The number of ATMs has grown phenomenally over the last few years, mostly in off-premise machines. Off-premise growth was already rising sharply in 1996, but it received a further boost that year when threatened antitrust actions caused Cirrus and Plus, the two largest networks, to drop their bans on surcharges. (ATM surcharges are fees paid by users who are not customers of the bank that owns the machine.)

ATM sales rose on owners’ expectations of profits from their new machines. Surcharges, however, proved far less enthralling to consumers than to ATM owners, and the number of transactions leveled off abruptly. As a consequence, the number of transactions per machine has plummeted to about half of what it was when the practice of surcharging began. Now machines can be found in many more locations, improving customers’ convenience, but the smaller number of transactions makes some of the machines difficult to operate profitably.

The structure of ATM fees received considerable attention recently when both San Francisco and Santa Monica voted to ban surcharges within their communities. These bans are on hold until court challenges are resolved. Iowa is now the only state that prohibits banks from imposing surcharges; Connecticut’s three-year-old ban was recently overturned by the state’s Supreme Court.

ATMs generate revenue for their owners from 1) the interchange fee paid by the network operator each time a customer uses the machine for a transaction, and 2) the surcharge on users who are not customers of the owner bank. Unfortunately for owners, consumers are such a wily bunch that only one of every seven transactions generates a surcharge.

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surcharge. Consumers use many strategies to avoid or minimize surcharges: They seek out ATMs that don’t impose these fees. They make purchases with credit cards rather than cash. They get cash back from merchants who accept ATM cards. When consumers absolutely must get cash from a surcharging machine, they withdraw more than they currently need, in order to cut down on ATM trips.

The banks imposing surcharges increased from less than 40% of all banks in 1997 to over 60% in 1998. Large banks are more likely to surcharge than are small ones—in fact, their critics claim that large banks impose these fees to induce noncustomers to transfer their accounts. In 1997–98, however, surcharging increased sharply among banks in all size categories, and the fee amount also changed significantly. In 1997, most banks did not surcharge; for those that did, the most common fee was $1, followed by $1.50. By 1998, most banks did surcharge, and the most common fee was $1.50, followed by $1.

An ATM’s operating cost depends on the services provided. A machine with depository capability costs twice as much as a simple cash dispenser because of its higher initial cost—as reflected by depreciation expenses—and more costly maintenance. Barring legal prohibitions, surcharge fees will persist, but their structure will be shaped by the interaction of customers’ willingness to pay and competition among ATM owners and other payment instruments.

Omnipresent as ATMs are in the U.S., penetration is higher in some other countries. About one-third of all ATMs are located in North America, and slightly less than that in Europe. The U.S. has more ATMs than any other country but it trails Japan, South Korea, and Spain in the number per capita.