VIEWPOINT
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Government Should Withdraw from Attempts to Ban ATM Fees

by Jefferson G. Edgens

Summary

Many public officials are considering a ban on unpopular transaction fees charged to consumers who use automatic teller machines (ATMs). But such a move could ultimately lead to fewer ATMs, depriving consumers of the valued convenience of accessing their bank accounts virtually anywhere.

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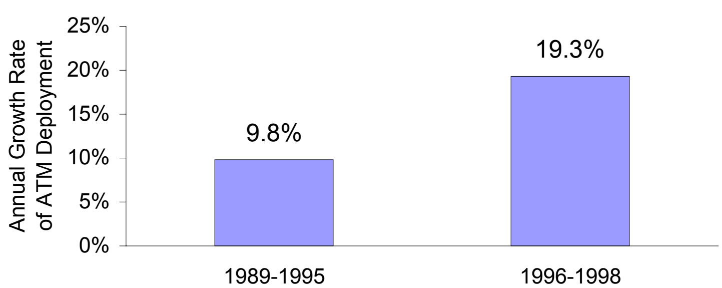
Consumers who use automatic teller machines (ATMs) at banks where they do not have personal accounts are increasingly familiar with this language: *A fee of $1.50 will be charged for the use of this ATM. You may also be assessed a fee by your own institution. Do you wish to continue this transaction?* Many state and local officials want to ban ATM fees, but such a move could actually deprive consumers of a valuable, convenient, and increasingly accessible service.

In 1991, according to the American Bankers Association, the nation had 83,000 ATMs. Within eight years the number skyrocketed to nearly 250,000. Most of that increase has occurred since 1996, when rules changed to allow banks to charge ATM fees. The machines are now just about everywhere—at airports, theatres, shopping malls, and even “mom and pop” grocery stores. The ability to retrieve money or make a deposit day or night, rain or shine, and in so many places, is a luxury many now take for granted as if it should be free.

But ATMs are expensive conveniences. The banking industry spent about $4 billion to install new ATMs between 1994 and 1999, according to William M. Isaac, former chairman of the Federal Deposit Insurance Corporation. The price of a machine ranges from $15,000 to $50,000 and annual maintenance—including replenishing cash, servicing the machine, and providing security—adds anywhere from $1,000 to $2,500 per month. A McKinsey & Co. study estimates that the machines cost banks more than seven times as much as they save. A Federal Reserve study puts the average annual loss to banks at $10,400 per ATM—or more than $1 billion every year.

Fees Fuel Convenience of More ATMs



ATM Fees were allowed in April 1996. There are now over 250,000 ATMs in the country.

Source: Robert Litan, "ATM Fees: An Economic Analysis," American Bankers Association, November 1999

Banks began installing ATMs to better serve their customers and because they thought the machines would save money by replacing tellers. They were right on the first point, but wrong on the second. The number of tellers has only slightly declined since 1983. A Cato Institute study found that “instead of substituting

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for and replacing tellers, ATMs have become a complementary service offered by banks."

Banks also created networks such as PLUS and HONOR to allow customers to use their ATM cards anywhere in the world. Now ATM users can go to any bank, whether they are customers or not, and access their money. Since banks did not want to subsidize non-customer transactions, they began to charge fees for the privilege.

Capping or banning ATM fees would stifle the willingness of banks to extend their services.

But ATM users have a choice whether or not to continue a transaction at an ATM that charges fees. If customers decide the fee isn't worth the convenience, they will take alternate measures to get their business done. For example, bank customers can use debit cards at point-of-sale transactions almost always without fees. Or customers can switch accounts to a bank or thrift institution that doesn't charge ATM fees. Some banks even offer limited ATM fee rebates when a customer uses a competitor's machine. One web site, **FreeATMs.com**, lists non-fee alliances, a growing trend with nearly 8,000 machines in the country. Two such alliances in Michigan have 1,200 machines across the state.

Many ATMs are not owned by financial institutions, but by individual entrepreneurs who have invested their savings in buying, placing, and operating the machines in relatively inaccessible or risky places. User fees are the only source of return on their investment. Accordingly, rural Michigan has many ATMs in small convenience stores and out-of-the-way places. Newer ATMs even dispense stamps, concert and airplane tickets, and pre-paid phone cards. Without fees, ATM service and convenience would take years to reach tiny hamlets in the region.

Capping or banning ATM fees would stifle the willingness of banks and others to extend their services. In the face of such interference, they will find other states or regions that allow ATM fees, or remove their machines from existing locations if they cannot shoulder the cost of maintaining them. Last year, the California cities of San Francisco and Santa Monica banned ATM fees. In response, two major banks began prohibiting non-customers from using their machines.

Just because some people expect someone else to provide them a service for free doesn't mean government should use its coercive powers to get it for them. Respect for both property rights and sensible public policy suggest that regulating ATM fees is neither a necessary nor proper function of government.

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