

Representations of the Ombudsman for Banking Services to the Competition Commission on the level and structure of charges made by banks

1 November 2006

Introduction

The Ombudsman for Banking Services (OBS) is an ombud scheme regulated by statute and recognised in terms of section 11(7) of the Financial Services Ombud Schemes Act 37 of 2004. It is structured independently of the banking industry as a section 21 company.

Its primary function is to provide individual and small business bank customers with a fair, quick and effective dispute resolution process, free of charge. It provides an informal, easily accessible alternative to other remedies, such as court proceedings.

The OBS previously submitted comments on the Competition Commission Report: The National Payment System and Competition in the Banking Sector on 25 October 2006. Those comments are incorporated into this submission as Attachment 1.

This submission will focus on the following aspects of the Competition Commission's *Terms of Reference*:

- 1) Areas of concern by bank customers regarding charges by banks;
- 2) Increasing transparency and competition in relevant markets; and
- 3) Recommending improvements in conditions effecting competition.

1) Areas of concern by bank customers

Further to our previous submission, the final result of the marketing promotion undertaken by the OBS countrywide revealed that 21 343 of the 42 073 people asked how the banks should improve themselves made mention of bank charges. This amounts to 50.73% of the sample.

At the request of representatives of the Competition Commission, we have compiled a summary of the types of complaints received regarding fees and charges (Attachment 2) and provided three examples of actual complaints in which the parties concerned have consented to the information being shared (Attachments 3.1 - 3.3). A complaint in which no contact details were furnished is also provided (Attachment 4), with the personal details of the complainant obscured.

Summaries of the outcomes of matters dealt with by the office are provided as Attachment 5.

It will be noted that so-called penalty fees are cause for complaint. This office is presently looking into this situation and will, at the completion of the process, be issuing a bulletin of the sort it has produced on other topics.

2) Increasing transparency and competition

Complaints arising from a lack of transparency in fees and charges are often incidental to other complaints. Such complaints normally relate to or arise from a lack of knowledge or understanding of bank charges regarding particular products and transactions or the difficulty in establishing cost structures.

A copy of a typical complaint received about the difficulty in comparing banking fees is provided as Attachment 6. In fairness, it must be recorded that the bank mentioned in that complaint gave an assurance that it would rectify the situation.

As a service to the public, an attempt has been made by the OBS to collate information regarding how to reduce one's bank charges. This information has been made available on our website, which receives over one million hits per year. A printout of the web page is provided as Attachment 7.

3) Recommending improvements

Mention was made in Attachment 1 of the perception of bank customers wishing to switch banks that they were trapped. We believe this is caused, in part, by the perceived difficulties in switching banks.

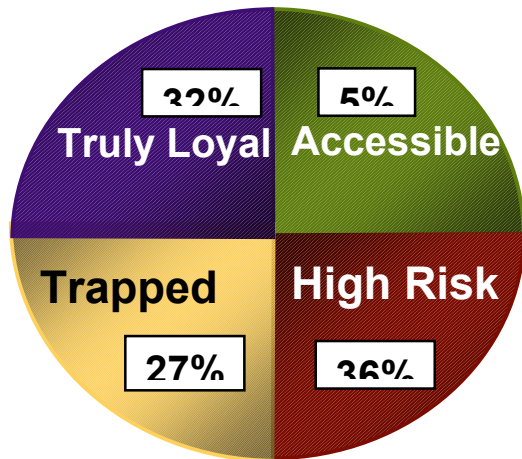


Figure 1 Markinor Survey 2004: Levels of Commitment

The attention of the Commission is drawn to the solution implemented in the United Kingdom, which was to require the banks to complete switches in a specified number of days. Extracts from the UK report are included in Attachment 8.

We have been informed by representatives of the banking industry that similar provisions already exist in South Africa but we have not been able to verify this.

In any event, the existence of an undertaking to complete switches within a specific time should be made known to the public.

Conclusion

A sizeable percentage, if not the majority, of bank customers are concerned about the level and application of bank fees and charges.

Complaints about the actual levels of fees and charges are outside the mandate of the OBS although it does act as a conduit to the banks for these concerns.

The OBS is able to and does assist bank customers who complain about the application of specific fees and charges.

Market forces could provide very real downward pressure on fees and charges. The propensity of bank customers to take advantage of competitive

offers is inhibited by the lack of disclosure in easily understood manner by the banks of all the applicable costs associated with their offerings.

In addition, customers fear the negative consequences of switching their accounts from one bank to another, again inhibiting competition.

It would go some way in alleviating the situation were the Commission to formulate appropriate provisions relating to these two problem areas and recommend that they be incorporated into the *Code of Banking Practice*.