



**ESKOM SUBMISSION RELATING TO BANK
CHARGES**

TO

**THE BANKING ENQUIRY
of the Competition Commission
October 2006**

1. INTRODUCTION

This document contains Eskom's submission to the Banking Enquiry of the Competition Commission relating to bank charges

2. BACKGROUND

2.1 Operations

Eskom's customer base consists of 3 million pre-payment customers and about 500 000 billed customers. Turnover in the year to March 2006 was approximately R36 billion, nearly all of which is receipted by Eskom from customers and subject to receipt bank charges. A nearly equal amount is paid out in a normal year for operational expenses, dividends, tax and normal capital expenditure. In the next few years Eskom will spend approximately R97 billion on special capital expenditure to enhance electricity infrastructure in South Africa.

Billed customers pay their electricity bills through agents such as EasyPay and the SA Post Office as well as directly into one of our 19 direct deposit bank accounts, using the full range of payment methods available to the banking industry. Pre-payment customers purchase electricity through agents and vendors who deposit their receipts on a daily basis into one of our other 21 bank accounts specially established for pre-payment deposits.

The majority of Eskom's payments to suppliers for materials, services and general business operational payments and employees for salaries and benefits are made by electronic transfer.

2.2 Banking relationships

Eskom is a customer of major banking institutions including ABSA, First National Bank and Standard Bank, and we believe we have a very good relationship with the banking community in general. Interaction on charges and fee structures takes place annually with each bank individually whereby both parties have the opportunity to negotiate and deliberate transactional and services charges for the following year.

2.3 Organisation

Eskom consist of several divisions and subsidiaries and most of them interact independently with the banking industry. However, Eskom Treasury Division provides overall control, compliance and, where possible, standardization for our interaction and transactions with the banking sector.

3. SUMMARY SUBMISSION

Eskom proposes the following findings to the Competition Commission:

1. South African society and the banking industry contain certain rigidities which prevent free choice of banking services based on economics - including choices available to the traditionally non-banked population and international charging rules by credit card companies.
2. The costs of banking services do not in all cases appear to bear relation to the charges levied by the industry.

3. The result of the industry structure and charging structures is that costs of electricity may be higher than would otherwise be the case.

4. KEY AREA OF CONCERN

The focus of our concern with the bank charges is on receiving payments from customers and agents since approximately 75% of Eskom's bank charges are incurred on receipts.

Eskom has been participating in an annual international benchmarking exercise since 2002 of which there are currently 27 participants – 25 from the USA, 1 from Canada and Eskom South Africa. Throughout the years the exercise indicated that utility account payment charges (of which bank charges and service provider commissions are included) have consistently been three to four times higher in South Africa compared to the USA.

Eskom is unable to maximize the benefits of competition in the banking industry since, for the comfort of our customers, agents and vendors, we are forced to use more than one banking institution for receipting (ABSA and First National Bank).

Eskom believes that the level and the way primary bank charges are being levied needs some attention. This could lead to a reduction in charges and hence a lower overall cost of electricity to enhance South Africa's economy and the quality of life of its citizens.

5. CHARGES FOR RECEIPT METHODS

5.1 Receipt method policy

Eskom believes there are public policy reasons to enhance the drive for a cashless society. Certain of the following transacting methods which eliminate the use of cash and cheques should be promoted extensively to reduce the number of cash transactions and risk to the public.

5.2 Credit card fees

Customers paying their Eskom electricity accounts using a credit card can only do so through the established EasyPay channels such as Pick 'n Pay, Shoprite Checkers, etc. Further, customers phoning in to our call centers may also make credit card payments through the EasyPay network.

A bank charge of 1.75% to 2.5% of the transaction value is levied on each transaction without any maximum, and higher payments, notably from corporate customers, will attract a very high transaction fee. While a portion of this fee will pay the interest between the date of Eskom's receipt and the credit card customer's normal payment date, there is a portion of the transaction charge which should be fixed.

A more realistic charge principle, incorporating a portion of a fixed charge per transaction should be considered. However, the banking institutions claim that they are not allowed to change these principles due to the rules of international partners: i.e. Visa and Master Card rules. Eskom as a customer is unable to avoid this rigidity in the credit card industry.

Customer choice of payment method would be enhanced by a transparent credit card charge paid by the end-customer rather than Eskom. Our claim is for the banks to treat payments by credit cards differently especially for regulated businesses such as municipalities and Eskom.

5.3 Debit card fees

The debit card is used in exactly the same manner as the credit card. Eskom also pays a fee to the bank and it averages at 0.63 % of the transaction value. Normally the payer (the customer) also pays a fee to the bank for the card and for the transaction. In the case of debit cards there is no cost of credit. The cost of transferring the funds relates to the activity and does not relate to the value of the transaction. Eskom believes a fixed fee or no fee at all for the merchant would appropriately match the banking industry's costs and income.

5.4 Debit order fee (Cost to the customer)

This method of payment by a customer where an electronic automated process collects the payments from the payers bank account should be promoted since it can be beneficial for both the receiver (Eskom) and the customer. Once again both the payer and the receiver of funds are levied with a charge.

The fee for the customer though is one of a sliding scale with the higher the transaction value the higher the fee. It however reaches a maximum where it then stays constant notwithstanding the payment value. In comparison with a cheque payment this method is less risky, no verification process is required and should be less costly for the bank in general. Eskom believes that charges to customers for using this method should not be on the same scale as cheque payments.

We believe there should be no sliding scale for these types of transactions and customers should pay a low fixed transaction fee irrespective of the size of the transaction value. The risk to the bank is the same irrespective of the value of the transaction. A fair and affordable transactional fee to a customer will persuade them to make more use of this method. Banking accounts should benefit traditionally non-banked people with an easy and affordable payment method.

5.5 Deposit identification fee

The identification of a customer on the bank statement for each receipt is one of the most important roles the bank can play. Not knowing which customer made a payment to an account will result in unallocated transactions - a customer's electricity supply could be disconnected or legal steps taken against them. Eskom and customers should be willing to pay the reasonable cost of this service.

The deposit identifier is programmed with an algorithm in the bank's system to verify or validate the correctness of the customer account number electronically. This is an once-off set-up process for customers using the internet and automated teller machines (ATM's) for payments. This set-up takes place at either the bank branch or on the internet. Nothing extra is needed once in operation.

A per transaction fee of between R 3.08 to R 4.17 is levied (every month) although nothing has changed since the previous payment. The number of such payments in Eskom is in the order of 160 000 per month.

We believe the deposit identification fee does not bear relation to the cost to the bank, and technological advancements in this regard are not utilized to the advantage of the customer nor Eskom. Where customers make payments over the counter and manual processing is done, this verification process also takes place. In these instances there is a case for the bank to argue that the manual work could be compensated with a fair fee.

5.6 Cash handling/ deposit fees

The cash deposit fee for Eskom is between 0.40 % and 0.48 % and for some of the other regulated businesses between 0.21 % and 0.75 % depending on volumes. Since institutions such as municipalities and Eskom are providing services to a great number of customers that are non-banking customers, cash payments are their only means to pay. It came to our attention that banks provide this service to certain municipalities at a much lower fee than to Eskom or to other regulated businesses. There is an absence of transparency and clarity when this fee is being negotiated. It seems that depending on the reason, this fee can be reduced to be subsidized by another.

We are aware of the risks in collecting, delivering and transporting cash and high insurance premiums might necessitate the jump in these fees. Banking institutions though can still go a far way to assist the non-banking community to utilize the banks for their essential services payments.

6. OTHER ISSUES

6.1 Transparency in Service charges through monthly invoices

As we all are aware banks do not provide a monthly invoice to their customers for them to scrutinize, agree on and then to initiate and make payment to the specific banking institution. They deduct some of their fees as and when they are incurred and the balance is just merely deducted from the bank account at month end.

Eskom believes more transparency is required in invoicing and obtaining authorisation to collect charges.

6.2 Service

As an example from time to time Eskom has not been charged the agreed rates, adjustments to incorrect charges from previous months have not been executed, or charges are levied for a service not rendered. The volumes of transactions on the many bank statements make it close to impossible to verify the correctness of these charges on a monthly basis, hence the requirement for broken down summaries/ invoices.

Eskom believes the service levels on charges are not always up to standard and due to industry rigidity the flexibility to change from one bank to another is evident.

7. CONCLUSION

We believe that if the level and the composition of banking fees can be streamlined customers will be able to pay their electricity bills using the lower cost and more convenient payment methods such as debit order, credit/debit cards and the internet.

Regulated businesses such as Eskom and the municipalities have to deal with continuous cost cuts and budget limits but in certain instances banking industry practices constrain our ability to negotiate structural pricing changes. It is important that the payment charges and structures for the payment of essential services in the country be structured in such a manner that the ordinary South Africans can easily and affordably pay for it. Eskom believes that fair, transparent and cost reflective bank charges can make a major contribution to the overall economic and social objectives of the nation.

8. FURTHER INFORMATION

Eskom can substantiate information provided in this submission and documents or statements can be supplied as reference if required. If you have comments or questions on this submission, please contact:

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