

It is a tribute to competition and lack of regulation that
Canada has far more ATMs than most countries

ATM fee facts

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There are lies, damn lies, and then there are statistics. On Feb. 27, *The Globe and Mail* ran an editorial calling for the regulation of automatic teller machine (ATM) fees in Canada. It lamented the fact that these fees can consume nearly 25% of a hypothetical \$20 withdrawal from an ATM. To reach this shocking conclusion, it chose the highest fee in the range of possible fees (from \$1.50 to \$4.65) and the lowest withdrawal in the range of possible withdrawals (from \$20 to \$400).

But according to the Canadian Payments Association, in 2005 there were 292 million shared cash ATM transactions with a total value of \$29-billion for an average of just under \$100 (\$99.45). Assuming that the average fee from a foreign ATM is closer to the midpoint of the range of possible fees (\$3), the average foreign ATM fee expressed as a percentage of the average withdrawal is closer to 3%. Moreover, the fee charged by one's own bank is 0% of the withdrawal. Thus, the average ATM fee across one's own ATM and a foreign ATM is somewhere between 0% and 3% of the average \$100 withdrawal, not the 25% that *The Globe and Mail* so loudly trumpets.

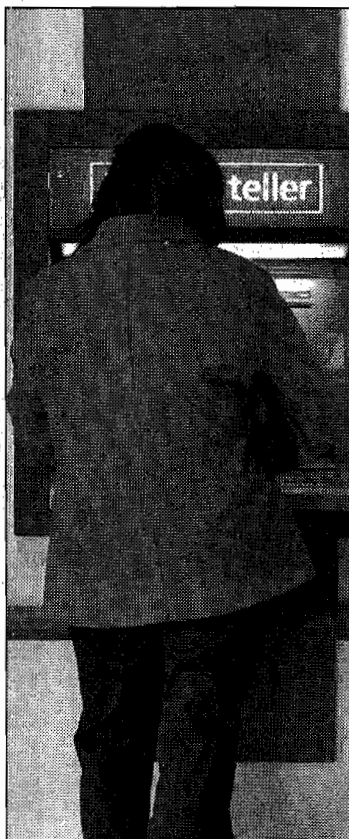
Setting aside the exact magnitude of the foreign ATM fee, the issue for Canadians is whether competition among banks can be counted on to produce the efficient ATM charge. Or is regulation of ATM fees, as *The Globe and Mail* suggests, a better solution?

At the dawn of the cashless economy, regulating ATM charges would be akin to regulating pay-telephone rates at the dawn of the wireless era or regulating rickshaw rates after the streets were flooded with taxis.

On Feb. 17, the *Economist* magazine ran a cover story entitled "The End of the Cash Era," with a glossy cover of several dinosaurs near extinction. Ten years from now, we will look back fondly at ATMs in much the same way we stare quizzically at pay phones on street corners or Internet kiosks in second-rate airports.

Had the suppliers of Internet kiosks been forced to make their Internet service available to airport patrons for free, the incentives for entrepreneurs to deploy them or to design WiFi and the BlackBerry would have been dampened.

Despite the fact that ATMs, like the dinosaurs pictured on the *Economist's* cover, are on the verge of extinction, the positive fees they impose on users send important signals to entrepreneurs who are toiling away in their basements designing more efficient (electronic) payment sys-



REUTERS

ATMs are soon to become technological dinosaurs.

tems. The types of transactions that required cash just a few years ago — a coffee at Starbucks, a lunch at the sandwich shop downstairs, and a cab ride to the airport — are now being consummated by debit or credit cards.

Given the fact that a quarter won't even buy a newspaper in 2007, coins (which result from cash transactions that aren't perfectly divisible by \$1) have become a form of trash to be avoided at all costs.

Withdrawing cash from a

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bank's ATM imposes costs on a bank, and withdrawing that cash from another bank's ATM imposes even greater costs.

Consumers can choose whether to pay for this latter service or simply walk an extra block to reach their own bank's ATM, at which point the fee disappears. (Exercising this choice might even redound to an improvement in their health!)

We understand that Canada is literally blanketed with ATMs, with far more per capita than all but a few developed countries. This is a tribute to the effects of competition and the lack of regulation of ATM fees thus far.

Stated differently, had ATM

fees been regulated below the market rates, Canadian banks would have deployed fewer ATMs. Even if access to one's own ATM is difficult, consumers can increase the size of their withdrawal so as to reduce the cost per dollar of withdrawals.

Alternatively, they can choose a bank with ATMs that are close to their residences or places of employment.

If a traveller is silly enough to make a series of \$20 withdrawals on vacation, then he will need much more than regulation of ATM fees to protect him from being cheated elsewhere. But even if ATM fees were regulated, consumers would not gain anything.

The low or even zero ATM fees would induce more frequent withdrawals (at smaller increments), thus raising the banks' costs of operating the ATMs. The banks would have to raise other, non-regulated bank fees, such as regular monthly account fees, to cover these costs.

The ATM fee is simply the second part of what economists call a "two-part tariff" — if the second part is regulated below market rates, the first part (regular account fees) must rise to maintain revenues.

These account fees will only be waived for relatively wealthy people with large balances, who presumably do not represent the constituency being targeted by *The Globe and Mail*, or, more recently, by Canada's Finance Minister.

The Globe and Mail cites a study by the British Bankers' Association (BBA) to suggest that "Canada's banks and credit unions are out of step with institutions in many other developed nations." A close inspection of that report demonstrates that, among the 10 countries surveyed by the BBA, Canada's foreign ATM fees for customers "outside their own currency area" ranked the third lowest, above only Italy and the Netherlands.

Australia, Ireland, Germany, the United States, France, Sweden, and the United Kingdom all had higher ATM fees "outside of own currency area." Canada's foreign ATM fees for customers "inside their own currency area" were lower than those in the United States, Germany, and Italy, but were higher than those in Australia, Ireland, France, and Sweden.

This is hardly evidence that Canada's ATM fees are "out of step with institutions in many other developed nations." But then again, these are just statistics.

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