

27 October 2006

Chairperson: Banking Enquiry
Competition Commission
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Dear Sir

SUBMISSION RE NATIONAL PAYMENT SYSTEM

We would like to request the opportunity to make a presentation to the Panel in relation to the enquiry in respect of the National Payment System. In the remainder of this letter we provided an outline of the areas which we intend to cover in the presentation.

(A) Payment system practices and they impact upon low income consumers

The transaction fees that are levied by payment service providers make a substantial contribution to the cost of banking services. The impact is particularly severe for small transactions and for low income earners. We would like to present statistics that had been collected by the Micro Finance Regulatory Council in this regard (which had also been considered by the Task Group which was responsible for the enquiry into Competition in South African Banking). Updated statistics will be included in the presentation. These statistics indicate the cost of maintaining savings accounts, which in turn undermine savings and increases borrowing. The statistics also indicate the direct increase in the cost of borrowing, due to payment processing fees.

We further wish to indicate the impact of access to payment processing facilities on collection practices in the micro-lending industry and on the competitive environment within the micro-lending sector.

(B) Concerns with practices in the payment system, in relation to certain sections of the National Credit Act and the mandate of the National Credit Regulator

In the course of the Credit Law Review, which motivated the National Credit Act, it was stated that "*the National Payment System have a critical impact upon the efficiency of the credit market, competition between credit providers, the cost of finance and access to finance*". Consequently, the National Credit Act contains a number of clauses that are designed to curtail the perceived negative impact of anti-competitive practices in relation to payment processing practices, as well as a consequential amendment to the National Payment Systems Act, designed to address the practice of preferential payment processing.

We would like to present this evidence and the manner that it is dealt with in the National Credit Act and in the NPS Act (as result of a consequential amendment

to the NPS Act). We trust that this would be of value to the Panel in identifying measures that have been introduced through these Acts, which are already addressing certain weaknesses relating to the provision of payment services.

(C) References from review of international literature

The Credit Law Review and the Task Group into Competition in SA Banking both relied heavily on international literature in coming to their respective conclusions and recommendations. In certain areas it was found necessary to design measures to accommodate particular characteristics of the South African financial system and the profile of South African consumers. We would like to address the Panel on certain aspects from the international literature on the regulation of payment systems, and on our understanding of the regulatory approaches in other countries. We believe that it may be of value to the Panel in coming to a conclusion.


Conclusion

In regulating the Payment System it is critical to take cognisance of two critical factors. The one relates to the huge volumes flowing through the system, the technological complexity of the system and the considerable cost to the country if the Payment System were to become unstable or unreliable. There is thus a great danger in inappropriate regulatory intervention. On the other hand, the system has a huge impact upon consumers as a result of the fees that are being charged for payment processing, as result of the impact upon competition, for the potential that it may decrease access to finance and the possibility that it may increase the cost of finance. Furthermore, in the Credit Law Review certain undesirable practices in payment processing were found to have contributed directly to reckless lending and over-indebtedness.

We believe that it is also important to take cognisance of the critical role that the National Payment System can play in increasing access to finance in South Africa. It provides a platform though which rural and low density populations can be reached at a relatively low cost. We would like to expand upon this aspect, and to draw attention to the factors that may undermine the role that the NPS can play in this regard. Such factors would thus reduce the access to finance and increase the cost of finance, despite the infrastructure that is available in South Africa.

Through our presentation to the Panel we hope to contribute to the understanding of these trade-offs, to contribute to a better understanding of the legislative measures that have already been introduced, and finally to shed light on the cost to society and low income consumers of undesirable practices with respect to payment processing.

Yours sincerely


Gabriel Davel
Chief Executive Officer