

Cash Machine Charges

Submission for the Treasury Select Committee

From the National Federation of SubPostmasters

1 National Federation of SubPostmasters

The National Federation of SubPostmasters (NFSP) represents the interests of 16,000 subpostmasters throughout the United Kingdom. Sub post offices make up 96% 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.

Twenty four 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 our 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 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 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 (then 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 a 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 deprived 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.

Universal Banking Services arose out of negotiations between the Government, Post Office Ltd and the high street banks. It was 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.

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 reluctance of these major banks to work with Post Office Ltd could jeopardise 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 transactions 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.

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 makes 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 withdrawal 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 access 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 withdrawing cash locally from the Post Office. However, very large numbers of the population are unable to do so, either because they do not have 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 Work 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 Community 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*