed in November 2004 that more than 250 of those will start charging from March 2005.

Transparency

16. From 1 April 2004, LINK has required ATM operators to place a notice on fee-charging ATMs, warning customers that they may be charged for LINK withdrawals. The requirement says that a sign must be clearly visible before a card is inserted into a surcharging ATM, either by physical notice on the machine, or an up-front screen message.

17. Compliance with this requirement has not been consistent. Nationwide would like to see LINK conduct random inspections to assess compliance and report non-compliance. Nationwide also supports sanctions for persistent non-compliance, such as fines or disconnection of ATMs.

18. Nationwide would also like to see greater efforts made on the part of LINK to inform consumers about the rules governing transparency, and to publicise the means by which consumers can alert LINK to examples of non-compliance.

19. Some operators appear to be flouting the spirit of this agreement by displaying warnings in a way that makes them difficult to spot. For example, notices are displayed in extremely small print, considerably smaller than any other print used in signage on the machine; warning stickers or signs are of the same colour as the machine's background; notices are "hidden" on the side of the machine or low down below eye level. Nationwide believes that inadequate signage constitutes non-compliance. A clear, unambiguous definition of what is "adequate signage" is needed and Nationwide has suggested that relating the size and prominence of fee warnings to the size and prominence of other advertising and information is the best approach (see our proposed Code of Practice).

20. Nationwide has argued that on-screen warnings alone tend to be inadequate, even where these are up-front. By the time a customer sees an ATM screen, he or she may have queued for some time and may feel "committed" to the transaction. In 2003 when LINK members were considering the introduction of warnings on charging machines, Nationwide argued for a requirement to warn customers through a clear notice on the machine and against the option of on-screen warnings, but this was not accepted by the industry.

[12] Research conducted for Nationwide Building Society in June 2004 using Marketing Sciences' PanelWizard (TM) survey. 1,038 adults were questioned.

21. Nationwide research,[12] conducted since LINK's early warning requirement came into effect, shows that the current warnings on charging machines are inadequate. Almost one in five (18%) of those surveyed had used a machine which charges, but a quarter of those (23.5%) had not seen any early warning before requesting their cash. 97% of those surveyed thought that the visibility of warnings should be improved.

22. Nationwide believes that improved transparency is in the interests both of consumers and of the industry. Consumers would clearly benefit from improved transparency and clearer information on charging machines, enabling them to make an informed decision about whether or not to use a charging machine. The industry would also benefit from giving consumers better information: it does the reputation of the financial services industry no good at all to be unclear about charges and fees.

23. Consequently, in September 2004 Nationwide published a draft Code of Practice for charging cash machines, which would build on the LINK agreement on early warnings. This proposed Code would help ensure consumer awareness and transparency, and would promote fair practice among cash machine providers.

24. The proposed Code of Practice is appended (appendix 1) for the Committee's information. As the Committee will see, it builds on the current agreement but would improve transparency in a number of important ways:

- By linking the prominence of warnings to the prominence of other signage, to ensure that warnings are clear.
- By including warnings on other signage and marketing material (for example, street signage for in-store machines) to make clear at every stage that a machine charges so that customers cannot be misled at any point.
- By giving advance warnings where a machine is to become charging where it was free, or where charges are to increase, so that consumers who have previously used the machine are aware that a change is about to take place. (The Banking Code requires subscribers to tell customers 30 days in advance where day-to-day charges on their account are to be introduced or increased and we believe the same principle could be applied where an ATM is to introduce or increase the charge customers will pay.)
- By indicating a maximum acceptable fee, so that consumers know what they are liable to pay at any charging machine and are reassured that fees are fair.
- By guaranteeing that consumers pay only for withdrawing cash and are not liable to pay a charge on other transactions (eg balance inquiries).

25. Nationwide believes that this set of principles governing the operation of charging cash machines could in the future be incorporated into the Banking Code as part of the section regarding cash machines.

26. The suggestion that a maximum fee should be set has been particularly controversial and concern has been expressed that this might constitute a breach of competition law. Since our proposal is for a voluntary agreement on what constitutes good practice, it is the Society's opinion that this would not be the case. In addition, Nationwide suggests that it could be possible for an arrangement to be put in place governing the fairness of fees for cash withdrawals from ATMs by LINK under the supervision of the OFT. There are parallels with the existing arrangement between LINK and the OFT regarding interchange fees.

27. LINK sets the level of its multilateral interchange fees centrally and commissions an annual independent study into the level at which these fees should be set, to ensure that the interchange fee remains genuinely cost-based. The OFT has granted LINK an exemption from the Competition Act to set interchange fees centrally on the ground that the fees are genuinely cost-based and that this is in the interests of the consumer. Nationwide believes that a similar argument could be made regarding fees for cash machine withdrawals.

Financial Exclusion and Location

28. Lack of transparency is a concern as it impacts on every consumer, but Nationwide would be particularly concerned if cash machine charges fell disproportionately on lower-income groups.

29. It seems intuitive that with the proportion of machines which charge growing so rapidly, the burden would fall most heavily on people without debit or credit cards, who are most reliant on cash and on using ATMs to access their cash. This would include young people aged 11–16 as well as individuals with poor credit scores who may only be eligible for a Basic Bank Account.

30. The trend for high street banks to sell off their non-branch ATMs to charging operators, and the rapid growth in the number of charging machines in locations such as convenience stores, off-licences, petrol stations and pubs, also have an impact. These changes mean that in areas where there are no bank branches, or where branches may have been closed, the chances are greater that the nearest machines will be fee-charging.

[12] Research conducted for Nationwide Building Society in June 2004 using Marketing Sciences' PanelWizard ™ survey. 1,038 adults were questioned.

31. In an attempt to consider the question of the prevalence of charging machines in areas of poverty, Nationwide has examined the situation in the 10 poorest and 10 richest areas of the country by postcode[13]. (We have appended the data gathered at appendix 2. LINK may be able to provide the Committee with a more comprehensive overview of the situation.)

32. This rough comparison is of course not comprehensive, nor does it show a clear pattern, but nonetheless it does identify some situations of concern. For example, Liverpool L5, the fourth poorest postcode in the UK by household income, does not return a single free machine in LINK's identification of the nearest 10. In contrast, at least two free machines are identified for each of the 10 wealthiest postcodes. In two more very poor areas—Glasgow G3 and Liverpool L14—six of the 10 nearest machines identified levy a charge, a higher proportion of charging machines than the national average.

33. Charging machines in Post Offices are also a matter of concern. Post Offices have not traditionally been seen as a typical "convenience" location. The Post Office began installing its first charging machines in 2002 with 800 charging machines, mainly located in rural areas according to a spokesman.[14] However, in July 2003 the DTI revealed in a written answer[15] that of the 2,100 cash machines in Post Offices, "around 1,500"—more than 70%—now charge a fee. Nationwide has 155 free machines in Post Offices and runs these profitably without levying a charge on customers.

34. Nationwide is a basic bank account provider and has made arrangements to enable our basic account customers to withdraw cash from any Post Offices over the counter, free of charge. It is therefore a matter of concern to us that our customers, including basic account customers, might be paying a fee to withdraw cash from a Post Office ATM as we believe these customers expect Post Office banking services to be free for them to use.

35. Nationwide is of course a commercial organisation and recognises the need to ensure a reasonable return on investment in services. In some locations it may not be economic to provide a free ATM and we do recognise that there may sometimes be a case for charging. However, it is our practice to make every effort to keep an ATM in an area and make it profitable: we will often try to relocate ATMs (sometimes moving an ATM a few hundred yards or changing its aspect can make an enormous difference).

36. We have also introduced new features at our ATMs which can improve income without introducing fees for withdrawing cash by encouraging more use of Nationwide ATMs and better Nationwide customer "loyalty" to Nationwide ATMs. In November 2004, for example, we introduced mobile phone top-ups at all our branch ATMs, and some remote ATMs, and expect this to generate increased income. We can provide the Committee with projected revenue figures in confidence if these would be helpful.

Appendix I

Proposed Cash Machine Code of Practice

Nationwide believes that free cash machines represent best practice, whether they are located at bank or building society branches or in "remote locations" such as train stations or shopping centres.

However, the Society recognises that the operators of charging machines do have a valuable role to play in locations where free machines would not be viable.

As a starting point, Nationwide proposes this code of practice which builds on the LINK agreement on early warnings for consumers.

- Machines must display a clear and prominent warning of charges before a card is inserted (either by a notice on the machine or an upfront screen message).
- Warnings should be as prominent as any signs promoting free services, such as free balance enquiries.
- Machines must display a clear and prominent earning of the charge on any other signage (for example, advertisements in shop windows).
- Place a £1.50 cap on charges—to be index-linked.
- All non-financial transactions should remain free.
- Display a clear and prominent warning at least 30 days in advance where a machines which was previously free is to be replaced by a charging machine.
- Display a clear and prominent warning at least 30 days in advance where a charge is to be increased.

[13] Poorest and wealthiest areas by postcode, according to household income, were taken from the CACI Wealth of the Nation report 2004. The data on ATMs was taken from LINK's online ATM locator as at 13 October 2004.

[14] "Rural levy for Post Office cash machines", BBC News Online, 18 March 2002.

[15] Written answer, Hansard 17 July 2003, col 513W.

Appendix II

Free and charging ATMs in Britain's wealthiest and poorest postcodes

Postcode	*Town/City*	*Charging ATMs*	*Free ATMs*	*% Charging*
Wealthiest*				
ME19	West Malling	5	5	50%
GU51	Fleet	2	8	20%
SW13	Hammersmith	6	3	60%
KT19	Epsom	8	2	80%
KT22	Leatherhead	4	6	40%
EC2Y	London	3	5	30%
TN15	Sevenoaks	7	3	70%
SE1	London	3	6	30%
RG40	Wokingham	3	7	30%
WD3	Rickmansworth	3	6	30%
	Average	**4.4**	**5.1**	**44.0%**
Poorest**				
TS1	Middlesborough	4	6	40%
LE1	Leicester	3	7	33%
G22	Glasgow	5	5	50%
L5	Liverpool	9	0	90%
G40	Glasgow	5	4	50%
G34	Glasgow	6	3	60%
G31	Glasgow	0	9	0%
G21	Glasgow	3	5	30%
CH41	Birkenhead	5	5	50%
L14	Liverpool	6	4	60%
	Average	**4.6**	**4.8**	**46.3%**

* Wealthiest ranked according to % of households earning more than £100,000.
** Poorest ranked according to % of households earning less than £10,000.

Data based on ATM search results from LINK's ATM locator as at 14 October 2004—showing the "nearest 10" ATMs for each postcode. In some postal areas some machines were not identified as either charging or free.

(Machines where charge/no charge is not identified have been included in the overall percentage totals which are out of 10 in each case; ie if results show five charging, four non-charging, and one not identified, percentage charging would be shown as 50%.)

6 December 2004

Memorandum submitted by Postmasternetwork

ATM charging in the post office network—Postmasternetwork's submission detailing the impact the existing sub postmaster's contract has on ATM provision in sub post offices

1. Postmasternetwork

Postmasternetwork is a commercial organisation focussed on providing its membership base of 8,300 sub postmasters' retail opportunities that will improve their profit margins and help create a viable network of post offices. Post offices need to diversify into other areas than traditional post related products and be able to offer their large customer base the products and services they need and are profitable for the sub postmaster. Postmasternetwork is working with a wide range of commercial partners and businesses who want help build a viable long term future for sub post offices.

2. The Sub Postmaster Contract

The existing contract between Post Office Limited (POL) and sub postmasters restricts the ability of sub postmasters from carrying on independently many types of business services that POL has reserved for itself. The effect of this requirement is two fold. Firstly, postmasters have no alternative in supply to that provided by POL. This is at the terms that POL determine for a wide range of products and services that they provide on the retail side of their own shop. POL in the terms of the contract can and does change conditions with no notice to sub postmasters. Secondly, shops that had previously provided various business services to their customers are either prevented from continuing to supply those services or are required, if they continue to provide the same or alternative services, to pay a proportion of their income from such services to POL. Given the very tight operating profit margins, this restriction on competition has extremely serious repercussions on the profitability of sub-post offices.

3. OFT Complaint Regarding the Contract

The Post Office has been in financial difficulty for many years due to competition on the market for postal and packet delivery services. In 2003, it made an operating loss of £102 million. Whereas previously, the Royal Mail acted as a "milk cow" and was able to cross-subsidize POL's other activities, in recent time's regulation of postal services has injected competition into the sector. Postmasternetwork, as part of the Association of Convenience Stores (ACS) on November 30th issued a complaint to the Office of Fair Trading regarding the contract. This was made on the basis that POL has for a period of time sought to increase its revenue at the expense of individual retailers by imposing obligations on them in return for entering into a sub-post office contract, the effect of which is to restrict competition and to subsidise POL.

4. The Impact on ATM Provision

Under the contract POL has determined that the provision of ATM's is a core product that POL alone can determine which providers of equipment and services can supply stores with post office counters. A critical point to bear in mind is that sub post offices are all owned by sub postmasters and all ATM and cash point machines are located in retail space and not behind the post office counter. ATM's have become a core component of many convenience stores to the extent that they are now almost an expected feature. For the retailer the ATM offers a range of benefits. It can be an income generator, either from a fixed rental fee for the placing of the ATM or from a fee per transaction. ATM's also act as footfall drivers, and ATM users spend more per visit. For a sub postmaster the benefits are a lot less clear. As far as we can judge from information we have received from our members, sub postmasters receive no rental income from the placing of ATM's in their retail space. The fee per transaction they receive is a fraction of what would be available to them in a competitive situation. The conclusion we draw from this is that the vast majority of available commission goes to POL. However, if the sub posts office in located in a large store chain such as Tesco, the contract provisions are ignored and Tesco's et al supply their own ATM machines and determine their own charging policy. With the freedom to choose a cash machine or ATM, sub postmasters would be able to offer the appropriate cash service for their store and their community. The sub postmaster would be able to determine whether there would be no charges for cash withdrawal or what level they would be, depending upon the needs of his business and the local community. The extra income they would receive from a free and open market supply would allow them to minimise the occasions where charges would be needed to be made, in order to support the sustainability of the business. Under the present system, they are dictated to by POL who makes business decisions based upon what is best for POL.

5. The Impact the Contract has on ATM Charging

Following the issuing of the OFT complaint, one of our rural Scottish members contacted us regarding an issue she was having in relation to her ATM. The terms of the contract prevent the sub postmaster from making a direct complaint, so therefore this issue has been raised by her husband as the landlord of the business. The sub postmaster and her husband have successfully run a store and post office for 15 years. In 2002 they installed an ATM, using the authorised POL supplier For 2 years, no charges were made for the machine, as the sub postmaster wanted to provide a customer service for the community and recognised the business benefits that the customer flow generated. In August 2004, the sub postmaster received a letter from Michelle Campbell the POL ATM manager based in London, ordering them to start charging £1.50 per transaction from October 2004. In spite of the complete opposition of the sub postmaster, the charge was imposed from the beginning of October. The result of this change has been 2 fold. Firstly, POL has started earning significant commission from the ATM. The sub post office on average did 1000 ATM transactions per month. The sub postmaster's husband works for a multiple retail group and by chance is responsible for ATM's. He is therefore fully aware of the commission structure available on the open market from TRM and Hanco, the POL nominated suppliers. For an independent store, the commission payment ranges from 39p to 90p from these ATM providers. For a group with the number of machines controlled by POL, commission is likely to be much higher, in addition to the store space rental fee market basis. Under the POL scheme the sub postmaster receives 4.95p per transaction = £49.50 per month. POL based upon the above figures would earn at least between £340.50 and £850.50 per month in commission from the sub postmaster's store. Secondly, the impact on the sub postmasters business has been catastrophic. Sales in November have decreased 7.8% vs. the annual run rate of 0.2% growth. Customer count has declined 6% on a similar basis. Credit sales have increased significantly with a serious impact on the stores cash flow. Customer reaction has been very negative as the introduction of charging is seen locally as the action of the sub postmaster, and not POL. The sub postmaster and her husband are now seriously considering closing down the post office side of the business which would remove the provision of a range of essential services from their small town. Under the existing terms of the contract, POL centrally determines ATM charging policy for ATM's located in independent retailer's stores, with no reference to the impact on those retailers business. We believe this is unfair and anti competitive and puts at risk easy access for all to the government and community services available from stores with sub post offices. Without commercial freedom most sub post offices have a very questionable future. Full details of the sub post office are available as well as copies of correspondence if required.

6. The Publicly Stated Position of POL Compared to the Reality

In an appearance before the Trade and Industry Select Committee of the House of Commons on 18 May 2004, David Mills, Chief Executive of POL, was asked by Richard Burden M.P "Given the fact that most local post offices rely on business that is not just your business and your products, would you stop a local post office branching into new areas of business, say, on parcel deliveries which might be in competition with yourselves?" He responded "I would not personally do that at all. In fact I would not stop them breaching the agreement that they had with us not to sell other person's financial products, if you take that as the example. The reason that I would not do that is that I do not think it works in the long run in the market place. I think that what works in the long run in the market place is either for us to have competitive products and services or not. If we do not have them, we are going out of business, so what they should do is they should actively choose our products and services because they are the best." It follows that the Post Office accepts that its restrictions are commercially unacceptable and that there is no justification for including them in the sub-postmaster contract. However, in practice, POL has not been willing to adopt the competitive approach claimed by Mr Mills. Indeed, in response to a complaint from an ACS member concerning restrictions on utility payments facilities, Mr Mills replied that "we feel it necessary to maintain our current restrictions policy for the time being." Sub-postmasters who seek to introduce competing products face action against breach of contract, or are financially threatened by a reduction in remuneration. Remuneration is made up payments relating to post office turnover and the sale of post office products. The proportion relating to non core post office products and services such as cash transactions is actually very small, but the threats are still made. Therefore the freedom to compete is in practice illusory.

December 2004

Memorandum submitted by Post Office Ltd

Post Office Ltd has not been asked specifically to submit evidence to the Committee's inquiry on cash machine charges. However, as there have been a number of comments in the media about ATMs in Post Office branches, Post Office Ltd would like to provide the Committee with the facts with regard to ATMs in our network.

1. Post Office Ltd has 15,304 branches (as at end September 2004). Of these, 555 are directly managed by Post Office Ltd, and the remainder are operated by agents on our behalf. Over 29 million people use Post Office Ltd branches nationwide every week.

2. There are 2,493 ATMs within Post Office branches (either located within the branch itself or "through the wall"), of which 1,856 charge a fee direct to the consumer. An appendix to this note provides analysis of free/charging machines by type of branch and according to whether the branch is classified as rural or urban[16]. (Not printed).

3. The ATMs are not owned by Post Office Ltd. They are owned by banks or by independent companies (Independent ATM Deployers—IADs) set up specifically to manage ATM networks. In a small minority of cases, they are owned by agents in their own right.

4. The business model for the supply of ATMs in remote sites (including Post Offices) changed in 2000, at the same time as Post Office Ltd was seeking to increase significantly the number of branches that had ATMs (there were only 160 ATMs in February 2000). Following the Cruickshank review, and a subsequent debate amongst LINK Scheme members, many of the banking institutions decided not to levy disloyalty[17] or surcharge fees on customers using ATMs. Without such fees there was less financial incentive for these institutions to expand their networks of ATMs in remote sites. The main suppliers of ATMs in such areas are now IADs, with a business model based on surcharging.

5. For an ATM to be installed, there must be financial benefit to all parties. Post Office Ltd would not have achieved the coverage of today's ATM network, or achieved the benefits from ATMs, if it had not concluded arrangements with IADs.

6. We are of the view that having ATMs located in our branches has the following benefits:

— Improving service to customers.

— Income from suppliers (through rental and transaction fees).

— Increasing the perception of the local post office as the "natural place" to go for banking services.

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[16] A branch is defined as rural if it is located in an area with a population of less than 10,000 people.

[17] A disloyalty fee was charged by the card issuer if a customer used an ATM outside that organisation's free network; a surcharge is charged direct by the ATM owner.

— Increasing footfall for subpostmasters, with a consequential benefit for their retail and Post Office Ltd businesses.

7. Post Office Ltd strongly supports transparency of charging. No "hidden charges" is a value central to the ethos of Post Office Ltd. Over 96% of consumers trust the Post Office[18]. We have supported the deployment of ATMs that charge a consumer fee on the basis that it increases customer choice. This must be an informed choice and hence it must be clear when a charge is to be applied:

— We cap at £1.50 the charge that can be made to the consumer.

— All suppliers of ATMs in Post Office branches are members of the LINK Scheme and are required to comply with the Scheme's requirements. Since January 2001 this has included the obligation to pre-notify the customers of any charge that will apply if the machine is used. The customer thereby has the option not to proceed with the transaction. This was supplemented from April 2004 with the requirement that customers must be given an early warning that they may be charged, either through a clearly-visible sticker or on-screen message that customers can see, before inserting a card.

8. Post Office Ltd is uniquely placed to promote financial inclusion, on account of our extensive experience of dealing with sections of the population that are most likely to be at risk of financial exclusion—namely recipients of Government benefits—and because we operate a manned network.

9. Post Office Ltd believes that ensuring consumers have easy access to cash is a central part of financial inclusion. Post Office Ltd, with the largest retail network in the United Kingdom, is exceptionally well-placed to act as a distributor of cash.

10. To this end we have concluded commercial agreements with 17 banks/building societies to allow Basic Bank Account customers free access to cash at Post Office branches. A list of the relevant financial institutions and accounts is included in the Appendix. Post Office Card Account customers are also able to access their cash for free at any one of our 15,000+ branches.

11. In addition, we have a number of arrangements with financial institutions to allow their personal current account customers to withdraw cash at our counters free of charge. Technically, this is facilitated by using the LINK infrastructure. This access is of particular value in communities without a bank presence. However, our efforts are made harder by the difficulty of communicating to consumers the fact that not all banks have entered into agreements with us, and therefore we can provide cash only to customers of selected institutions.

12. Post Office Ltd sees provision of access to cash through ATMs as complementary to our over the counter service, not least because cash is made available outside of branch opening hours, and as not all banks entitle their personal current account customers to access their cash at our counters. .

13. In summary, Post Office Ltd has the network and ambition to become the universal provider of free cash, over its counters, to personal customers of any financial institution, which would benefit financial inclusion. This ambition has dependencies outside the control of Post Office Ltd. We support the deployment of ATMs, as a complement to over-the counter cash provision, as an extension of consumer choice and recognise that ATMs would not be deployed by suppliers in many of our sites if it were not for the ability to levy consumer fees.

December 2004

Appendix

FREE/SURCHARGE MACHINES BY BRANCH TYPE

Branch ownership type	*Free*	*Surcharging*	*TOTAL*
Directly—Managed by POL	175	0	175
Multiples (managed by agents)	148	171	319
Other sub-postmasters	314	1,685	1,999
TOTAL	637	1,856	2,493

Urban/rural	*Free*	*Surcharging*	*TOTAL*
Urban	547	1,086	1,633
Rural—commercial	40	115	155
Rural—social	50	655	705
TOTAL	637	1,856	2,493

(Figures as at November 2004)

[18] *Source:* Customer research compiled by Millward Brown for Post Office Ltd.

FINANCIAL INSTITUTIONS WITH CONTRACTS FOR WITH POST OFFICE LTD FOR CASH WITHDRAWAL FOR THEIR PERSONAL CUSTOMERS

Name	*Basic Bank Accounts*	*Personal Current Account*
Abbey	Yes—Basic Account	
Alliance & Leicester	Yes—Basic Cash Account	Yes
Bank of Ireland	Yes—Basic Cash Account	Yes
Bank of Scotland	Yes—Easycash	
Barclays	Yes—Cash Card Account	Yes—in England & Wales
Cahoot	N/A	Yes
Clydesdale Bank	Yes—Cashmaster Account	Yes
Co-operative Bank	Yes—Cashminder	Yes
First Trust Bank	Yes—Basic Bank Account	
Halifax	Yes—Easycash	
HSBC	Yes—Basic Bank Account	
Lloyds TSB	Yes—Basic Bank Account	Yes—in England, Wales & Scotland
Nationwide Building Society (cash card only)	Yes—FlexAccount	
NatWest	Yes—Step Account	
Northern Bank	Yes—CashMaster Basic	
Royal Bank of Scotland	Yes—Key Account	
Smile	N/A	Yes
Ulster Bank	Yes—Basic Bank Account	
Yorkshire Bank	Yes—Readycash Account	

Supplementary memorandum submitted by Post Office Ltd

TREASURY SELECT COMMITTEE INQUIRY—CASH MACHINE CHARGES

At our hearing on 10 February, Post Office Ltd agreed to supply you with a supplementary memorandum covering a number of points that we were unable to make in public session. This information is provided in two appendices, to separate the information that we are happy for you to make public, and that which is commercially confidential, and is not for publication or disclosure beyond the Committee. (see Ev 146)

In addition to dealing with these issues, we would also like to ensure that the Committee are aware of the following:

1. 98% of cash withdrawals at Post Office branches are free of charge.
2. Post Office Ltd does not make a profit from surcharging ATMs.
3. Post Office Ltd does not own any ATMs—they are all supplied, on contract, by banks and building societies and Independent ATM Deployers (IADs).
4. During the month of December 2004, across our network of around 15,000 branches, we did 30.5 million free cash withdrawals across our counters, and 3.5 million transactions through free ATMs. This compares with 0.6 million transactions through surcharging ATMs in our branches which equates to less than 2% of total cash withdrawals in post offices.
5. Of the 30.5 million free transactions across our counters, 12.5 million were either Post Office Card Account, or Basic Bank Account transactions, and 16 million were benefit book/exceptions service transactions. We therefore have unparalleled experience at providing financial services to those on low incomes. There is no evidence however that benefit claimants are frequent users of ATMs located within Post Office branches, not least because Post Office Card Account cards cannot be used in ATMs.
6. The other 2.5 million free counter withdrawals were for customers of our partner banks: Barclays, Lloyds TSB, Alliance & Leicester, Co-op Bank, Bank of Ireland, Clydesdale, Cahoot, Smile and First Direct (Scotland only). All of these have signed contracts with us enabling their customers to use our counters for free cash withdrawals. We are currently negotiating with several other banks, which we hope will allow us to extend this arrangement to even more consumers.
7. The number of free machines in Post Offices has increased from less than 150 before 2000, to over 600 now.
8. There are two distinct business models used by deployers in the ATM market. The economics of these models are as follows:

Free model: *The ATM owner applies no charge to the user.*

(i) The income to the ATM owner is derived from interchange (the charge paid by the card issuer) in respect of both cash withdrawals and balance enquiries.

(ii) These are generally high footfall sites if the ATM is to be economically viable from interchange alone.

(iii) If the owner of the ATM is also a card issuer (the case with all the major banks and building societies) then the overall customer relationship becomes a consideration. Adequate free ATM access is now essential to maintain existing relationships and acquire new customers. The profitability of an individual customer is derived from that customer's total use of services, not just from the ATM.

Surcharging model: *The ATM owner applies a charge to the user.*

(i) The income to the ATM owner is derived from the charge made to the user for a cash withdrawal. Interchange is received only in respect of a balance enquiry.

(ii) These are generally low footfall sites where interchange income would be insufficient to make the deployment of an ATM economically viable.

(iii) The vast majority of charging ATMs are deployed by IADs. These companies have no customer relationships and the profitability of the ATM business must therefore stand alone.

9. Post Office Ltd is not a bank in its own right and therefore does not have a current account relationship with the users of ATMs located in our branches. The cost of deploying a free ATM cannot therefore be recouped through the financial benefit of a wider relationship with these customers.

10. The machine provider determines whether or not they are prepared to place an ATM in a branch, and if so whether this will be a free or a surcharging machine. Surcharging machines have only been installed at locations where machine providers were not prepared to install a free machine. The alternative to a surcharging machine would therefore have been no machine. The branches that have free machines have, in the opinion of the machine provider, sufficient footfall for them to recoup the costs associated with the machine through the LINK interchange fee.

11. Banks and building societies (eg Nationwide) that are committed, as part of their marketing proposition, to running their estate of ATMs free, are only located in high footfall sites. Alliance & Leicester, by contrast, whose estate of ATMs is greater than their branch network, run their ATMs free to their customers but, at lower footfall sites, charge the customers of other financial institutions.

12. No subpostmaster is forced to have an ATM installed. We acknowledge subpostmasters do not have the option to request the removal of a machine if the supplier decides that it is no longer viable to continue to operate it on a free to the customer basis (usually because volumes have failed to live up to initial expectations). We are discussing this with our suppliers with the objective of providing the subpostmaster with that choice.

13. The Committee referred on a number of occasions to analysis by LINK which suggested that nearly 38% of ATM transactions at a Post Office branch in Speke could have been completed over the counter. This needs to be set into context. There were over 17,000 free cash withdrawals in Post Offices in Speke in December 2004, (13,500 at the office in question) of which 320, or 2%, were conducted at the surcharging ATM when cash could have been withdrawn at the counter for free. We do not therefore agree with the view expressed by some members of the Committee that we have failed to communicate adequately the message of access to free cash at the counter.

14. We are, however, not complacent. We will look at what further measures we can take to ensure that all of our customers who bank with our partners are aware that they can get access to cash for free at the counter. This is in the commercial interests of Post Office Ltd, through the opportunity to provide additional services to customers, and our subpostmasters, who receive payment for every cash withdrawal that takes place over the counter. However, as we do not own ATMs we do not have the right to put any kind of label on the machine advertising cash withdrawals over the counter, although we are looking at whether we can put up signs near to machines. We have to date spent £6.5 million advertising our banking facilities—while this may not be the biggest advertising campaign that the Committee has ever seen, it is a considerable sum for an organisation that had losses from operations of £102 million last year.

15. The Committee also suggested that queues in Post Office branches effectively encourage our customers to use ATMs instead, at which they may be subject to surcharges. We do not accept the implication that there are widespread queuing problems in our branches. As transactions through surcharging ATMs amount to less than 2% of total cash withdrawals at Post Office branches, there is no evidence to suggest that significant numbers of people are voting with their feet and opting to pay rather than queue. We acknowledge that there are times when our customers do have to queue—as is the case with most retail businesses, banks, and indeed at ATMs in busy locations—

and that in some locations there is room for improvement. Where there are problems, we put in place plans to rectify these. 90% of our customers are satisfied with the service they receive at the Post Office, and 82% would recommend us.

16. We advised the Committee at our hearing that we were seeking to join the LINK scheme. We understand that the Network Members Scheme Committee (NMSC) have just considered our application to join, and our proposal for a rule change which would allow manned terminal operators into the scheme. The NMSC have however referred the matter to a sub-committee, for a more detailed study of the impact that these proposals would have on existing members. We do not know how long this activity will take.

We have addressed the issue of financial inclusion in an annex to this note. We are very proud that our customers hold the Post Office in high esteem, and appreciate that for many we provide a valuable social service. 96% of our customers trust the Post Office. We take our corporate social responsibility seriously.

We were pleased that at the end of our hearing you promised to write to the banks, to encourage them to allow their customers to access their accounts at Post Office branches. This could be achieved "at a stroke" if we were allowed to join LINK. We do not believe that developing banking and financial service products of our own need be an impediment to this. It has not put off our existing partners, and as some 28 million customers a week use our branches, we are invariably serving their customers for other reasons anyway. We have also indicated our willingness to negotiate on the price we charge banks, which is possible if we can secure additional volume of transactions over our counter. We feel that this will be a significant step towards financial inclusion, as our extensive network would then be available to provide free banking services to an even greater population than at present.

Sir Michael Hodgkinson
Chairman

22 February 2005

Annex

FINANCIAL INCLUSION

1. The Committee invited us to explain in more detail our presence in deprived areas, and the efforts we are making to promote financial inclusion.

2. Post Office Ltd believe that the most significant contribution that we can make towards overcoming financial exclusion is by enabling consumers with basic bank accounts, or current accounts of partner banks, to access (and pay in) their money for free over the counter at any of our branches. Our network of approximately 15,000 branches is larger than that of all of the main banks and building societies put together, and we have a much higher presence in deprived areas than other financial institutions. For example, there are 1,125 Post Office branches in the 10% most deprived wards, as identified for England in the Index of Multiple Deprivation produced by the Office of the Deputy Prime Minister (ODPM), and the equivalent lists produced by various authorities covering Scotland, Wales and Northern Ireland. Over 93% of the population of the UK live within one mile of a Post Office branch. In urban areas this rises to 99% within one mile, and in rural areas 84% of the population live within a mile of a Post Office branch. Only 4% of villages have a bank or building society, yet 60% have a Post Office.

3. As we advised the Committee, we do take into account the level of deprivation of an area when planning our network. We use the Indices of Multiple Deprivation for England, and the equivalent systems for Scotland, Wales and Northern Ireland to classify branches as being in deprived areas. We have worked with the ODPM, the Welsh Assembly and the Scottish Executive to secure funding specifically for branches in urban deprived areas.

4. HM Treasury have not shared with us their list of postcodes where there is concentrated financial exclusion. However, we believe that this list is also based on the Indices of Multiple Deprivation, and therefore we do not expect that this list would differ significantly to our own.

5. Post Office Ltd has substantial experience of providing products and services that promote financial inclusion. Our products include general purpose savings stamps, TV Licence savings stamps, and bill payment services—Car Tax, Council Tax, rent payments, TV Licencing etc Post Office Ltd handles approximately 400 million bill payment transactions per annum. We also provide Postal Orders, useful for people who need to send a cheque but do not have access to a bank account. We offer Basic Bank Accounts access to customers of 17 banks and building societies—these are specifically targeted at those on low incomes. There are also over 3.7 million people who have opted to have their benefit payments paid into a Post Office Card Account.

6. We are introducing, a range of good-value, straightforward, easily understood financial services, providing wide geographic access through a trusted brand. Above all, the existence of such an extensive branch network means that we have staff or agents located across the country who are able to provide help to our customers where this is required.

7. We believe that financial inclusion is about enabling all sections of the community to access financial services. To this end we are actively working on enhancing our facilities, so that people with physical disabilities are well catered for in our branches. For example, we have improved the design of our Pin Pads to make these easier to use by people with visual impairment, and over 90% of our directly managed branches are accessible by wheelchair users. We have also produced a booklet, in conjunction with the Employers Forum on Disability, designed to help people with learning disabilities do their banking at our branches. We have produced and distributed 1m copies of this leaflet.

8. We are also in discussions with the Financial Services Authority on how we can work together to promote financial literacy. We are also actively seeking to input to the work of the HM Treasury Financial Inclusion Task Force.

Memorandum submitted by John Robertson MP

Introduction

1. I welcome the Treasury Committee's decision to hold an inquiry into cash machine charges; and I am pleased to have the opportunity to submit written evidence.

2. My intention is to illustrate the issues with reference to the situation in Glasgow and, in particular, my own constituency which includes some of the most deprived areas in the country.

The Key Issues

3. There are two separate reasons for the growth in fee-charging cash machines. First, much of the growth comes from such machines being installed in locations where there was no bank-operated free ATM, such as pubs and post offices.

4. Second, some banks have encouraged this growth. For example, HBOS and Abbey have sold their non-branch based ATMs to fee-charging providers. The Royal Bank of Scotland acquired Hanco, a provider of fee-charging machines.

5. These two issues are often conflated. Several members of the committee rightly pointed out during the evidence session on 21 December that, where "convenience" machines are located and levy a surcharge, consumers have a choice about whether or not to use them. Such machines will stand or fall on the basis of consumer demand for them. However, the main issue of concern to me is financial inclusion. If a growth in fee-charging cash machines is combined with a reduction in the number of non-charging cash machines, consumers are denied choice. They are forced to rely on charging ATMs.

6. The denial of choice is greatest in areas where there are few non-charging cash machines; and amongst people who are unable to travel to areas where non-charging cash machines are located.

A Case Study: Glasgow

7. Fee-charging ATMs are disproportionately located in poorer areas. For example, on Hyndland Road (Glasgow, G12) only one ATM out of 10 makes a charge. On Shettleston Road (G33) in the poorest Parliamentary constituency in Britain, six out of 10 ATMs make a charge.

8. This situation is replicated in my own constituency in the north-west of Glasgow. In Glasgow Anniesland, (see the Annex for a map of the constituency) the worst housing is found in the peripheral inter-war and post-war housing estate of Drumchapel. Within the constituency, recipients of Income Support are concentrated in Drumchapel. However, non-surcharging ATMs are largely confined to branches of banks at Anniesland Cross—the opposite end of the constituency. This means that poorer residents are more likely to be charged for making withdrawals from their bank accounts.

9. Residents of Drumchapel face further difficulties because they are less likely to be able to travel to a non-surcharging ATM. Many do not have a car and find frequent journeys on public transport too expensive. In addition, bus services along some routes are being reduced.

10. The growth in the direct payment of benefits into individuals' bank accounts means that many of my constituents are being charged simply for receiving their benefits.

11. Glasgow Anniesland has the highest proportion of pensioners in any constituency in the UK. In addition to the problems mentioned above, elderly people often face additional mobility difficulties. They are even less likely to be able to travel to non-surcharging ATMs elsewhere in the constituency. Therefore, financial exclusion is a major problem: a large body of people in this country are being denied choice as a result of the banks reducing the presence of non-charging ATMs in their neighbourhoods.

12. Some constituents have brought to my attention the risk of crime resulting from these developments. The levying of a surcharge that is the same no matter what amount is being withdrawn provides an incentive for individuals to withdraw larger amounts of money. The elderly, therefore, may carry on their person more cash than they would otherwise prefer to have done, thus leaving them more vulnerable.

13. The above combination of circumstances and events means that my poorer constituents have less choice as a result of the growth of surcharging ATMs at the expense of non-surcharging ATMs.

Parliamentary Action

14. I have tabled two Early Day Motions, both of which have gained cross-party support. EDM 451 ("Fee-charging ATM machines") reads: That this House condemns the policy of high street banks to sell off their non-branch based ATM machines; notes that many have been replaced by ATMs which charge an average of £1.50 per withdrawal; further notes that fee-charging ATMs are disproportionately located in poorer areas where few people can afford to travel to free alternatives; is concerned that this is a particular problem for people whose state benefits are paid into their bank accounts, and who are therefore charged simply for receiving their benefits; is disappointed the Royal Bank of Scotland has not done more to alleviate this problem since is acquired Hanco, which operates around a quarter of all free-charging ATMs; concurs with the Citizens Advice Bureau and the National Consumer Council, who have criticised the Royal Bank of Scotland for effectively levying a tax on the poor through their actions; further concurs with Gamblers Anonymous, who have criticised Hanco for locating an ATM in an amusement arcade in Glasgow; and calls on the Royal Bank of Scotland and other high street banks to guarantee the future of free withdrawal facilities at ATMs in disadvantaged areas. At the time of writing, it has 110 signatures.

15. EDM 651 ("Fee-charging ATMs in post offices") reads: That this House views with concern the increasing number of fee-charging ATMs in post offices; notes that up to 78%. of ATMs in post offices now levy a surcharge; is concerned that many people on fixed and low incomes rely on ATMs for access to their state pensions or benefits; is further concerned that many benefit recipients cannot afford to travel elsewhere to use free cash machines and so they are disproportionately affected by this problem; believes that customers of any bank or building society should have the right to withdraw money free of charge if an ATM is located in their post office; notes that the major suppliers of ATMs to the Post Office are the Alliance and Leicester and Hanco; and calls on the Post Office, the Alliance and Leicester and Hanco to guarantee free withdrawals from ATMs in post office premises. At the time of writing, it has 54 signatures.

16. In Business Questions on 3 February 2005, I asked the Leader of the House if time could be found for a debate on this subject. He replied that, "I represent a constituency with many outlying former pit villages, so I absolutely understand the point that my hon. Friend makes. It would be very helpful if I could secure a private Member's debate, in which other hon. Members could express their view on the matter and the banks and other institutions responsible could be held to account. As he says, the poorest and some of the oldest citizens, who do not have cars or the ability to go to a free ATM, are most punitively hit by such behaviour. I would certainly welcome the opportunity of a private Member's debate, but I cannot promise him one in Government time." (3 Feb: Column 1018)

Recommendations

17. Our first requirement is for accessible accurate information from banks about their services. For example, the Royal Bank of Scotland states that it has increased its number of non-charging ATMs.[19] In the Evening Times on 14 January, a spokesman for the Royal Bank of Scotland said in response to my motion, "We have increased our network of free ATMs by over 20% since 1999 to 6,108 across the UK." The key issue, however, is not just the number of free ATMs but their location. My poorer constituents need free ATMs to be located in their neighbourhoods. ATMs that are grouped in big branches, sometimes as a means of enabling banks to avoid employing more cashiers, are less useful to my constituents.

18. Information from LINK about the location of ATMs needs to be more widely available. In response to my enquiries, the Alliance & Leicester advise me that they have 909 ATMs in post offices, of which 425 levy a surcharge. However, another member of LINK has claimed that the Alliance & Leicester actually have 1,289 ATMs in post offices, of which 803 levy a surcharge. Each side claims to be correct, neither is willing to back down, and it is difficult for anyone to establish the truth. It would therefore be much easier if this information were made publicly available by LINK.

19. One possibility is that banks could sign up to the Code of Practice proposed by the Nationwide Building Society, which would build on the LINK agreement on early warnings for consumers before using a charging ATM and would help ensure customer awareness and transparency, and promote fair practice among cash machine providers.

20. However, this Code of Practice in itself would not appear to guarantee the future of a viable network of non-charging cash machines throughout the UK. Banks have a legal obligation to their shareholders, but many have recognised that they have additional social responsibilities. The Royal Bank of Scotland declares

[19] *Evening Times*, 14 January 2004.

that, ". . . our success is built on the strength of the communities in which we operate. Our commitment to these communities is at the heart of our business."[20] The Alliance and Leicester state, "We aim to build close ties with the communities in which we operate across the UK . . ."[21] My preference would be for banks voluntarily to recognise their responsibility to consumers by guaranteeing access to free withdrawal facilities within walking distance of customers in poorer communities.

21. If banks do not face up to their responsibilities in this way, we can either accept ever greater financial exclusion, or the government can intervene. The first option is obviously not desirable, for the reasons I have outlined above, but neither is the latter. Legislation to compel banks to ensure there is an acceptable network of non-charging ATMs would be complex. Subsidies to banks to provide non-charging ATMs where they are not profitable would be hard to justify, given the very substantial profits made by many of the banks under consideration.

22. Our preference, therefore, should be for banks to ensure that their rhetoric about their responsibilities is reflected more clearly in their business practice.

Annex

Map of Glasgow Anniesland

January 2005

Memorandum submitted by the Royal Bank of Scotland

Cash Machine Charges

Thank you for your letter of 9 November to Sir Fred Goodwin inviting the Royal Bank of Scotland Group ("RBS") to contribute to this study. Sir Fred has passed your letter to me, since Automated Telling Machines ("ATMs") fall within my area of responsibility. Our response below includes our subsidiary company Hanco ATM Systems Ltd ("Hanco"), which was also invited to contribute.

1. Introduction

There are two separate and distinct markets in cash dispensing. The first, comprising 93% of all current transaction volumes, is the provision to consumers of Automated Telling Machines ("ATMs"). This market is characterised by units that have high running costs, are rich in functionality and handle large volumes of transactions. The High Street Banks currently provide these free of charge. We estimate the annual cost to the "Big Four" of providing this service to be in the region of £450 million to £500 million.

[20] http://www.rbs.co.uk/Group_Information/Corporate_Responsibility/Community_Investment/default.asp
[21] *Corporate Social Responsibility Report 2003*, Alliance & Leicester plc, 2003.

The second market is the provision of Convenience Cash Dispensers ("CCDs") that primarily charge for withdrawing cash. The CCD market currently accounts for 7% by volume and 5% by value of all automated cash withdrawals and are most typically low cost units with basic functionality, handling small numbers of transactions. Following consultation with The Office of Fair Trading, LINK rules were amended to allow wider access to LiNK membership. A practical consequence of this was the emergence of the CCD supplier market following the entry of Independent ATM Deployers ("IADs") into LINK which gave them access to the customers of all LINK members. Membership of LINK has enabled the CCD suppliers to grow rapidly.

2. ATM Market and RBS

UK wide access to ATMs was created when LINK became the primary provider of switching services to ATM deployers. In the main these units are located at bank branch premises or in separate high footfall locations.

These machines are usually through the wall with high costs of provision relative to CCDs. These costs relate to the sophistication of the unit itself together with costs of installation, security, telecoms and cash replenishment. These ATMs are designed to handle thousands of cash withdrawals every month.

When another bank's customer uses one of our ATMs we receive an interchange fee and this applies equally in reverse. There are two levels of interchange: a fee for cash withdrawal and a fee for a balance enquiry. The amount differs between branch and remote machines and is determined through an independent cost study, reviewed and agreed by all LINK members annually. No doubt you will receive full details of this from LINK.

RBS has never charged customers for use of our ATMs and following acquisition of NatWest their previous policy of charging was reversed. RBS are currently the largest member of LINK with over 6,000 free to use ATMs in the UK. These machines are also available to non-customers providing their card issuer is a member of the LINK network. The ATMs in our network sited away from our branches enable us to provide a service to our customers beyond our branch footprint. These machines are also available to customers of LINK member organisations.

Retail Banking under The Royal Bank of Scotland and NatWest brands, provides the majority of our ATM estate with a total of 4,636 machines across the UK, all of which provide free cash withdrawals to customers of participating LINK member organisations. 3,135 machines are located at our Branch premises, of which 2,508 are available 24 hours a day 365 days a year. The remaining branch based units are available inside our branches during normal opening hours. Machines within the remote estate, consisting of 1,501 units, are typically located at high footfall locations such as supermarkets, railway and underground stations, and high street retailers. These units carry significantly higher overheads, including the costs of remote cash provision and rental payments to the host.

Tesco Personal Finance ("TPF") is a joint venture between RBS and Tesco providing financial services and products to Tesco customers. TPF's current estate consists of 1,487 units, located at Tesco stores. These units are included within the overall RBS numbers.

Our policy is to meet the needs of our personal customers in a changing market place. In response to the wishes of our customers for increased provision of ATMs, we have continued to invest in new units at our branches and in remote locations. As a result, our ATM network has grown by 19% over the last five years.

3. Growth in the CCD Market

Following the availability of wider access to LINK it became possible for IAD's to provide cash dispensing services to the customers of all LINK member organisations. This had the effect of creating a market for lower footfall sites of convenience to the consumer, where commercial viability would be achievable through the levying of a charge for withdrawals. Since the granting of wider access to LINK there has been continuous growth in this market, driven, above all, by increased consumer demand for convenience. A survey of our customers in 2002 highlighted greater convenience as their number one priority.

To illustrate the nature of this demand we estimate that RBS customers have undertaken somewhere in the region of 30 million transactions at CCD's that charge this year. In the same period we have received no written complaints from our customers about cash machine charging and a total of only 566 verbal concerns.

RBS have not converted any of our free machines to Hanco units since its acquisition. Retailers are, however, becoming increasingly aware of the potential for increased revenues from hosting charging machines as distinct from free to use units. Providers of free ATMs are already being forced out of sites as these are converted to charging units by the retailers. As an example Welcome Break removed 14 NatWest ATMs, replacing them with CCDs earlier this year.

4. Hanco

RBS acquired Hanco in June 2004 to help meet the growing demand from our business retailer customers to supply convenient cash access to their own customers. This acquisition was consistent with our policy of continuously seeking to add value to our customers by enhancing the range of products and services we provide.

Hanco currently support c6,000 machines across the UK. Their model of supplying, installing and maintaining CCDs has proved popular with retailers. Hanco provides the unit to the merchant, who thereby acquires free access to the LINK network of member organisations and their customer base.

The provision of low cost free standing units by Hanco, where cash replenishment is provided by the merchant, can achieve break even with a few hundred withdrawals per month subject to the levying of a transaction fee.

Under the Hanco model the retailer has the benefit of a cheap and convenient mechanism to re-circulate cash. Revenue is enhanced through attracting new customers, the transaction charge and an increase in spend from existing patrons. In addition the retailer reduces cash handling costs through a reduction in the amount of money paid in to his bank. It is the retailer—not Hanco—who determines how much he wishes to charge to the consumer for making cash withdrawals. Hanco receives a flat fee per transaction. Hanco also receives the current interchange tariff for balance enquiries.

This proposition has particular attraction to pubs and convenience stores including rural post offices. In some cases, the provision of these facilities not only increases revenues but helps maintain the viability of the business. In addition to the appeal of convenience to the consumer, the retailer is also providing improved personal safety to their patrons with access to cash in locations such as pubs, removing the need to leave the premises to find a through the wall machine.

5. Transparency of Charging

RBS support the principle of full transparency of charging to the consumer. We consider it a requirement of continuing LINK membership that its members comply with the code agreed at the Link Network Members Council meeting on 15 August 2003:

> *"A sign saying 'This machine may* charge you for LINK cash withdrawals' must be clearly visible to cardholders before a card is inserted in a surcharging ATM (either by notice on the machine or an up-front-on-screen message, at the discretion of the ATM deployer) and this must be implemented no later than 1 April 2004."*
>
> * Under LINK rules no charge can be levied by the CCD supplier if the transaction is subject to an issuer charge as is the case with some credit cards.

To meet this obligation we provide this information on screen before a customer begins a transaction. We believe this to be the most effective way to ensure compliance, as well as giving the customer the opportunity to consider alternative means to access their money. As a result, the fact we charge is totally transparent. Recent analysis of over 300 RBS customers using Hanco CCDs indicated that 95% of those surveyed either knew in advance or recalled being informed that the machine may charge.

In the course of the transaction we advise the customer of the exact amount of the charge. At this point the customer is given the opportunity to cancel the transaction if he does not wish to pay the transaction fee. This feature provides additional consumer protection, as the transaction will not proceed without a positive selection by the customer. In the analysis referred to above 96% of those surveyed recalled being provided with details of the exact amount of the charge before completing the transaction.

RBS will be fully compliant with the proposed revisions to the Banking Code in relation to charging transparency which are due to take effect from March 2005 and will support reasonable future proposals to improve transparency. This includes the recent recommendation to LINK members to provide early notification to consumers of a change in status of a machine from free to charging.

6. Financial Exclusion and Location

Whilst the distribution and therefore availability of ATMs and CCDs will inevitably vary across postal districts our analysis suggests the distribution is broadly related to population density rather than any socio economic factor. In fact, RBS provide more free ATMs and more CCDs per head of adult population in the bottom 20% of postal districts measured by deprivation than in the remaining 80%.

6 December 2004

Memorandum submitted by Travelex

Travelex do not select locations adjacent to free bank machines, we concentrate on remote convenience locations

We operate free cash machines where there are sufficient transactions to make a business case (these account for approx 100 or 10% of our estate)

Banks (including the Nationwide) elect not to pay their interchange (30.2p) on transactions that charge, although this would in effect reduce the surcharge

The Government choose to impose business rates for ATMs and thereby account for approx. 20p of the surcharge fee!

The notion that a customer is paying for their own cash at an IAD machine is NOT correct. An IAD ATM is similar to any other vending machine in that the commodity (in this case cash) belongs to the operator and the customer is simply purchasing it for a given fee. Not unlike a can of coke or bar of chocolate.

IAD operators and certainly Travelex, spend a good deal more and take far more risk in placing ATMs in remote locations. There is far more vandalism and theft associated with this type of deployment and this is reflected in the operating costs and surcharge fee.

As a customer is informed about a fee before completing a transaction, we believe the most appropriate form of advertising would be to promote the free machines as 'FREE' and not to confuse the issue by trying cover so many options and variations in the surcharge market. If it does not say it is free, then it probably is not. The problem exists that not all transactions at an IAD machine will charge and so it is a confusing statement

February 2005

Memorandum submitted by TRM

1. Introduction

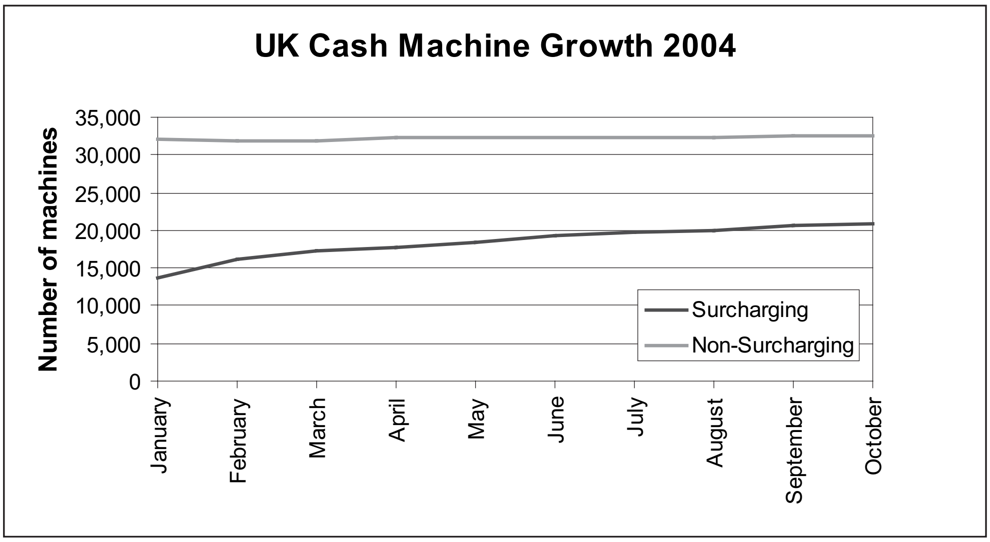
The Treasury Committee of the House of Commons announced that it will be conducting a short examination of cash machine charges and has requested a document from TRM setting out our policy and view on the issues of:

- The principle of charging and factors underlying the growth in surcharging machines.
- The issue of transparency in charging.
- The issue of whether lack of access to free machines may cause problems in certain localities.
- Any security implications of the growth in surcharging machines.

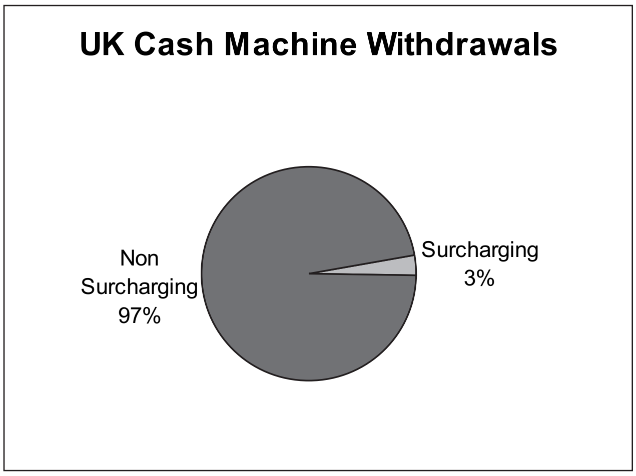
This memorandum both addresses the areas outlined above and states TRM's policy in terms of surcharging.

2. Surcharging Cash Machines—The Reality

Recent press releases have focussed on the 40% growth rate of surcharging cash machines in the six months to September 2004 suggesting that surcharging cash machines are displacing the non-charging cash machine network. However, according to the LINK network report the number of non-surcharging machines has in fact increased by 2% in 2004 alone, with the growth in surcharging cash machines therefore in addition, and not instead of, the existing ATM network.



Furthermore, even allowing for the increase in surcharging machines during 2004 the total number of cash withdrawals undertaken at surcharging machines is still less than 3% of the overall cash withdrawal market.



Since non-bank independent ATM deployers have been able to join LINK, companies such as TRM have been deploying cash machines in many locations where there had previously not been a machine. These deployments are driven by consumer demand and simply offer consumers an additional convenient "choice" of access to cash. The machines typically provide access in areas that were not previously served and without the convenience fee would prove economically unviable to sustain.

It is as useful comparison to see that the percentage of non-surcharging cash machine transactions in the UK—96% to 97%—is unusually high by international standards. It is the norm in most countries to be charged for cash machine access and even more the norm that use of non-bank machines is charged for.

— 57% of users felt they would be inconvenienced if the machines were to be removed.
"Source: Mruk Research (November 2004)"

— 48% of users withdrew cash from the machines at least once a fortnight.
"Source: Mruk Research (November 2004)"

It should be noted that customers are informed of the level of surcharge that will be charged at the time of the transaction and if they so wish, are able to cancel the transaction at no charge. Consumers are therefore able to make their own choice as to whether they believe that the added convenience merits payment of a charge for withdrawing cash.

— 94% of users used surcharging machines because they were convenient. Only 19% used the machines because they didn't know of another machine nearby.
"Source: Mruk Research (November 2004)"

Although the majority of the TRM cash machine estate is surcharging, we will have in excess of 200 non-surcharging cash machines by the end of 2004. Where it is commercially viable to do so, TRM continue to look for opportunities to grow our non-surcharging cash machine network and fully expect to maintain a mixed portfolio of surcharging and non-surcharging cash machines.

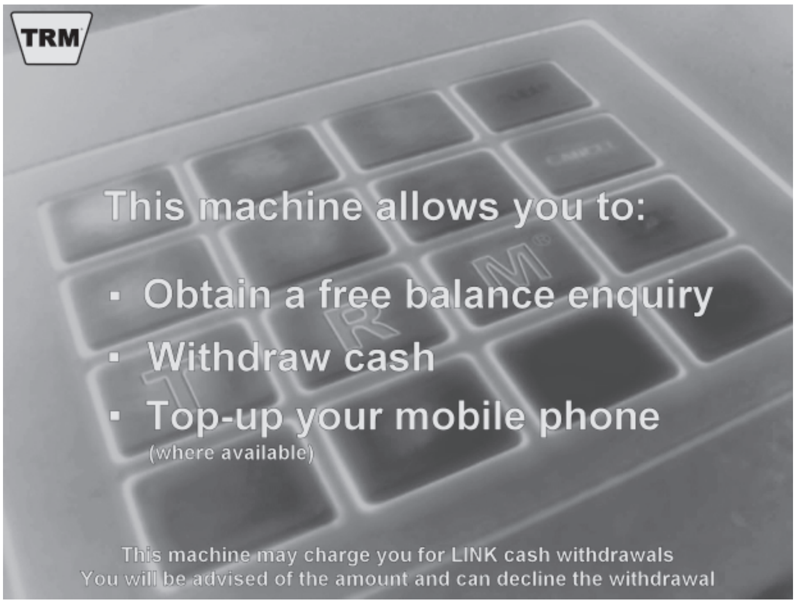
1. Transparency of Charges

Approaching the Cash Machine

Under current LINK Rules,

> *"All surcharging ATMs must display a sign which is clearly visible to cardholders before a card is inserted in the machine, (either by notice on the machine or an upfront onscreen message, at the discretion of the ATM deployer) saying "This machine may charge you for LINK cash withdrawals"*

TRM have fully complied with this requirement by using a clearly identifiable notice. We are however mindful of recent comment that this method of notification may not be sufficient and are now introducing a screen message as part of an estate wide upgrade programme. The message clearly states that the end-user may be charged for LINK cash withdrawals and reflects our belief that our interests are best served through clarity of convenience charges. We say "may" rather than "will" as until the cash machine communicates with the host when the PIN is entered, it does not know what the charge will be. This upgrade programme will be completed by 31 March 2005.



There has been some suggestion that further clarity could be provided by also displaying the amount of the surcharge on the screen before the customer enters their card or displayed on the marketing materials that are present in the location, for example "A"-boards or window stickers.

This would be problematical as any changes to price would require expensive site visits and signage upgrades. Our view is that in a competitive market it is necessary to have minimal barriers to price change so that consumer benefits of reduced prices and innovation can develop. With fixed price display, competition between cash machine deployers in a particular locality could not readily result in reduced surcharge amounts, since the cost of performing those price changes would be prohibitive. Therefore the impact of such requirements would in practice cause restriction on the competitive nature of the market.

Another reason why including the surcharge amount on fixed promotional materials would be detrimental to the end-user is that unusually in international terms, the authorization request asks whether the issuer intends to charge or not and this information is then used to make sure only one retail charge is applied to a transaction. This sequence of messages was developed by LINK in order to ensure transparency and make certain that there was the greatest possible amount of information available to end-users without unduly restricting the ability of both acquirers and issuers to develop their own charging policies

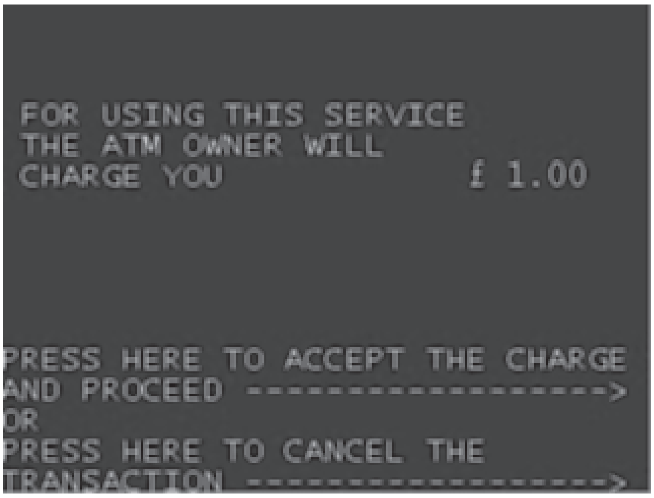
In addition, TRM are currently working on the development of variable surcharging so that the convenience fee applied is dependent on the amount of cash withdrawn. This would enable consumers to pay a significantly reduced surcharge for a withdrawal of £10 than they would pay for a £100 withdrawal.

— 100% of users realised they might be charged for withdrawing cash when entering their card into the machine.
  "Source: Mruk Research (November 2004)"

NOTIFICATION OF THE AMOUNT TO BE CHARGED

LINK requires that all charges, whether applied by the cash machine owner or the card issuer, should be notified to the customer by means of an on-screen message at the time of the transaction and that customers should always have the option to cancel the transaction without charge.

This amount of charge is clearly displayed on a single screen at the cash machine and the customer is requested to accept or decline the charge. If the customer does not select either option, the machine asks if they want more time. If they still do not select any option, the machine will automatically stop the transaction, return their card and will not charge or dispense cash.



— 100% of users noticed the machine informing them of the amount it would charge, 22% of who were already aware of that amount.
"Source: Mruk Research (November 2004)"

2. FINANCIAL EXCLUSION AND LOCATION

The issue of whether lack of access to non-surcharging machines may cause problems in certain localities is one which will primarily relate to the financial institutions rather than independent cash machine deployers. Independent machines provide an additional network to the non-surcharging bank network and may well be used by those wishing to avoid transport or other costs to their nearest non-surcharging machine.

TRM believe that the general principles of competition and consumer choice should apply to the cash machine network as part of the normal balance of services provided by banks and ultimately consumer behaviour will drive the availability of the bank network. If a customer decides that they are not receiving an appropriate level of service because their bank has too few non-surcharging cash machines or branches available, then they will move over to a different provider. One bank's recent media campaigns have focussed on advertising the fact that they are not closing down branches like some of their competitors because this is seen as a key area of customer satisfaction.

In this way, TRM do not see a major threat to the non-surcharging network; each business will aim to satisfy its customers' needs and prevent them from moving to a competitor. Customers retain the power in the relationship.

TRM is in the cash machine deployment business and therefore we do not have the opportunity to subsidise or support our cash machine estate from profits elsewhere. To provide customers with additional access to machines, the deployment of our estate must be cost-effective and deliver a reasonable rate of return to shareholders.

— Only 4% of users were over 55 years old. 57% of users were aged between 25 and 44 years old.
"Source: Mruk Research (November 2004)"

— 74% of users are in the AB or C1 earning categories.
"Source: Mruk Research (November 2004)"

3. SECURITY OF CASH MACHINES

The Treasury Committee press notice indicated that it would seek evidence on whether recent trends in the provision of machines had any security implications.

The deployment of cash machines by Independent Deployers such as TRM has benefited the security of the industry as a whole with some of the initiatives which have resulted from the fresh input.

TRM are a founding member of the ATM Security Working Group (ATMSWG). This group includes the Association of British Insurers, ATMIA, The Metropolitan Police Flying Squad and other police groups such as The Greater Manchester Police.

The group was formed to consider crime and security issues relating to stand-alone ATMs. Some of its terms of reference are as follows:

- Production of "good practice" guidelines relating to security issues and solutions.
- Creation of a secure database containing ISO ATM attack information.
- Promotion of national ISO/Police Liaison.
- Pooling and dissemination of ISO ATM Information.
- Reviewing developments of legislative and regulatory bodies and standards produced by other bodies affecting the ATM industry.

As a result, we have published the "Recommended Security Guidelines for stand-alone ATMs" and more recently the "Street-Based ATM Recommended Security Guidelines".

The proactive stance of TRM and many of the other Independent Cash Machine deployers in working with the police from an early stage in our deployments has meant that despite the numerical increase in the amount of cash machines in the UK, the number of attacks when compared to the overall estate has significantly reduced in percentage terms year upon year:

2001	—	2.7%
2002	—	1.6%
2003	—	1.4%
2004–6	—	0.74%

4. Appendix A/Cash Machine Survey

Information

TRM commissioned an independent survey of people who inserted their card into a TRM cash machine at the following 2 locations on 24th and 25th November 2004.

Sunstar Food and Wine
153 Fortress Road
London
NW5 2HR

Spar Didcot Parkway Railway Station
Didcot
Oxon
OX11 7RG

Surveys were carried out by:
"Mruk Research" (http://www.mruk.co.uk)

Results

Did you actually withdraw any cash?

	%
Yes	100
No	0

Did you realise that the machine might charge you for withdrawing cash when you put your card in the machine?

	%
Yes	100
No	0

Did you notice the machine informing you of the charge it would make?

	%
Yes	78
No	0
Already knew of the charge	22

Why did you choose this particular machine?
(Multiple Selections Allowed)

	%
Convenient location	94
I know there is no alternative close by	19
Emergency	6
I was in a hurry	4
I was in here anyway	4
Going to shop nearby and need money now	4
It's inside the shop	2
Forgot to go to bank	2

Do you think this machine . . . .?

	%
Provides a very useful service	43
Provides a useful service	39
Is some use	15
Is of little or no use	2
Don't know	2

How would you feel if this machine were removed?

	%
Very inconvenienced	24
Slightly inconvenienced	33
It would have little or no effect on me	43

How often do you use this machine?

	%
Once a week or more	33
Once every couple of weeks or so	15
Less than this	41
First time today	11

Age groups

	%
16–24	28
25–34	37
35–44	20
45–54	9
55–64	4
Refused	2

SEG

	%
AB	31
C1	43
C2	17
DE	9

6 December 2004

Memoranda submitted by Which?

RE: INQUIRY INTO CASH MACHINE CHARGES

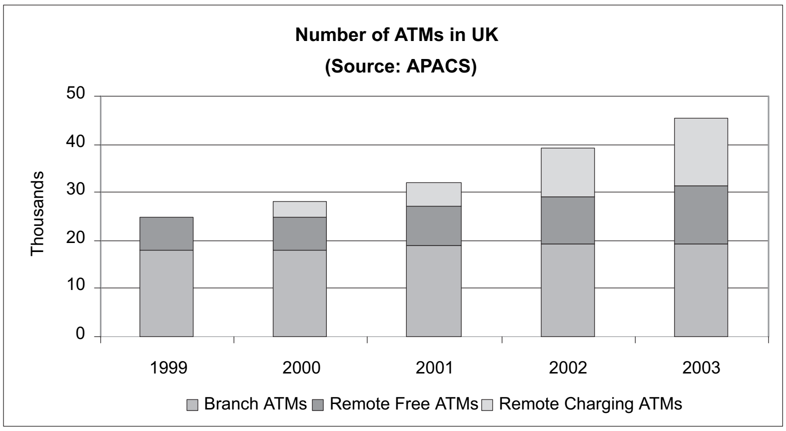
Which? campaigns for all consumers. With around 700,000 members in the UK, we are the largest consumer organisation in Europe. Entirely independent of government and industry, we are funded through sales of our consumer magazines and books.

1. Background

1.1 Developments in the last year suggest that the overall make up of the Automated Teller Machine (ATM) population in the UK is on the verge of changing. The last three years has seen a considerable growth of machines that charge a fee for the withdrawal of money, a process known as "surcharging".

1.2 In 2003, consumers withdrew over £140 billion in about 2.4 billion transactions from ATMs, a steady increase from £80 billion in about 1.5 billion transactions in 1996.[22] One of the principal reasons for this is the current account is the primary vehicle through which consumers receive and manage their money. Most salaries/wages and virtually all benefits and pensions are deposited directly into current accounts. These cash withdrawals are expected to increase by 25% over the next nine years to 2012, albeit at a slightly slower rate than before.[23]

1.3 At the moment, all bank and building society current account holders in the UK can access their money without a surcharge at any one of the 34,000 free ATMs (73% of the entire ATM network).[24] Over half of these (59%) are branch ATMs, while the rest are non-branch (also called "remote") machines.[25] All the bank and building society branch ATMs and the vast majority of their non-branch estates allow the holder of any bank card to use another bank's cash machine without incurring a surcharge.[26]



1.4 However this situation is changing as a result of an increase in machines that charge a fee per transaction. These surcharging ATMs now represent 40% of the total ATM population, most of which are installed by a series of firms called Independent ATM Deployers (IADs).[27] They started appearing in 1999 as "convenience cash machines" in shops and nightclubs, but now number about 18,500 in numerous locations including railway stations, motorway services and shopping arcades. These ATMs charge a fee of £1.00–£1.75 per transaction (more in some cases), fixed regardless of the amount withdrawn. Although surcharging ATMs constituted an utilisation rate of only about 3% of all ATM transactions, consumers still paid £60 million per year in ATM charges in 2003.[28] A single consumer, forced to use a surcharging ATM costing £1.50 to withdraw £20 four times a week would be paying £312 per year in ATM charges alone.

1.5 There is growth in both free and surcharging ATMs, though the latter are growing more rapidly. Between 2000 and 2004, surcharging ATMs deployed by IADs grew at an average rate of 3,670 new machines, or nearly 10% of the entire UK ATM population, per year. In 2003, surcharging ATMs increased by about 51.8% compared to only 3% increase in free ATMs.[29] According to Nationwide, the last 6 months to Sep 2004 alone saw an increase in charging ATMs of about 40%.[30]

2. Summary of Overall Which? View Towards Charging

2.1 Which? policy position regarding ATMs is as follows:

2.1.1 All consumers should be able to, with reasonable convenience, access and manage their own money free of surcharge. By this we mean:

— Should be able to: consumers should have the choice of accessing their money without surcharge. We are not calling for all ATM services in the UK be free. We believe that surcharging "convenience ATMs" do have a place, provided they do not encroach on a consumer's access to free ATMs.

[22] APACS, ATM Survey 2004, p. 6.

[23] Cardpoint, Acquisition of the Remote Cash Machine Estate of HBOS, "Letter from the Chief Executive of Cardpoint plc", 26 May 2004, p. 10.

[24] We use the term "free" throughout this document to mean "non-surcharging". In fact no ATM usage is truly free, the cost of non-surcharging transactions are merely borne by the owner of that ATM, which are passed on to consumers in other ways.

[25] Source: LINK and APACS.

[26] Some of the non-branch ATMs owned by Co-operative Bank and Alliance & Leicester levy a surcharge. Data on these charging estates are not available.

[27] Source LINK.

[28] Nationwide calculations. Utilisation rate from LINK.

[29] APACS ATM Survey 2004, p. 4.; and LINK telephone discussion.

[30] Nationwide, Free Cash Machines Under Threat, Sep 2004, p. 3.

- With reasonable convenience: consumers should not have to go to unreasonable lengths such as travel long distances. This does not preclude giving consumers the choice of paying for ATM services that are "more" convenient such as in stores and other points of sale.
- Access and manage their money: means access their cash as well as manage their funds such as transfer money, check balances, demand statements, etc.
- Free of a surcharge: meaning free of direct surcharges to the cardholder for the ATM transaction.

2.2 All ATMs (both free and charging) should bear messaging that clearly indicates whether or not the machine is surcharging, and if so, the amount of the surcharge. This messaging should take the form of both a conspicuous signpost physically on the machine and an unambiguous and un-missable early-stage on-screen message.

2.3 As for the fee on surcharging ATMs, we believe:

- the current fixed surcharges of £1.50–£1.75 (in some cases as much as £5), is excessive and unfair.
- The surcharge be calculated on a floating rather than fixed basis so that the fee is proportional to the amount withdrawn.
- The surcharge subject to a limit. A surcharge cap should be set at about 7% to a maximum of £1.

2.4 On the subject of financial exclusion and location, our analysis suggests that free ATMs in lower volume areas are highly at risk of conversion to charging status. Therefore we believe that:

- Banks and building societies should establish shared branch services. We have long campaigned for this with the Campaign for Community Banking Services (CCBS).
- In the certain communities where even shared branches are clearly not justifiable, the banks and building societies must commit to ensuring that these communities are served by free non-branch ATMs.
- There should be exemptions for those individuals who rely on state support to meet basic living costs. The technology should be developed so that ATM cards belonging to current accounts receiving (for example) income support, disability allowance, or pensions are earmarked to be exempt from ATM surcharges.

3. History of Which? Involvement in the ATM Issue

3.1 Which? has long been involved in ensuring that consumers can have free and convenient access to their own money. In the late 1990s, we took a strong view against banks levying excessive charges on consumers using an ATM operated by a bank other than their own. We took the view that the proposed £1 charge was excessive because we believed it was triple the true cost of providing this service. We supported an Early Day Motion in February 2000 which largely led to the introduction of free bank and building society access to ATMs.

3.2 When charging ATMs started reappearing in 2001, we wrote to LINK and the Banking Code requesting that they ensure that all ATMs (both free and surcharging) are suitably labelled as such. We reported in Which? in November 2001 and again in October 2003 that some ATM deployers, though disturbingly not all, were doing this.

4. Principle and Trend Towards Charging ATMs

4.1 Free ATMs still constitute the majority of the transactions. In 2003, 97% of all ATM transactions were from free machines. The average number of withdrawals per day at free ATMs was 196 compared to 15 at charging machines.

4.3 However we think this gap will narrow as surcharging ATMs become more ubiquitous. The CEO of Cardpoint, the company that recently bought over 80% of HBOS's non-branch network, agrees: "given this growth of new convenience ATMs, the large difference in utilisation rates between cash machines owned by banks and building societies and those operated by IADs will narrow".[31]

4.2 Our general view is that surcharging ATMs are an acceptable way of delivering of cash to consumers in certain circumstances, on the condition that they:

- do not encroach on the free ATM estate, endangering consumers' free access to their money;
- the surcharge is fair and reasonable; and
- are suitably labelled.

4.2 However, events in the last year suggest that these three conditions are not being met, and if recent developments are duplicated, a situation whereby more consumers are forced to use surcharging ATMs for their general cash access is not inconceivable.

[31] Cardpoint, "Letter from the CEO of Cardpoint plc," 26 May 2004, p. 10.

4.3 There are essentially three types of ATMs in UK market:

— bank or building society (BBS) branch ATMs;

— convenience ATMs; and

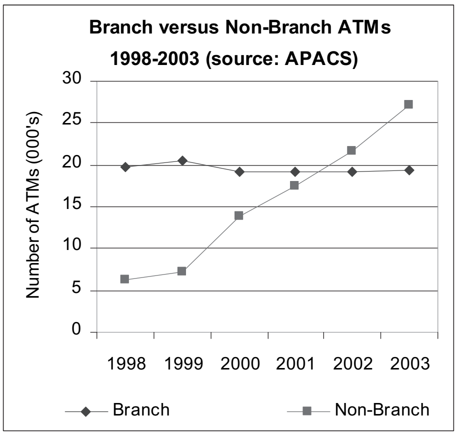
— public space ATMs.

4.4. Each category has particular characteristics, and need to be analysed separately. This is made difficult because much of the industry statistics fall into simply two categories: branch and non-branch. Nevertheless, for the purposes of this analysis, it is necessary to use three categories.

5. Bank and Building Society Branch ATMs

5.1 These are machines deployed at Bank and Building Society (BBS) branches, either within the premises in the lobby or customer area, or mounted on the building in a "hole in the wall". The vast majority of the 19,349 branch machines (99.9%) in 2004 are owned by the BBS themselves and are free to all cardholders of UK accounts.[32] Branches account for 41.7% of all ATMs, having been overtaken for the first time in 2002 by the rapidly growing non-branch network.

5.2 Two issues are relevant to the continued availability of free branch ATMs: continued branch availability; ATM availability in branches.



5.3 *Availability of Branches*

5.3.1 Although free ATMs in branches seems assured, it is possible that the overall branch availability may decline. However this is more an area to do with financial exclusion and location, to be discussed in detail later in this evidence.

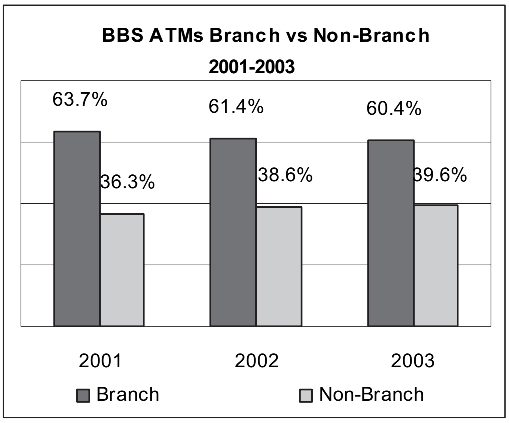
5.4 *ATM Availability in Branches*

5.4.1 We think that, although the number of free ATMs available in each branch is likely to decline, the overall availability of free ATMs at branches does not seem under threat.

5.4.2 Although the overall number of branch ATMs has increased by about 1.1% since 2001, the proportion of the entire BBS ATM estate deployed in branches has actually dropped very slightly from 63.7% in 2001 to 60.4% in 2003.[33] This would suggest that banks and building societies are undergoing an overall trend of moving their ATMs to remote sites.

[32] 18 (0.1%) are operated by Independent ATM Deployers (IAD). Source: APACS ATM Survey 2004.

[33] Analysis of APACS ATM Surveys 2002–04.



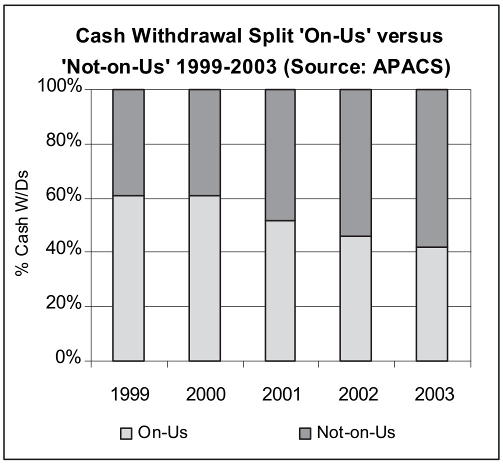
5.4.3 Our analysis suggests that one reason for this reduction of branch estates could be due to banks and building societies minimising operating costs derived from the LINK Interchange Fee (LIF). The LIF, about 30p per transaction, can constitute an expense depending on how the machine is used.

— If a BBS cardholder uses his/her own BBS free ATM (this is called an "On-Us Transaction"), no LIF is exchanged and the cost of the transaction is borne by the cardholder's institution.

— If the cardholder uses a free ATM used by another deployer (a "Not-on-Us Transaction"), the LIF is payable by cardholder's BBS to the ATM deployer.

— For a surcharging ATM, the cardholder pays the LIF, but also a portion to the ATM host (up to about 85p[34]) plus an extra cost amounting to £1.50.

5.4.4 The last several years has seen a marked decrease in cardholders using their cards in their own ATMs, with the volume of "Not-on-Us" transactions exceeded "On-Us" transactions for the first time in 2002.[35] This could mean that the exchange of LIF is becoming more of a potential issue for the banks and building societies. It could be within an institution's interests to become a net receiver rather than net payer of LIF charges.



5.5.5 Although there are obviously a host of factors in an institution's ATM citing policy, such as branding and marketing, we do think that LIF expense potential is a significant influence. Banks with most of their ATMs cited inside their branches rather than through-the-wall are more likely to be net payers of LIF's because customer "footfall" in a branch will be higher than visitor "footfall". This could be why there are nearly three times as many through- the-wall machines as there were those deployed in both customer area and lobbies in 2002.[36] Proportions of the indoor machines are also declining further year-on-year.[37] The years 2001–02 saw a noticeable decline in ATMs deployed in customer areas (14% drop) and lobbies (12% drop).

[34] *Source:* Moneybox advertisement for convenience machines.
[35] *Source:* APACS 2003.
[36] APACS ATM Survey 2002.
[37] Analysis of ATM Surveys 2001–02.

5.5.6 We think that financial institutions could address this net-receiver/net-payer balance more effectively by citing more of their free ATMs in high volume public spaces such as railway stations where visitor footfall is proportionally much greater. In the last few years, some financial institutions have invested heavily in non-branch ATMs, and reduced (or reduced growth) of its branch estates (see chart in Appendix A). Notably, in the period 2001–03:

— Lloyds TSB has increased its relatively small non-branch estate by 19.5%, and reduced its very large branch-deployed estate by 6%.

— RBS-Natwest increased its non-branch estate by 23.7%, and increased its branch estate by only 2%.

— Alliance & Leicester has a very large remote estate of surcharging ATMs, and increased this by 57.5%, and only increased its very small branch estate by only 0.5% in the period.

— Nationwide have increased its demand estate by 24%.

— Co-Operative Bank also has a very large remote estate, much of which is surcharging. Most of its ATMs (82.7% in 2003) are convenience machines in its Co-op Store chain, and increased this by 126% in the period.

5.5.7 However it should also be noted that other banks have reduced their remote estates. Notable cases are Abbey and HBOS, and this will be explained in the section on Public Space ATMs below. Nevertheless, the overall trend is that remote ATM share has increased slightly compared to a slight decrease in the branch estate. Most of the 3% growth in free ATMs in 2003 were in the remote estate.

5.5.8 We have not observed any incidence at this time of branches removing all their free ATMs, or replacing them with surcharging ones. Only very small building societies that cannot afford the operating costs of their own ATM have deployed IAD machines, however this amounts to an infinitesimal share (0.1% of the entire branch network). Free ATMs mounted on branch exteriors are viable from an LIF perspective, are relatively cheap to operate compared to a remote machine, and significantly cheaper than face-to-face counter service. We believe it unlikely at this time that BBS's will start removing free ATMs from their branches. We think that, although the overall number of branch-mounted ATMs will continue to decline, the free branch ATM network is assured as long as the branches themselves continue to exist, and there remains a sizeable non-branch free ATM network.

5.5.9 However it is possible to envisage a scenario whereby bank and building society branches eventually became surrounded by a non-branch network virtually controlled by IADs. This non-branch network would be levying surcharges well above marginal cost (as they now do) and rising. In such a scenario, it would simply be longer commercially viable to maintain free machines (compensated by a meagre LINK Interchange Fee) anywhere.

6. Convenience ATMs

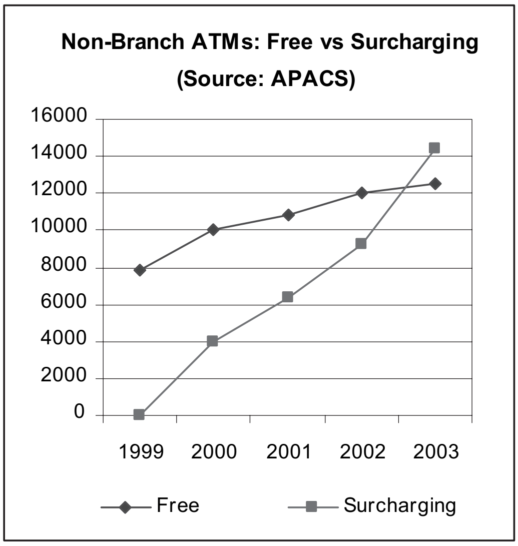
6.1 These are machines found in corner shops, supermarkets, pubs and night clubs. They are not designed for general banking usage but rather as a way to access cash without the inconvenience of having to leave the premises deploying the ATM. In 2003, 19,658 ATMs or 35% of the entire ATM network were deployed in convenience locations.[38] Over 77% of these convenience machines are installed by Independent ATM Deployers (IADs), and the vast majority of which (about 95% at the end of 2003) are surcharging. A small minority of Alliance & Leicester and Co-operative Bank convenience machines also charge a fee.

6.2 We have no major concern with the principal of surcharging convenience ATMs, provided the surcharge is fair and proportionate (see our section below on charges); they are clearly labeled (see our section on transparency below), and they do not encroach on the free ATM network. However it is not inconceivable that the latter may indeed happen: that more convenience ATMs may switch to surcharging. This may be brought about by a combination of an aggressive growth of IAD share combined with banks and building societies reducing their remote networks.

[38] This comprises of stores, supermarkets, department stores, national retail chains, restaurants, public houses, night clubs, bars, cafes, sports and leisure centres, hotels, campsites, gambling, cinemas, stadiums, and zoos. Source: APACS ATM Survey 2004.

6.3. *AD Growth*

6.3.1 We think it is likely that the charging ATMs in convenience stores will continue to grow as much as the market will bear.



6.3.2 The last three years has seen a rapid growth of surcharging ATMs, and 2003 was the first year that surcharging ATMs overtook free ATMs in the non-branch network. Of all the non-branch ATMs in the UK (both convenience and what we label 'public space'), 14,436 or 53.3% are now surcharging. While the entire free machine estate in the UK has increased at a steady rate of about 3-4% per year since 2000[39], the surcharging ATMs have increased at a faster rate (72% year-on-year in 2001, declining slightly to 51.8% year-on-year in 2003). Between 2000 and 2004, surcharging ATMs deployed by IADs grew at an average rate of 3,670 new machines, or nearly 10% of the entire UK ATM population, per year. Although this rapid rise has been from a base of nil in 2000, the surcharging ATMs are catching up with the free population. The vast majority of the surcharging non-branch ATMs are deployed by IADs.

6.3.4 This rapidly growing market for surcharging ATMs has allowed rapid entry of an IAD industry over the past four years:

- It is concentrated. Of the 9 significant IADs, four own 68% of the market:
- Hanco at 25% was recently been acquired by RBS;
- Moneybox at 15%;
- Cardpoint (which bought a quarter of HBOS's machines) at 14%; and
- TRM at 13%.
- The industry is also quite lucrative. Cardpoint announced this week better than expected pre-tax profits rose from £50,000 last year to over £1.8 million this year. This impressive increase is likely due to a switch in business development stages from capital expenditure to profit maximisation. Its chief executive promised its shareholders that "looks forward to delivering significant growth in 2005".[40]

6.3.5 Given this development and concentration, the IADs are making notable progress in accessing the convenience market. Small businesses are given clear incentives to install such machines, including impressive return figures, relatively low risk, and even add-on perquisites such as free telephone lines allowing them to open up new service lines.[41] The reason for the development of new markets not previously served by ATMs is obvious. This growth is likely to continue, but will eventually reach a saturation point when over-supply would begin to affect marginal revenue.

6.3.6 To combat this saturation point fear, we think that IADs will seek to extend this growth into the free ATM network installed in convenience locations by the banks and building societies.

[39] *Source:* LINK.

[40] Letter from the Chief Executive of Cardpoint to Shareholders, Cardpoint Annual Report 2004, 22 Nov 2004.

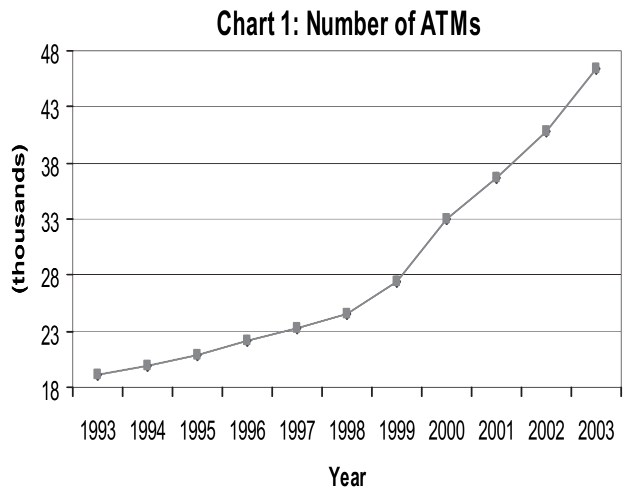
[41] See for example advert for Moneybox ATMs in small business publication. The lease for a convenience ATM is about £124 (+VAT) per month. Total risk £1,484 + VAT against £4,635 returns from transaction revenue (assuming 5–6 withdrawals per day). The advert also promotes free BT telephone line installation.

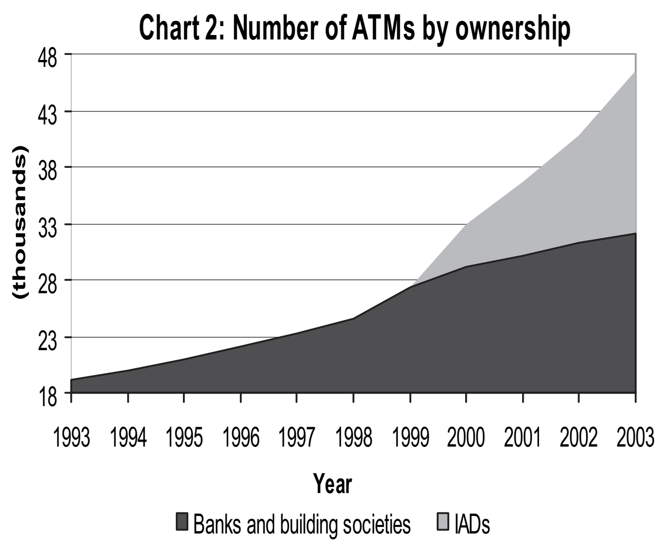
6.4 *Bank and Building Society (BBS) Reduction*

6.4.1 While the convenience market seems highly attractive to the IADs, the banks and building societies would have every reason to reduce their remote services in these locations. In 2003, convenience machines accounted for 67% of the BBS Non-Branch network, and 26.5% of the entire BBS network.[42]

6.4.2 It is quite possible that BBS will elect to reduce this network in the future. Non-branch ATMs are more costly than branches, mainly because operating costs of supplying and servicing a remote location would be much higher. Newer machines, particularly those installed by the IADs, allow the host retailer to resupply the machine with cash from his own float (another attractive characteristic for small businesses), thus mitigating a significant element of operating cost. However the older BBS machines are not likely to be designed for this. Nevertheless, rents are relatively low compared to some public spaces, so it is possible that the larger institutions may elect to keep this estate intact.

6.4.3 Convenience locations are also characterised by their relatively low footfall compared to other non-branch locations. Therefore we think from an LIF balancing perspective, own customer exposure is likely to be relatively modest, so LIF expenses would be proportionally lower. Nevertheless, some higher volume locations would remain lucrative.





6.5 Therefore we think it is likely that some of the existing free convenience ATMs will be removed or switched from free to surcharging.

[42] APACS 2004.

7. Public Spaces

7.1 These are ATMs in airports, railway and underground stations, motorway services, post offices, and shopping centres.

We have developed this third category distinct from convenience ATMs because it is one where bank branches are not normally within easy access, and they are in a generally shared location where more than one business is operating. In 2003, 7,436 machines (over a quarter of the entire non-branch network) were cited in "public spaces".[43]

7.2 Presently these public spaces are served by a mixture of branded bank or building society free ATMs. At the end of 2003, there were slightly more BBS ATMs than IADs (56 to 44% split), and public space ATMs constitute over a third of the BBS Non-Branch share. However we think this make up will change significantly in the next few years. We think that:

— although free ATMs in busy central public spaces seem fairly assured at this time; however

— it is possible that free ATMs in quieter lower volume places are under threat.

7.3 As described above, non-branch ATMs must be much more expensive than branch ATMs owing to their remoteness. One of the major costs is re-supply, and unlike convenience locations, there is no one host retailer to take the re-supply role. Another considerable cost in many public spaces is space rental, which is probably why the much busier locations such as central London mainline stations are almost exclusively dominated by the larger banks and building societies. On the plus side, footfall is considerably higher than both branches and convenience locations, so the LIF balance question must be considerable.[44]

HBOS NON-BRANCH ATM ESTATE
(as at March 2004)

Corner shops, newsagents, etc	306	31.2%
Supermarkets	70	7.1%
Other retail	52	5.3%
Sports centres, gambling, etc	7	0.7%
Bars, pubs, clubs	29	3.0%
Post offices	8	0.8%
Motorway services	386	39.3%
Railway stations, etc	26	2.6%
Garages, etc	55	5.6%
Workplaces	43	4.4%
TOTAL NON-BRANCH	982	

Source: APACS

7.4 However this LIF revenue would surely be much lower in lower volume public spaces, such as smaller motorway service centres and post offices. So we think it is not inconceivable that financial institutions could determine that an outright sale of their ATMs in quieter public spaces is more beneficial. Smaller banks and building societies have already begun to do this.

7.5 In May 2004, HBOS was the first major financial institution to sell part of its share to an IAD. It sold 816 non-branch ATMs to Cardpoint plc. This amounts to 83.1% of its entire non-branch network. The sale also follows a period of consistent decline: between 2001 and 2003, it shed nearly a third of its remote network prior to the sale.[45] Its non-branch network now accounts for only 6.1% of its entire ATM estate. Not surprisingly most of the ATMs in the deal were in public spaces, according to information compared from both the Cardpoint literature and APACS data on HBOS's pre-sale estate. Over half were in what we label as "public spaces", including post offices, motorway services, railway stations, garages, workplaces, and shopping centres.

7.6 It is also likely that a large proportion, of not eventually all, of these sold machines will be converted from free to surcharging. This is likely for two reasons. First the IAD will try to maximise its surcharging estate. Cardpoint announced that over 250 machines that were previously non-charging will be switched to charging status. The company stated that "the process to bring retailers to the charging model continues and you will see this number increase in the year ending 30 September 2005."[46]

[43] *Source* APACS 2003. These include railway and transit stations, airports, post offices, motorway services, shopping centres, workplaces, and moving locations such as exhibitions. Trend analysis is not possible, because data breaking down the UK non-branch network in this way for previous years is not available.

[44] Not surprisingly, a machine at London's Liverpool Street Station was the busiest ATM in the UK in 2002. It dispensed over £1.7 million in December of that year, five times the national monthly average. Source: APACS ATM Survey 2002.

[45] See Chart in Appendix A.

[46] Cardpoint Annual Report 2003–04, Letter from CEO to Shareholders, 22 Nov 2004.

7.7 Second, it is in HBOS's interests for the machines to be surcharging. If it sells machines that are unlikely to be converted to charging, then when its own cardholders using them will result in a LINK Interchange Fee expense on HBOS. This is not such a factor for smaller building societies, but it is for the fifth largest retail bank in the UK with an estimated 11% current account market share.[47] Over time this can amount to a false economy for the seller, eclipsing any gain on the sale. So it's in the seller's interest to ensure that the machines sold are most likely to be converted.

7.8 This puts quieter lower volume locations, particularly those with limited free machine access elsewhere particularly at risk of transfer. This can be illustrated with a very simple example. A large bank is considering selling one of two ATMs. One is located in a busy mainline station where there are two other free ATMs and considerable footfall; the other in a quieter service station outside a small village with only surcharging convenience ATMs within a 2km radius. Their perspectives, other things being equal, could be as follows:

- Prospective IAD: the quieter service station is more attractive because competition against free ATMs for the high potential footfall is limited. The only competition comes from the other surcharging ATMs. In the case of the station, footfall is greater, but there is competition with free ATMs.
- Selling Bank: the quieter service station is more attractive to sell. Although rent will be cheaper, the smaller location will have more limited exposure to its own customers, so LIF expense is limited. The mainline station will be more expensive, but it is more likely to attract visitor footfall.

7.9 If analysed in isolation, the HBOS-Cardpoint deal constitutes a tiny proportion of the entire ATM population. However it is not inconceivable that other financial institutions may follow the example. Analysis of the remote ATM estates for fourteen banks and building societies (Appendix A) reveals that Abbey, HSBC, and Barclays also seem to be undergoing a programme to reduce their non-branch networks. The smaller banks and building societies would quickly follow suit. It is possible to generate a scenario of the likely free/surcharging ATM share in the light of such developments:

- Cardpoint purchase of 816 HBOS non-branch machines, all of which eventually become surcharging.
- If each of those three financial institutions sells 80% of its non-branch network, the IAD share will increase by another 1,400 machines.
- Smaller banks selling non-branch networks, resulting in another 200 machines
- However other banks increase their non-branch network by about 2.5% as in 2003.
- IAD convenience ATM growth drops slightly from 52% in 2003 to 45%, resulting in 6,500 new machines.
- The total surcharging IAD population will rise to over 55,000 machines.

7.10 Under this scenario, surcharging IADs would then constitute over 64% of the entire ATM estate in the UK, and over 83% of the non-branch network. As more people are forced to use these machines, the "utilisation gap" between the volume of surcharged and free transactions would narrow considerably.

8. Fairness and Proportionality of Surcharges

8.1 We think the current fixed surcharges of £1.50–£1.75 (in some cases as much as £5), costing consumers as much as 17% of the money withdrawn, is excessive and unfair. It is wholly disproportionate to the realistic cost of running even a remote convenience ATM. This only suggests that firms in this market are charging what they wish, in many cases because consumers have little choice in an increasingly captive market. If this continues unchecked, the industry would be at liberty to further inflate the surcharge further as free ATMs become less accessible.

8.2 For surcharging ATMs, we would like to see:

- The surcharge be calculated on a floating rather than fixed basis so that the fee is proportional to the amount withdrawn.
- The surcharge subject to a cap. We think the surcharge cap of about 7% to a maximum of £1 is reasonable and should be set.

9. Transparency of ATMs

9.1 Which? has long taken the view that all ATMs should bear clear messaging. Given the aggressive growth in surcharging machines in the last few years, we believe that transparency is more important than ever.

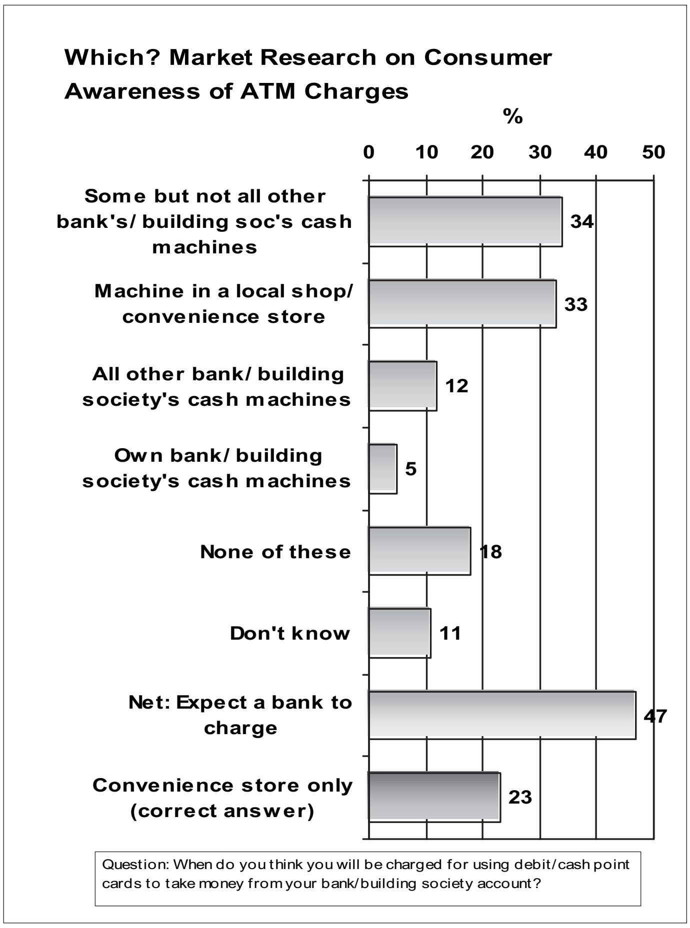
9.2 The Independent ATM Deployer (IAD) industry has claimed that the ATM growth is driven by a clear demand from consumers who are prepared to pay the charge. In order for this to be truly the case, consumers would have to be aware that

[47] Market share data: Mintel Current Accounts report, January 2004.

— the machine charges a fee, before they committed to investing time in the machine (queuing for example);

— the fee charged can be £1.50 to £1.75 (higher in some cases), amounting to upwards of 17% of the transaction if they are withdrawing £10; and

— that they have the option of using a BBS machine that levies no surcharge, but they have nevertheless chose to use a surcharging machine.



9.3 We would argue that consumers are not sufficiently aware of these three bits of information. In March 2004, we conducted an omnibus survey of 2000 consumers, asking them their awareness of charging and non-charging machines. All adults with a debit card or cash point card were asked—from a list—when they thought they would be charged for taking money from cash machines. The correct response is that only machines in convenience/local stores will charge:

— One third (33%) expected to be charged for taking money out at a cash machine in a local store.

— Two thirds (67%) did not know that they would be charged in this case.

— Only 23% correctly said that they would only be charged in this case.

— Consequently, 77% of people either did not know when they would be charged for taking money from a cash point or were mistaken in their understanding of when they would be charged.

— Indeed, 47% thought that a bank would charge them when, in reality, none of the banks currently charge for use of their cash machines.

— A fifth (18%) did not think they would be charged on any of the given occasions.

9.4. This indicates a clear lack of awareness of the three points raised above. We think that if consumers were better aware of these points, it is possible that the market would be better able to respond to and bear the rise of surcharging ATMs.

9.5. Labelling has already been attempted by the industry. The LINK Membership set down some guidelines effective April 2004 on how they are to be labelled. These must be either:

— A label or sticker on the machine indicating that a charge is payable. This charge must not be obstructed; or

— An on-screen message in the "welcome screen" of the ATM.

9.7. While charging ATMs are often easily recognised by their bright colours, many consumers are still unaware that they need to look out for the stickers or on-screen messages. Often consumers don't know the machines charge, especially when most of the ATMs on the market do not charge. Some operators appear to be either disregarding or flouting the LINK guidelines by displaying warnings in a way that makes it difficult for them to spot, or delaying the electronic warning until later in the transaction, so the consumer decides to proceed and pay the charge anyway.

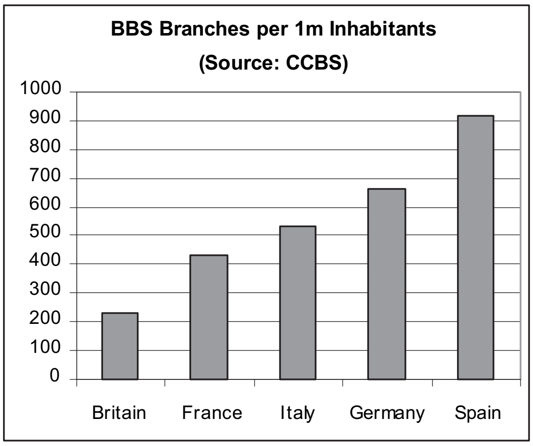
9.8. On the issue of transparency, we would like to see all ATMs, both free and surcharging, carrying both a conspicuous sign indicating that the machine is free or surcharging and an unambiguous and un-missable early-stage on-screen message:

- The sign should be so that the consumer could see from a distance whether a charge is applicable, which could be useful in the event of a queue for example. It should state unambiguously whether the machine is free or surcharging, specifically what that charge is, and to which card users this charge would apply. Some banks and building societies have done this, we would like to see all follow suit.
- The on-screen message should appear directly after the consumer's card has been inserted warning the user that there will be an £x charge for the withdrawal and asking them whether they wish to continue.
- We also agree with Nationwide's proposal that ATMs should bear a 30-day advance warning prior to a change in status from free to charging, and prior to any increase in the charge.

10. Financial Exclusion and Location

10.1. Another principle area of concern is the impact of surcharging ATMs on consumers in deprived areas.

10.2. Research by the Campaign for Community Banking Services (CCBS) found that 6,000 BBS branches that existed in 1990 were closed by 2004. The UK already has the lowest density of BBS branches compared to Europe. The closures have left an estimated 800 communities without a single bank branch. Although rural areas are predominant targets, deprived areas of cities are not exempt. A 1998 survey by the New Economics Foundation found that London lost 20% of its branches between 1990 and 1995. It should be noted however that the trend of branch closures ceased in 2000–01, nevertheless the CCBS believes that the trend could continue again in 2004–05. Approximately a thousand more communities are at risk of losing their last branch.



10.4. We and CCBS have lobbied for shared branch banking as a solution to this problem but no progress has been made.

10.5. Instead the banking industry has turned to the Post Office as a solution for consumers to access and manage their accounts. However Post Offices too have been subject to branch closures, with over 1,500 branches closed since 2002, and there is a programme to shut down at least 1,700 more. Moreover, many of the ATMs installed in and around Post Offices are or soon will be charging. According to the Nationwide ATM report, over 70% of the ATMs in Post Office machines charge a fee.

10.6. The impact of branch closures on ATM availability is difficult to ascertain without detailed mapping of the present and future situation regarding free non-branch ATMs. We would like to see the financial institutions and IADs providing detailed information on the localities where new surcharging ATMs will be cited. To provide some impetus for this, we have undertaken the precursor to such a project.

10.7. For a sample of 58 of the 800 communities that the CCBS have identified as branchless, we conducted some rudimentary non-scientific research to assess access in those communities of free and charging ATMs. For each community name supplied to us by the CCBS, we used the "ATM Locator" tool on the LINK website to map the closest five free and surcharging machines to the given epicentre. Of the 58 communities assessed:

- Only 4 communities (6.9%) had no ATM less than 2 km from the epicentre;
- 24 (41.1%) had a free ATM within 1 km of the epicentre;
- 21 (36.2%) had a free ATM within 2 km of the epicentre;
- 13 (22.4%) had a free ATM between 2 and 4 km of the epicentre; and
- For 24 communities (41.1%), the closest free ATM was 4 km from the epicentre or further.

10.8. Our findings would suggest that branch closures are indeed having an impact on consumer's free access to their own money. In view of the economics of cash machines, we think these "free ATM black out areas" are likely to increase significantly over the next few years.

10.9. As ATMs convert from free to surcharging machines, groups of people living in affected areas will be ostensibly forced to use surcharging ATMs for their primary cash access. While we agree that surcharging ATMs are reasonable as convenience machines where consumers can exercise clear choice, we are seriously concerned that matters of financial exclusion and location will make "convenience" machines used for more than they were designed.

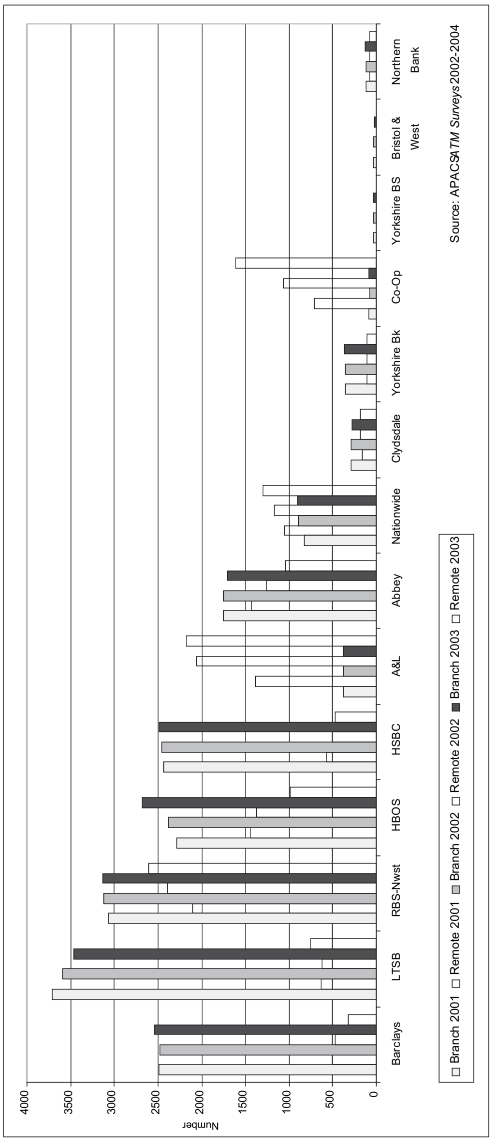
10.10. This is particularly disturbing in an era where consumers have salaries, benefits or pensions deposited directly into their current account (the latter two as a result of a clear government policy). Consumers are effectively being taxed to access their own pensions and benefits. We think this is deplorable and must be reversed.

10.11. Our response to this specific access/exclusion issue is three-fold:

- First, we would like to see the banks and building societies establish shared branch services. We have long campaigned for this with the CCBS.
- Second, in the certain communities where even shared branches are clearly not justifiable, the banks and building societies must commit to ensuring that these communities are served by free non-branch ATMs.
- Third, we would like to see some exemptions for those individuals who rely on state support to meet basic living costs. The technology should be developed so that ATM cards belonging to current accounts receiving (for example) income support, disability allowance, or pensions are earmarked to be exempt from ATM surcharges.

Appendix A:

Branch versus Remote ATM Estates for Selected Banks and Building Societies: 2001–03



Supplementary memorandum submitted by HM Treasury

Re: Inquiry into Cash Machine Charges

I am writing following your hearing of 10 February 2005, at which I gave evidence and agreed to provide you with further information on several issues.

Research into the Impact of ATM charges

You noted that on 8 February 2005 I responded to a Parliamentary Question from John Robertson, MP asking what assessment the Treasury has made of the impact of ATM charges on various groups with the answer, "no such assessment has been made." I am able to confirm that this answer was correct. The Treasury has made no assessment of the impact of ATM charges, although officials have been monitoring developments in the ATM market. As I stated in the evidence I gave, we do not believe that, at present, there is cause for undue concern about charges. The latest figures from LINK show that surcharged withdrawals account for only 3–6% of the total and, although this figure has been growing, the rate of growth is now slower than in previous years.

As I said in my evidence, our work on financial inclusion is focused on reducing the number of individuals who have no bank account at all. At present, I believe that those benefit recipients who do have a bank account have adequate free access to their funds, either from free ATMs or over the counter at the Post Office or banks.

I stated that DWP are satisfied that their customers are not experiencing problems with ATM charges and mentioned that they had commissioned some independent research which backs up this assertion. This research was into DWP customers' experience of having their benefits or pensions paid into bank or Post Office card accounts. Customers were specifically asked to list the "disadvantages" of Direct Payment. Being charged to access their cash was not listed as a disadvantage, supporting DWP's view that their customers are able to access their cash free of charge without having to pay ATM charges. A copy of the DWP research can be found at http://www.dwp.gov.uk/directpayment/pdfs/dp—report 04.pdf.

How DWP have been Ensuring that Benefits can be Accessed Free of Charge

I thought you might also find it helpful if I provided you with a little more detail on the work DWP have been doing to ensure their customers have free access to their money. As you are probably aware DWP is coming to the end of a two year programme to phase out order books and make Direct Payment into a bank account its normal method of payment. DWP has worked closely with the banking industry and the voluntary sector to ensure that its customers understand how they can continue to access their cash free of charge at a wide range of outlets.

In addition to this, DWP has also introduced two important safeguards to ensure that its vulnerable customers can still get access to their money free of charge. The first is the Post Office card account. This is an ultra simple account that was designed specifically as a steppingstone to full financial inclusion. It was targeted at those who did not yet feel able to operate even a basic bank account. The Post office card account only accepts payments of benefits, pensions and Tax Credits. It does not have an overdraft facility and money can only be withdrawn at a Post Office counter. As it cannot be accessed at an ATM, the four million people who will be using this account cannot incur any ATM charges.

For the most vulnerable DWP customers (eg elderly housebound people without a regular carer) a cheque payment service has been introduced. This was previously referred to as the Exceptions Service. It was designed in consultation with all of the major DWP customer representative groups. It is specifically targeted at those who cannot make use of a bank account. The cheques can be cashed free of charge at a Post office counter by the customer or their representative. It is expected that over one million people will be paid by cheque. As ATMs play no part in these transactions, again the question of charging does not arise.

The Geography of Financial Exclusion

On the issue of the analysis the Treasury has done on the geography of financial exclusion, 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. In addition, I am able to share some of the background analysis to this work (attached). I hope that this is useful as you continue your inquiry. The terms of our contract with the company that provided the information mean that I am unable to share the raw data with any third party. You are, of course, free to contact the research company, CACI, if you wish to discuss with them the possibility of direct access to the information.

The Payment Systems Task Force

Our memorandum explained the background to the Payment Systems Task Force and the timescale on which it is operating. As noted in the memorandum, several of the Task Force's planned workstreams may have an impact on the ATM industry in the UK. These are the LINK Access and Governance workstream (scheduled for 2005), the Price Inefficiency workstream (scheduled for 2006) and the Transparency workstream (scheduled for 2007). Each working group will make an assessment of the evidence available at the time, carry out further studies and look at options for change. Precise terms of reference for each working group will be agreed by the working group and the Task Force when a working group begins. It is therefore difficult to say in advance exactly what ground the working groups will cover.

Finally, I would like to reiterate the fact that I very much welcome the interest the Committee has been taking in this subject. It is an important area of public policy and I look forward to seeing the results of your inquiry.

The Geography of Financial Exclusion—note for the Treasury Select Committee

In 1% of all postcode districts, more than 70% of families are financially disengaged, on low incomes:

Birmingham	11 postcode districts
Bradford	2 postcode districts
London	6 postcode districts
Glasgow	3 postcode districts
Liverpool	5 postcode districts
Manchester	3 postcode districts
Wolverhampton	1 postcode district
Middlesbrough	1 postcode district

The 10% most financially excluded postcode districts contain 68% of all the financially excluded. These postcode districts are found in the following areas:

Aberdeen	1 postcode district
Birmingham	20 postcode districts
East Lancashire	4 postcode districts
Bradford	7 postcode districts
Bolton	4 postcode districts
Brighton	1 postcode district
Bristol	2 postcode districts
Cardiff	2 postcode districts
Prenton	2 postcode districts
Croydon	2 postcode districts
Coventry	4 postcode districts
Crewe	2 postcode districts
Gravesend	1 postcode district
Dundee	3 postcode districts
Derby	2 postcode districts
Dudley	3 postcode districts
London	63 postcode districts
Falkirk	1 postcode district
Alloa	1 postcode district
Glasgow	18 postcode districts
Huddersfield	2 postcode districts
Hull	3 postcode districts
Halifax	1 postcode district
Ilford	2 postcode districts
Liverpool	14 postcode districts
Leicester	5 postcode districts
Wrexham	1 postcode district
Leicester	6 postcode districts
Luton	3 postcode districts
Great Manchester	14 postcode districts
Bedford	2 postcode districts
Motherwell	6 postcode districts
Newcastle	7 postcode districts
Nottingham	6 postcode districts
Northampton	1 postcode district
Newport	3 postcode districts
Oldham	5 postcode districts
Rochdale	2 postcode districts
Oxford	1 postcode district
PaisleyGreenock	5 postcode districts
Peterborough	1 postcode district
Kings Lynn	1 postcode district
Portsmouth	2 postcode districts
Havant	1 postcode district
Preston	2 postcode districts
Sheffield	3 postcode districts
Rotherham	1 postcode district
Swansea	1 postcode district
Stockport	1 postcode district

Hyde	1 postcode district
Slough	2 postcode districts
Southampton	2 postcode districts
Sunderland	4 postcode districts
Stoke	2 postcode districts
Telford	1 postcode district
Teeside	7 postcode districts
Warrington	1 postcode district
Runcorn	1 postcode district
Widnes	1 postcode district
St Helens	1 postcode district
Wakefield	4 postcode districts
Wigan	2 postcode districts
Walsall	4 postcode districts
Wolverhampton	6 postcode districts

Supplementary memorandum submitted by the Royal Bank of Scotland

During my appearance before your Committee on 1 February, I undertook to write to you on the strategic independence of our free to use estate and that of Hanco, and to let you have information on the facilities we make available in Speke, Merseyside.

The strategic distribution teams for Hanco and for RBS free to use ATM estate report into separate departments within the Group's Retail Banking Division and, on a day to day basis, operate independently. We chose to maintain the two departments as separate entities within the Retail Division as the two operating models are different from each other, requiring different business approaches that provide complementary offerings for our customers.

On those few occasions where a site falls into a competitive tender between the two teams, this independent structure ensures both internal and external competition. This approach is not uncommon across The Royal Bank of Scotland Group. To have independent units maintaining responsibility for similar aspects of business drives innovation and standards, as, for example, in the competition for loan and insurance business between Lombard, Direct Line and our branch networks. A more general example is the way in which our Royal Bank of Scotland and NatWest brands compete on the high street.

On the second point, I attach a map of Speke (not printed). The map shows the locations of all LiNK Automatic Telling Machines (ATMs) and Convenience Cash Dispensers (CCDs) relative to our NatWest branch and the Post Office. NatWest is the only bank with a branch in Speke.

The map highlights the path one would take from the Post Office/Citizens Advice Bureau to the NatWest branch. The distance is 0.82 of a mile, which is consistent with the UK wide data confirming that 84% of all CCDs are within a one mile radius of a free to use ATM. The NatWest branch has a free to use ATM, which handles on average 8,000 withdrawals per month. The Hanco machine, situated within the Post Office, handles on average 350 withdrawals per month. It is worth noting that free cash withdrawals are also available to our basic bank account holders in Speke at the Post Office.

23 February 2005

Supplementary memorandum submitted by Nationwide Building Society

Growth of Charging Cash Machines

1. During the Committee's inquiry into charging cash machines, some assertions have been made regarding the growth of charging cash machines: that the growth of charging machines has been entirely at new, sometimes called "greenfield" sites where there was previously no ATM; and, in a linked point, that the number of free machines is continuing to increase and has not been affected by the entry of independent ATM deployers into the market.

2. In some cases these assertions have led to a suggestion that the number of ATM transactions on which a charge is levied will remain relatively small, and that even if half the UK's cash machines were to charge (which, it is now accepted, is likely to happen at some point in the next twelve months), the proportion of transactions on which a charge is levied will not go beyond 5% of the total.

3. Nationwide is concerned that certain misconceptions lie behind these assertions, which might lead policymakers to believe that there is little need for changes to policy or practice in the UK cash machine network. As we stated in our original submission to the Committee, we are committed to retaining a viable network of free cash machines in the UK and believe that failure to act now, on the part of the industry and of government, could lead to serious damage to the viability of the free network in the future.

4. The example of the growth of charging ATMs in the United States demonstrates how the expansion of charging machines as a proportion of the network can impact on the ability to receive cash for free. 95% of ATMs in the US levy charges on some or all users (it is now general practice for banks in the US to charge other banks' customers for using their ATMs, and also for banks to charge their own customers where they use an alternative provider's ATM—a practice sometimes known as "double-dipping", which is forbidden under the LINK rules in the UK). According to the American Bankers' Association, this growth has led to around 40% of transactions in the US being charged-for

Growth in the Number of Free Machines

5. The assertion that the number of free machines continues to rise is questionable, since growth in the first part of 2004 was as low as 0.3%. However, this assertion also fails to take into account the difference between the trend as regards free ATMs located in bank and building society branches, and the trend as regards free "remote" (non-branch) ATMs. The figures clearly show that there are fewer free "remote" ATMs than there were a year ago, whilst the overall number of free ATMs is being boosted by an increase in free branch ATMs, giving a small overall growth[49]. Consequently, access to free ATMs is increasingly linked to access to bank and building society branches—people without access to branches have a decreasing chance of access to a free ATM.

6. Nationwide was reassured to hear competitors such as HBOS and RBS Group state so firmly their commitment to keep their own ATMs free. However, we believe that for a free network to remain viable, that commitment needs to extend beyond the promise to keep branch-based machines free. If more banks followed the lead of HBOS and abbey in selling off some or all of their remote ATMs to charging operators, then ultimately free ATMs could be restricted almost entirely to bank branches. It could become the norm for non-branch ATMs to charge a fee, something which could have a serious impact on those living in communities without a bank branch, particularly those who are less mobile.

Charging Machines Replacing Free Machines

7. While the majority of charging ATMs may be installed at new, or "greenfield", sites, it would be a misconception to believe that this is exclusively the case or that charging machines will not seek to increase their ATM holdings through replacing free ATMs.

8. Charging operators already compete to buy free ATMs from banks and convert them to a charging model, as took place with abbey's sale of ATMs to Moneybox, and HBOS' sale of more than 800 ATMs to Cardpoint. Nationwide has itself been approached by a charging operator with a view to discussing "this type of deal" for our ATM estate, so we must conclude that all banks and building societies with any ATMs are being approached, and that charging operators are seeking to increase their holdings through further conversion of free ATMs. (The charging operator's letter to Nationwide is appended to this submission.)

9. The Committee has also heard evidence of the aggressive approach of the charging operators who seek to expand their networks by taking over sites where banks or building societies currently operate free machines profitably. Nationwide previously submitted, in confidence, evidence of a charging operator offering financial inducements to a site owner where a free ATM was being operated profitably by Nationwide.

10. In the financial year 2004–05, Nationwide has to date lost 8 ATM sites where the owner plans to replace the free Nationwide ATM with a charging ATM. Nationwide lost a further twenty two ATM sites in early 2004 to a charging operator. All these sites were profitable for Nationwide without charging. Further to the Committee's request we have appended details and figures relating of ATM sites which Nationwide has recently lost to charging operators. (These figures are submitted in confidence to the Committee.)

11. Action to protect the viability of the free ATM network needs to be taken to avoid a scenario where only ATMs at bank and building society branches are free, and all other ATMs charge a fee. The Committee's inquiry has itself proved helpful in bringing to public attention the growth in charging machines and exposing some of the bad practice on transparency and consumer information which takes place in the industry.

[49] According to LINK data for the 12 months to October 2004, the total number of free remote ATMs fell by 507, while the total number of free branch ATMs rose by 234

12. Nationwide urges the Committee to demand further action: better transparency, so that consumers can see at a glance whether a machine will charge, and are able to exercise a real choice; better information and research on the ATM market, so that the impact of cash machine charges (particularly on low-income groups) is monitored and action can be taken to remedy problems; and fair charges, so that the interests of consumers are protected.

21 February, 2005

Supplementary memorandum submitted by HBOS

As you requested at the Committee's recent hearing on cash machine charges, I am writing to briefly outline the relationship that Bank of Scotland's business banking team has with Cardpoint.

In September 2002, Bank of Scotland entered into an arrangement with Cardpoint to provide loan—a standard commercial banking transaction. The relationship is limited to debt instruments only; we do not have an equity interest other than the standard protections in case of loan default. HBOS has also provided business-banking facilities to Cardpoint on our usual terms since this date.

Subsequently we decided to sell our remote ATMs and this deal with, as it happened, Cardpoint, was finalised in March 2004. Working with Bank of Scotland's business banking team, Cardpoint finalised an extension of the loan to facilitate their purchase of our ATMs in May 2004.
Our loan and banking arrangements with Cardpoint are managed by Bank of Scotland's business banking team which is separate from our retail bank; the latter managed the sale of our remote ATMs to Cardpoint. So the two aspects of our relationship with Cardpoint are conducted at arms length, by separate teams.

I would also like to reiterate HBOS's commitment to improving transparency at all ATMs. Within LINK, we are driving the work to improve the policing of regulations and are keen to see the transparency rules included in the Banking Code.

I hope this information is helpful to the Committee—please do get in touch if you have any queries.

1 March 2005

Supplementary memorandum submitted by Which

Thank you for inviting our comments to the LINK memorandum of 12 January 2005. Your inquiry has drawn attention to the critical issue of cash machine charges, and as a consumer organisation that has been campaigning on this matter for many years, we would be pleased to participate in any follow-up activities either involving your committee or any other organisation.

WHICH? OVERALL POLICY POSITION ON ATMS

To reiterate, our position on cash machines is threefold. We have no issue with charging cash machines provided three conditions are met:

1. the charging machines do not infringe on consumers' free access to their own money. This is particularly important in areas of financial exclusion;

2. the charge itself is fair and proportionate to the cost of the transaction, and subject to a sliding scale and possibly even a cap; and

3. all cash machines (both free and surcharging) are clearly and unambiguously labelled, showing whether the machine charges and if so how much.

OUR SPECIFIC POSITION ON LABELLING

The last element on the labelling of cash machines is a significant element of our position in this area, and one that needs to be implemented within a relatively short timeframe. As the Chairman of the Committee correctly pointed out in the inquiry hearings, consumers are confused by how the machines are labelled, and the current situation is simply not appropriate.

In the December hearing of the Committee's inquiry, we argued that consumers are not sufficiently aware of whether which machines are free and those that charge. Our survey in March 2004 found that:

— One third (33%) expected to be charged for taking money out at a cash machine in a local store.

— 77% of people either did not know when they would be charged for taking money from a cash machine or were mistaken in their understanding of when they would be charged.

— 47% thought that a bank would charge them when, in reality, none of the banks currently charge for use of their cash machines.

— A fifth (18%) did not think they would be charged on any of the given occasions.

Also in the written evidence, we set down a series of criteria of what efficient labelling should include. In order for consumers to make a correctly informed choice, we think consumers need three essential categories of information, as outlined in the table below:

The consumer needs to know. . .	*Therefore the physical labelling should:*
That the machine charges a fee, before the consumer commits to investing time in the machine (queuing for example).	Be clearly visible by most people from a certain distance (the exact distance is subject to discussion but we mean the vicinity of about 5–10 metres). Have safeguards to ensure this labelling is not obstructed.
That the fee charged can be £1.50 to £1.75 (higher in some cases), amounting to upwards of 17% of the transaction if they are withdrawing £10.	Include the amount of the surcharge, and this must also be clearly visible.
That he/she has the option of using a bank or building machine that levies no charge, but she/he has nevertheless *chosen* to use a charging machine.	Appear on non-surcharging cash machines as well as charging ones, and the labelling should appear in a way to *suggest* that consumers have a choice. Be accompanied (on charging machines) by an on-screen message that appears *directly after the consumer's card has been inserted* warning the user that there will be an £x charge for the withdrawal and asking them whether they wish to continue. Be accompanied (on machines prior subject to status change from free to charging) by a 30-day advance warning of this status change.

Our policy calls for physical labelling on the cash machines as well as on-screen messages. We think on-screen messages have limited efficiency because consumers tend not to see them. Therefore we believe clear physical labelling is essential.

In the Committee hearing in December, we proposed that a type of standardised labelling system be adopted by the industry. All cash machines in the UK could be equipped with a universal symbol that can be clearly seen and instantly understood. "£0" within a traffic sign-style green circle would denote that no surcharge is levied; while a red triangle encompassing the amount of the charge itself, as either an amount or a percentage (should a sliding scale be adopted).

We think this labelling could be adopted with minimum investment by the deployers. We gather there is a problem with some site owners allowing the obstruction of physical labelling that could curtail the machine's use. Therefore there should be safeguards, such as allocation of responsibility to the site owner, to ensure the labelling is not obstructed, defaced, or removed.

Another issue we have raised is the enforceability of the labelling. In April 2004, the LINK Membership set down guidelines on how labelling should appear. While charging ATMs are often easily recognised by their bright colours, many consumers are still unaware that they need to look out for the stickers or on-screen messages. As the Committee has heard from the evidence and hearings, some operators appear to be either disregarding or flouting the LINK guidelines by:

— displaying warnings in a way that makes it difficult for them to spot;

— delaying the electronic warning until later in the transaction, so the consumer decides to proceed and pay the charge anyway; or as the Chairman correctly underlined in one of the sessions; and

— misleading the consumer with signs such as "free balance enquiries".

Clearly there appears to be an issue of compliance and enforcement. While LINK's intentions are well founded, it unfortunately lacks the capacity to enforce decisions taken by its membership. We have therefore proposed that the ATM labelling should be brought into the Banking Code, and that the Independent ATM Deployers (IADs) become signatories of that self-regulation.

Response to the LINK Proposals

While this proposal is well intended and constitutes some progress, it falls well short of what we think is necessary. Each element of the LINK core proposal shall be analysed in turn.

— Have an *initial* on-screen message that shows the amount of the likely charge.

This is positive and better than is currently in place, but not sufficient unless accompanied by physical signage described above. Although we have been encouraged by some members already doing this, we think it falls short because the amount of surcharge should be clearly labelled on the machine itself *and* visible from a distance. On-screen messages usually can't be seen by consumers until they come close to it. This is useless for consumers in a queue, for example. Nevertheless this is useful as a measure *complementary* to the physical signage outlined above.

— Have external signage on the cash machine itself that indicates that the machine will charge.

This is not a large progress from the rules LINK agreed to in 2003, and it falls far short of what we called for. There appears to be no content on:

- the display of the surcharge itself;
- the wording and legibility (font, appearance, colour contrast, etc) of the message which should be standardised;
- how and where on the machine the sign would be mounted;
- measures to protect against site owners obstructing the message; and
- displaying on non-charging cash machines (important for competition reasons).

Any signs that advertise the presence of the machine or indicate its location will also indicate that the machine will charge.

This can be a very useful provision for those "*LINK cash machine inside*" shop-front signs. We welcome the initiative LINK has taken in this regard, but would advise that such a shop-front sign would be even more useful if it indicated the amount of surcharge.

While some of these proposals are helpful, we are concerned that they do not come near the steps needed to address the disclosure and transparency issues you identified in the hearings on cash machine charges. We urge both LINK and its members to re-consider this matter, and consider implementing some of the proposals we recommended and are outlined above. Thank you again for inviting our views on this issue and please do not hesitate to contact us should you have any further questions.

4 March 2005

Letter from the Office of Fair Trading to the Chairman of the Committee

CASH MACHINE CHARGES

Thank you for your letter of 7 March to Sir John Vickers on the subject of the transparency of cash machine charges. I am replying for John as he is away. Your letter seeks our views on whether the OFT would be supportive of a voluntary agreement requiring charging cash machines to display a sign giving the amount that the machine charges. As well as considering the competition issue, we have summarised our position on transparency.

You raise the question of whether competition between charging cash machines would be harmed or enhanced by signs which bear the price of transactions. This is not an issue that we have yet considered in detail so a definitive answer is not possible. As you know, there is already price information provided on-screen before a transaction is made.

The type of issue that we would need to consider in order to provide a better reasoned answer to the competition element of your question might include:

- evidence on the nature of competition between operators of charging machines. For example, do they compete directly in close proximity in certain locations? Or does the main competition between them take place in persuading site-owners to allow them to place a machine on their premises?

- — evidence on consumer willingness to search for cheaper cash machines, even if transparency of charging were greater. For example, how far are consumers willing to travel to find the cheapest cash machine? How much of a constraint on the price charged at any particular charging machine is the price charged at other charging machines (as opposed to the proximity of a free machine)?
- — evidence on the costs related to the proposed changes. For example, does it support the cited operator's claim that the changes would prohibitively raise the cost of changing the price charged at the machines?

We would also need to consider whether the increased visibility of prices might potentially result in uniformly higher prices. This could occur if all cash machine operators had an increased incentive not to change prices because of the combined effect of a) the cost of replacing/updating the signs, and b) it being easier to monitor the prices of their competitors.

The basis behind the consumer protection legislation which covers prices has always been that consumers should have price information before they decide whether to enter into a contract. Even if a card has to be inserted into the cash machine before the advice on charges is given we regard the price information as transparent and timely, as long as the transaction can be aborted before a charge is incurred.

As you know, the OFT chairs the Payment Systems Task Force, which seeks to identify, consider and resolve competition, efficiency and incentive issues relating to payment systems. Many of the themes which will be covered in the Task Force were raised by the Cruickshank report of 2000. The Task Force currently plans to look at the access and governance arrangements of the Link scheme later this year.

You also ask whether we would be able to provide any information on the situation in other countries regarding their transparency requirements, and any policy debate on ATM interchange fees and surcharges. We hope to be able to provide you with an overview of payment related pricing models for personal customers, which include cash machines, within the next week. However, this information will not be specifically on transparency requirements and the policy debate over charges.

11 March 2005

List of Reports from the Treasury Committee since 2001

Session 2004–05

		Report	*Govt Response**
First Report	The 2004 Pre-Budget Report	HC 138	*Awaited*
Second Report	Credit card charges and marketing	HC 274	*Awaited*
Third Report	Work of the Treasury Committee in 2004	HC 335	—
Fourth Report	Excise Duty Fraud	HC 126	*Awaited*
Fifth Report	Cash machine Charges	HC 191	*Awaited*

Session 2003–04

First Report	The Transparency of Credit Card Charges	HC 125	*HC 431, HC 761*
Second Report	Child Trust Funds	HC 86	*HC 387*
Third Report	The 2003 Pre-Budget Report	HC 136	*HC 478*
Fourth Report	Annual Report for 2003	HC 386	—
Fifth Report	Restoring confidence in long-term savings: Endowment mortgages	HC 394	*HC 655*
Sixth Report	The 2004 Budget	HC 479	*HC 654*
Seventh Report	The Administrative Costs of Tax Compliance	HC 269	*HC 1054*
Eighth Report	Restoring confidence in long-term savings	HC 71	*HC 1119*
Ninth Report	Merger of Customs & Excise and the Inland Revenue	HC 556	*HC Debates 8 Dec 2004 cols 1169–1181*

Session 2002–03

First Report	National Statistics: The Classification of Network Rail	HC 154	*HC 550*
Second Report	The 2002 Pre-Budget Report	HC 159	*HC 528*
Third Report	Split Capital Investment Trusts	HC 418	*HC 651*
Fourth Report	The Handling of the Joint Inland Revenue/ Customs and Excise PFI Project	HC 184	*HC 706*
Fifth Report	Annual Report for 2002	HC 491	—
Sixth Report	The UK and the Euro	HC 187	*HC 1004*
Seventh Report	The 2003 Budget	HC 652	*HC 1028*

Eighth Report	Appointment to the Monetary Policy Committee of the Bank of England of Mr Richard Lambert	HC 811	—
Ninth Report	Appointment of Ms Rachel Lomax as a Deputy Governor of the Bank of England and member of the Monetary Policy Committee	HC 1011	—
Tenth Report	Inland Revenue Matters	HC 834	*HC 1181*

Session 2001–02

First Report	The 2001 Census in England and Wales	HC 310	*HC 852*
Second Report	Budget 2002	HC 780	*HC 1075*
Third Report	The Office of Government Commerce	HC 851	*HC 1217*
Fourth Report	Appointment to the Monetary Policy Committee of the Bank of England of Mr Paul Tucker and Ms Marian Bell	HC 880	—
Fifth Report	Banking, the Consumer and Small Businesses	HC 818	*HC 1218*
Sixth Report	The Financial Regulation of Public Limited Companies	HC 758	*HC 1219*
Seventh Report	Parliamentary Accountability of Departments	HC 340	*HC (2002–03) 149*
Eighth Report	Inland Revenue: Self Assessment Systems	HC 681	*HC 1220*
Ninth Report	Appointment of Sir Andrew Large as a Deputy Governor of the Bank of England and member of the Monetary Policy Committee	HC 1189	—

* Government Responses are usually received in the same session as the Report was published. Accordingly, the HC number refers to that session unless otherwise indicated.

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