BANKING ENQUIRY

MR FRANK: There is a slight delay, in that we are going to make it all famous. The television people have come and they have just asked for some time to set up. So I apologise for the delay. I am sure it will not be more than 5 or 10 minutes. If anyone wants to take a convenience break, now is the time. We will start in five or ten minutes then.

(Enquiry adjourns)

(Enquiry resumes)

MR JALI: Just once again as we said yesterday, just to remind everybody, just to switch off your cell phones because they interfere with the recording systems. Please, I know you are expecting important calls but if you could just switch them off just for the hour that we will be in session. Right then, Mr Frank, what is the position today?

MR FRANK: Thank you Mr Chairman, panel members. Today we are to have presentation from Jan Mahlangu from Cosatu, who is also the chair of the Financial Sector Charter Council. This will be followed by, we will have short break and then it will be followed by a presentation by Nedbank. Later in the day there will be a presentation by Mercantile Bank and then lastly for the day, there will be a presentation from another consumer group, Benchmark Foundation. I can just add Mr Chairman, panel members, that there is a slight change to the program and that is that the South African National Consumer Union is not available today, so the program for the day will end after the Benchmark Foundation's presentation. Thank you.

MR JALI: Thank you Mr Frank. Mr Mahlangu, welcome and you can then take us through your presentation.

MR MAHLANGU: Thank you Chairperson and members of the panel. I am Jan Mahlangu from Cosatu and I am representing the Financial Sector Campaign Coalition. I am presenting this submission on behalf of the FSCC and I just want to mention that the chairperson of the FSCC, Dr Blade Nzimande has asked me to apologise, as he could not be here today. He is out of the country. But he told me that he would attend of these hearings, I think towards the end of this month. Chairperson, I have presentation, which I just want to hand over.

MR JALI: Right, just for record purposes, Mr Mahlangu, your submission will be Exhibit "C". So if you refer to it, you refer to this one. You can proceed then?

MR MAHLANGU: Thanks Chairperson. We welcome this enquiry into the competition in banking. In fact we believe that it is long overdue. We see it at as crucial intervention in a broader initiative currently underway in our society, to transform this sector, so that it better serves the needs of all the people of this Republic. We also welcome the Commission's decision to conduct this enquiry in terms of Section 21 of the Competition's Act, in order to increase market transparency in the industry. I just want to be frank Chairperson, and say in post-apartheid South Africa, the industry and the banks in this case, have failed to provide access to banking products and services in an equitable, just, appropriate and affordable manner.

We hear a lot about sophisticated world-class banking system, but any industry that fails to serve the majority of the citizens, cannot boast that it is actually having a world-class industry. It is actually facing serious challenges in our view. Of course we also hear the banking boasting that their national payment system is second to none in the world, settling a payment in record time. Our banks, like any other banks internationally, they conduct their business to make profits for shareholders. Because the same purely profit driven banks also own and control the national payment system, it serves some of the people of this country very well.

They could also easily think that they are somewhere in Switzerland but while they are just next-door in Sandton. But it also serves most of the people badly or not at all and we will come back to the details of that later in this presentation. Therefore we see this enquiry as especially important to the 13 million South Africans who are so-called unbanked. The majority of our people who are excluded from the so-called first world, first class system, and they are unbanked as

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a result at least in part of the following factors. The lack of competition in our view in the banking industry, the lack of access to the national payment system, unaffordable banking services, the high bank charges and ultimately the lack of regulation by the relevant authorities.

We are hoping that this enquiry will shed light on the previously secret or hidden banking charges which has become a secret in this industry, that have resulted in failure of this industry to serve all the people of the country. Having said that, we do have some reservations that this enquiry's terms of reference, could prove too narrow to enable the panel to actually make comprehensive recommendation that we believe are required to address the broader concerns that we have around the Competition and access and exclusion. We however note the support from the National Treasury, the Reserve Bank and the DTI, that underscores the government's concern and desire to change the current state of affairs in the banking industry.

We will explain our view that strong intervention by government in these regulatory agencies, is the fundamental requirement to bringing about long overdue transformation in the banking industry. We also note the banking industry statement that it will co-operate with the enquiry. We hope that it will actually happen. We will be following the enquiry with interest to see whether the banks in particular, the four big banks, embrace the opportunity to engage in a meaningful constructive with the enquiry. South African Civil Society perspectives are particularly important to this enquiry, given the unique context in which it takes place.

We therefore appreciate the opportunity granted by the enquiry to make this contribution. I just need to quickly go through the background and the profile of the FSCC. The Financial Services Campaign Coalition was started in 2001 and the main campaign was to transform the financial services sector, so that it serves the needs of all the people of South Africa. And it arises from the South African Communist Party Red October Campaign, which was started in 2002 under the theme "make the banks serve the people". The FSCC is now a network of 50 member organisations representing civil society, labour, political parties, human rights organisations, health etc.

It is a non-profit organisation and it is also part of the community constituency in NEDLAC. As a member of NEDLAC Community Constituency the FSCC has ... initiatives that resulted in the financial sector 18 August 2002. The summit declaration that lines about 13 agreements, which committed all sectors including the banking industry, to work together in transforming the industry. All partners in the summit agreed that the financial sector acknowledges that the access to first order retail financial services is fundamental to broad based black economic empowerment and development of the economy as a whole.

The agreements recorded amongst others are as follows:

To put strategies in place to ensure that the sector is more efficient in delivery of financial services which enhance accumulation of savings and direct them to development initiatives.

To ensure the provision of first order retail financial services including sustainable and affordable banking services

Contractual saving schemes

Credit for small and micro-enterprise and poor household

Development of sustainable institutions to serve the poor communities

Now the 13 financial services sector agreements, were incorporated into the GDS agreements, which is the Growth and Development Summit of June 2003, which again were signed by all NEDLAC partners. Now, in terms of the submission overview, we submit Chairperson, that there is a need, there is an urgent need to examine the reasons for the estimated 13 million people who are remaining unbanked, who are unable to afford newly required banking services, despite commitments contained in the agreements and voluntary transformation commitments, to banking the un-banked majority, the working class and the poor of our country.

Now if you say you have a world-class system, a world-class bank in a population of 41 million people and 13 million of your people are unbanked, for us that is the challenge if actually not a crisis. Our submission includes evidence from our member organisations and from some individuals who will provide testimony of how low-income earners; people with regular income, social grant recipients and others experienced banking in South Africa today. And one of my colleagues tomorrow will be doing one of those presentations.

In the presentations that some of our member organisations from Labour and Community Groups, will make, both here and in Durban and Cape Town, will show that a typical daily challenge is faced by most South Africans in dealing with the banking industry with regards to the level and structure of charges made by banks, difficulties experienced by alternative financial institutions in accessing the national payment system, the issue that will be addressed will include the bank charges and access to banking.

Here one can illustrate the actual hidden cost of most people in both urban and rural, it is the small middle class, mostly white elite in our society that experiences the bank charges simply as a deduction from their cheque accounts, which they see on written statements and received by post. For the majority of our people bank charges are experienced in a number of ways:

There are high bank charges for maintaining and conducting simple deposit and transactions on a basic bank account.

There are added cost of operating savings account, when a current account will be more appropriate but access to that is denied.

There are hidden cost of accessing basic banking services in a country where banking infra structure remains skewed, along the apartheid special development lines, because we will argue Chairperson, that the 13 million, most of them, if not the majority actually, are black and Asian Africans and that is why we are saying, it is actually skewed along the upper gate special development lines.

And I think for that, we also want to raise one issue which we raised at NEDLAC is of how can the panel expand regions or get people who will actually bring their experiences of difficulties that they have experienced with regard to banks. We will be giving you some insight into how communities on the West Rand and Gauteng, in Alexander close to Sandton, and the Eastern Cape and KwaZulu Natal experience both banking and bank charges. In the hearings in Durban, Community Based Organisations and NGO's will discuss bank charges and access to banking by organs of civil society and banking of social grant recipients.

In Cape Town our affiliates will discuss access to the national payment system by financial co-operatives and the issue of exclusion from the system on community based organisations. In addition to paying high bank charges, South Africans who try to join with others to circumvent the limitations of the banking system are throttled by the lack of access to the national payment system. Our submission will also outline the problems experienced by two types of financial cooperatives, namely savings and credit cooperatives and burial societies. We will also discuss current initiatives to improve access to banking and to address high bank charges, such as Umzansi and the national bank account.

Finally we would like to make some recommendations for the panel to consider. In our view, banks have a responsibility to promote sustainable development in our country and have an obligation to contribute significantly to our national transformation goals, to promoting development in eradicating poverty, in an economic environment characterised by persistence of poverty and unprecedented income inequalities, high unemployment rate of up to 42% and widening wealth gap.

It remains an ... that bank charges and interest on savings for ordinary workers and the poor, are punitive, exploitative and unjust.

High profits come at a great cost to social stability and sustainable development. Within the context of workers earning a salary below sustainable and decent living conditions, below a minimum of R2 500,00 demanded by Cosatu, let alone those earning income from survivalist activities and the unemployed. The CEO's however of the banks continue to pay themselves highly, shameful high salaries that are not justified in terms of the performance of their institutions, in meeting the needs of the majority of the citizens. The figures published recently in a book by Anne Kroti and her colleague, with regard to the CEO's, who are earning, who are the top earners with salaries up to R15 million and total packages of up to R25 million in 2005.

Now if one compares the salary of a worker who is earning a salary of R22 000,00 a year the wage gap is 700 is to 1. No wonder business report journals Anne Krote to say South African CEO's including some bank CEO's are worth their weight in gold literally. I want to mention also that here at some point, that the Minister of Finance, raised an issue on this subject, and he says, "In building a Post Apartheid South Africa, we have to set ourselves, we have set ourselves two objectives. One is to get rid of racial inequalities that were imposed on our people, and to reduce the massive amounts of poverty in our country.

Only when we are making progress on both of these fronts, can we say we are defeating apartheid. In many areas of society we are not making progress on the second objective of reducing poverty and inequality as demonstrated by the high salaries of the CEO's for example of banks. Actually the situation is becoming worse, and we are told that the issues are based on international standards, but international in our view is that in those countries banks are serving all the people of their countries.

Now, with regard to trade union members and bank charges. I would like to quickly tell you of how bank charges affect ordinary members. Let us take a worker whose salary is R2 800,00 per month, in effect around Tshwane, and let us just say that worker is Jan Mahlangu, obviously he must have a bank account for him to get a salary every month, but when he goes to one of our major banks, he will be offered only a basic saving, he will not be offered an option to a current account because the banks want him only as a saver and a payer of transactions fees. They do not want him as a borrower or to give him credit or an overdraft.

Now he must pay high fees to draw cheques or to make electronic transfers, an arrangement that is both inconvenient and costly, because he was not offered an option. And nowadays many schools want their fees to be paid in cheques or electronic transfers. Now for him to do that, he must pay about R44,00. Now, if he opens an account designed for low income earners at one of the major banks, we are not sure whether it is blue or it is red or maybe it is a little bit of both, the colours can be confusing obviously, but there really is not much difference between them, not in terms of charges and ... at least.

Now, every month he is careful to make only a limited number of transactions. He makes two withdrawals at an ATM next to the factory and that charges him about just below R5,00. He acts two other transactions from a machine belonging to another bank, because he is not at the factory and where he stays there is a different bank and that is going to charge him just below R12.00. He had no choice, when he needs money, he needs money and he will have to use that bank. Now ultimately the total cost for this worker will be about R135. 00 which represent about 5% of his salary. Now surely that is very high.

Now Chair, if you look on page 10, we illustrate the cost in terms of how do we arrive at R135.00 and the 5%? Now, because sometimes he knows he will not manage next month, so on the 25th of a month, he will be one of the persons who will be very early at the ATM, so that when his salary is available, he is able to draw his money and to make sure that any debit order will basically ... sit to finish, because of the cost, of the high cost that he is paying. But he knows that he will be in arrears in terms of his accounts and he will get calls that will be harassing him about the fact that there is no money in his account.

But he is desperate and there is no alternative for him. He does not know in terms of the rules agreed by the banks, they can try three times to get money from his account, and every time a debit order is rejected due to insufficient funds, he is going to pay about R30.00. He does not know that there is no connection at all between the cost of the bank of rejecting a debit order and the penalty charged. That is pure punishment in our view, to teach him a lesson. The only lesson people are learning here is that banks they do not care about them and their problems.

Now this is not an isolated story of, you know, what people are going through who are in the cities and rural areas with regard to the charges and the fact that they are not given options. Now, in terms of our preliminary observations and recommendations, and I just want to move towards a closure, and I would like to make some preliminary observations and recommendations, Chairperson, and in order to assist the panel, in his task of making recommendations as sufficed by the enquiry in terms of reference, we propose that various stakeholders should be engaged further, including being given an opportunity to make detailed recommendations during the course of the enquiry.

We suggest that this will be appropriate once the public has an opportunity to examine and analyse the information provided to the enquiry. This will be especially relevant in relation to information, which should be provided by banks, as this will be the first time that such information will be available in the public domain. And for us, that will help us in terms of understanding how these charges are arrived at, because sometimes such transactions are actually electronic, there is no human being who is personing a computer etc., now why a person should be charged R6.00 for example or just below R5.00, it is unclear.

Now depending on the quality and the quantity of information provided by banks, we will possibly recommend that the Competition Commission should embark on a full investigation into competition in banking. Now with regard to the

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national payments system, our view presently is that the NPS should be owned an operated by the State and there are countries where that is done. Access to the system should be determined by criteria, established by relevant authorities in consultation with stakeholders. We will examine the information supplied by banks also to this enquiry, to establish whether this confirms our views or not.

Now in terms of the bank charges, we also await information banks will provide on how they calculate and impose bank charges. In particularly, we will be paying particular and specific attention to information on the links, if indeed there are any, between the course of services and the charges to consumers. Our view is that there should indeed be links regulated by law. We believe there should be a direct link between the course and the charges and that is, it is cynical to suggest otherwise in a country of our history of excluding the majority of citizens from access to banking and exploitative and unaffordable banking charges.

Banks should not be allowed to continue to use high charges as a form of punishment, especially when this punishment is inflicted on the most poor of their customers. Our view is that certain categories of accounts should carry no bank charges, they should be free. The research should be conducted under the hospices of relevant authorities to ascertain which types of accounts should offer free banking and we are making that recommendation Chair, because if we suggested that it should be dealt with in NEDLAC issues of competition and confidential information would have been raised. but is also one banking association and sometimes you have difficulty in understanding the competition.

In terms of consumer information and education, the consumer information and education should be mandatory to the industry, coupled with effective regulation, consumer education, which will determine whether banks do indeed ever serve the people, and that, to us, should be completely separated from marketing. The market conduct and regulation, in our view there is an urgent need to, for appropriate and effective market conduct to regulation, in this industry, by relevant authorities. In conclusion, we hope that this enquiry will contribute to the pool of knowledge that will assist South Africans to make decisions, that are not only in the interest of shareholders, but that are in the interest of all

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stakeholders, as our society who are committed to our national transformation of eradicating poverty. I want to thank you once more, Chairperson for this opportunity and your panel. Thank you very much.

MR JALI: Thank you. Any questions?

MR BODIBE: Thanks for your submission. I just have one question. What principles should we take into account to identify that category of accounts that should be provided free of charge?

MR MAHLANGU: Sorry, panel member, can you raise your question again?

MR BODIBE: Where you are making a proposal that certain categories of accounts should carry no bank charges and you are referring that to the investigation, but what I want to understand is then how should we go about and what should be the principles that inform the kind of accounts to be provided free of charge?

MR MAHLANGU: The kind of accounts in our view that should be free, for an example if you withdraw money, you pay a certain amount and you just want to check whether or not there is money in your account when you receive your salary, etc, you are paid, I mean you pay. But obviously one of the fundamental one is that it cannot be correct in our view that when the bank or for the purposes of the banks deducting money for your other accounts, if there is not money, they will make three enquiries and throughout that process you are charged. And that is punishing poor workers, in our view. That will be one example, but like we said, we are saying, once we get information from the banks it will tell us exactly, because we do not have this information, it will tell us exactly what is the link between the charges and the punishment on one hand.

Now that will make us, as we have made recommendation again, that we will have to have an opportunity to come back, based on information that we would have had to make detailed submissions once more in terms of how we think therefore some charges should be eliminated. For an example, should pensioners who get their salaries through these banks be charged, I am not too sure. Because if you deduct R12 from R850, it is a lot of money from that person. So that would be one example.

MS NYASULU: Mr Mahlangu, just a question for clarification from me. You made reference in your earlier submission about how you would tell us about how communities and I think you said the West Rand and Alexandra experience banking, but then you made no reference to some of the experiences and anecdotes, can I just clarify whether it was your intention to do it today or in a later hearing?

MR MAHLANGU: Thanks, panel member. Yes, as I have indicated, that one of them will be done tomorrow by Comrade Nkosi Pendule on the West Rand and other will be done in Durban and Cape Town, in terms of those case studies that is ... and I think if you look at our detailed submission, there are those case studies and those individuals therefore would expand on that.

MS NYASULU: Okay. And just one final question, you also referred to access by what you have called alternative financial institutions to the National Payment System, who are you referring to, just for clarification?

MR MAHLANGU: Chair, the SACOL for an example, which is an association of cooperatives that will be one example.

MS NYASULU: Thank you, Chairman. While the chairman is busy, maybe I could take one more.

MR JALI: Yes, you can take one more.

MS NYASULU: Can I? Just, you referred in your Exhibit "C" to a number of charges, which add up to R135 from what you are saying, but the document I have adds up to slightly below that. Was there another document or a line item that we have missed? You actually called it page 10 and I have it as page 7 on this.

MS NYASULU: Okay, I am missing some pages. Okay, that is fine, we can sort it out another time, the difference. At page 9.

MR JALI: I think the page numbers are different…

MS NYASULU: Okay, that is fine, we can pick it up later. Okay, thanks.

MR PETERSEN: Mr Mahlangu, thank you. Like the other panel members, I look forward to the opportunity to engage with you further on these points as the enquiry proceeds and therefore I am holding back quite a number of questions and will just ask you one or two for purposes of immediate clarification. Well, perhaps not immediate clarification. In providing us with further assistance, I would be particularly keen if you could assist us with the problem of how to determine whether a particular bank charge falls within the description of punitive, exploitative or unjust, as you intend those expressions. If you could assist us in how one goes about making a judgment of that sort on a particular bank charge.

And then and I am not, let me make it clear, I am not asking for an answer to that now. And then also in your further assistance to us in due course and coming to the question of the idea that certain accounts or certain services should be free of charge, my colleague has asked you to help us identify precisely which fall into that category in your view. And I would like to ask you in addition to address in due course the question of who in your opinion should bear the cost of providing such free services? Thank you.

MR MAHLANGU: Chairman, as I understand, yes, we will provide that information in a detailed form.

MR JALI: Okay. Mr Mahlangu, I have just got one query, it is just for clarification. You make reference to the problems we have with bank charges, in your submission and then you make reference to, you say high bank charges such as Mzansi, the national bank account, is it your submission that the Mzansi bank charges are high? In your view and if so, we will really like to get some clarification in that regard. If you do not have the information now it does not matter, at a later submission you can probably help us with that particular information.

MR MAHLANGU: Yes Chair, with your permission, I was indeed referring to Mzansi and Nkosi Pendule tomorrow while he will indicate in West Rand as to how many branches for an example are in Kagiso as opposed to Krugersdorp and what are the exact charges and details with regard to Mzansi. We will provide that information.

MR JALI: Then provide that information too, why you are regarding Mzansi as being expensive.

MR MAHLANGU: Yes.

MR JALI: Okay, thank you. Thank you, Mr Mahlangu, for coming, thank you very much, we really appreciate that. We started a bit late, I know the enquiry manager said after Mr Mahlangu's presentation we will take a short break to enable Nedbank to set up and prepare, can we reduce our break to about 10 minutes? Just a comfort break, will that be sufficient time for Nedbank to set up? Thank you. Will that be sufficient? Okay, fine. We will take a 10 minute break then, then we will come back to proceed with the Nedbank presentation.

(Enquiry adjourns)

(Enquiry resumes)

MR BOARDMAN We absolutely believe that banks do have a particular and important role in economic transformation and sustainable growth for our country, as Mr Mahlangu said. And indeed, in playing our role in the transformation of the country and it is against that background that we believe we have made some strides in this area but we believe there is much, much work to do. Mr Petersen, one of the questions that you asked Mr Mahlangu about who would pay for free banking. There are elements of free banking that are already happening, we are not going to go into them in detail today, but I have had the privilege of sitting on a hillside in the Transkei in the early hours of the morning, in a remote village and watching social welfare payments being made.

And the beneficiaries, the recipients of those small grants, it is possible for them to transact without having to pay. Because indeed the state pays the service provider and with modern technology that we are moving towards, with Smart cards and chips and biological recognition, one of the things that we are working on is something called cashback, a point of sale in the retail industry. Because the retailers have a big problem in handling cash. And as we all know in South Africa, cash is not something that is popular to handle. And so there are initiatives where in fact the retailers disperse the cash free to the recipients and the state pays for the getting of the card in the first place, so it is not impossible, it is difficult, but not impossible.

And with those remarks I would like to hand over to Rob Shuter to do our presentation.

MR SHUTER: Thanks, Tom, we have the presentation up on the screen, so if it is possible perhaps to dim the lights, so that everybody can see it clearly, that would be useful. Right, really what we are striving to do here this morning is to give you Nedbank's perspective on the enquiry and some key questions that we believe we as Nedbank need to have a perspective on. We have already divided our presentation into two sections. The first section is some background on why the enquiry, what it is about, what our philosophical approach is to the enquiry. We would also like to use the opportunity to tell a little bit about the Nedbank story by way of backdrop. So that is going to take about a quarter of the time we have been allocated.

And we then divided our response into six critical questions. The first is to get everybody to a general understanding of what is the National Payment System and how does it work. To then tackle head-on the question of do all players have sufficient access to the NPS to compete. To tackle this issue of cooperation, is it necessary for the banks to cooperate. Cooperation is always an uncomfortable space in the industry such as this. We have a view on is there enough

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competition in banking, we have a perspective on critical question of are banks making too much money. And finally when we move to the issue of retail banking fees, we really bring that back down to a Nedbank perspective, what is our perspective on our retail banking charges? Thank you very much. Right, some of the background to the enquiry from our perspective is firstly global trends, we have seen similar reviews in other jurisdictions, the one we have on the screen, there is a Crookshank Report, which was a pre-curser to an enquiry in the UK. We have seen inquiries in Australia, similar process in Brazil, so there has been a global trend for countries to look at the level of competition in banking and to address some of the questions that are in the public debate.

The second key aspect was some research commissioned by DTI, which generically referred to as the Falkena Report, which had a list of the number of recommendations as to how to improve competition in the banking industry. The report that I think was discussed at some length yesterday was the Feasibility Report into the National Payment System. And I think finally consumer pressure, we certainly as Nedbank acknowledge that issues around competition in banking and the level of bank charges is absolutely a topic that is been hotly debated by all consumers and in the media. And I think that is a very important part of why we are here. So that really is our perspective as to why we have ended up with the Competition Commission enquiry.

What is it about? I suppose the first thing to note is that perhaps contrary to popular belief, it is not simply about bank charges, the Commission has a wider frame of reference. It is looking at the level and structure of charges made by the banks, looking at the critical question that Mr Mahlangu raised earlier, the relationship between the costs of providing the service and the charges, the process by which charges are set. But it is also looking at existing and potential competition, it is looking at improving access by non-banks into the National Payment System and then generally catch-all on any other potentially anti-competitive behaviour.

So we believe as Nedbank that the terms of reference are sufficiently broadly couched that it will provide the right forum to debate the critical issues that need to be debated. Our approach to the enquiry, I think as we have said publicly, we welcome the enquiry, we support public debate on the issues, we believe these debates are happening, as I said earlier and the Commission provides us with a very useful framework, to ensure that everybody gets a chance to be heard and everybody gets a chance to put their views across. We absolutely believe in transparency, I think if we want this to fulfil the function that we all hope it will do, we need to have a level of transparency.

I think the earlier presentation was exactly that, very clear on the concerns in a particular grouping and I believe that Nedbank needs to be clear and transparent as well, as to its response to many of these issues. And we are supporting an open and proactive engagement with the Commission. We did request that we be one of the first banks to present, rather than hanging back and waiting to see what everybody else did and I think that very much is in line with our strategy of just coming out here today and telling our story. Turning to the Nedbank story for a moment, the graph we have on the screen is I suppose a representation of what has happened to our bank over the last few years and it really shows the share price over the last five years.

And I think you can see from that and many of you are aware that the bank has gone through its trouble times. We have put up a couple of the reasons we think led to that, but they are difficult to read on the screen, but the first one is that we did historically have a niche focus, top end focus, we implemented a complex merger which took us well over 2 years to complete and a multibrand strategy that has not worked as well for us as we had hoped.… we look at what has happened over the last few years, if we have had very high levels of client churn.

So as we have been too internally focussed and too occupied with other things, our clients have voted with their feet and we very much take it on board and are working very hard to build a bank that will woo them back in a vigorous fashion. It is not all bad though, under the leadership of Tom over the last few years we have implemented a turnaround strategy and we have really had to transform our business over many, many fronts. And dealing with that transformation for a moment, some of the areas that have required transformation is firstly to transform from losing customers, we believe one of the best long term indicators of the health of a bank is its ability to attract and retain clients.

And we certainly saw that when we were not looking after our clients well enough, I am sure there are perhaps some of you in the room today who did not feel that Nedbank was looking after them and who actually moved their banking elsewhere. Financial underperformance in the long term as well, you know your financial performance is going to driven by your ability to service your clients. We had a very centralised business model that I think distances us from our clients in many respects, moral started to plummet, that top end focus, I think is not proved to be the most sensible strategy in the long run.

Very slow to embrace empowerment; we implemented our empowerment transaction quite late, although obviously that is only one small aspect of the broader transformation challenge. The multi-brand strategy and as I have said, the internal focus. And our challenge has been really to move on a very broad front to make progress on all of those particular aspects, gain clients, sort out our financial performance, implement more client focus model, improve staff moral, embrace Nedbank as a bank that is committed to proudly offering banking solutions to all South Africans, which is different to our historical positioning, embracing transformation, working on our branding and very much moving towards a more outward focus.

We had to reorganise for success to deliver on that, really putting in place very focussed client areas, supported by our support areas. A few salient factors on Nedbank in the middle there, we have over three million clients, headline earnings of about three billion and we employ largely in South Africa over 22 000 people. So we do believe we, you know, responsible citizen and an operation of this size, we have a major role to play in broader social issues other than just competing in the banking industry. Turning then for a second to our retail operations, they have really been through a very similar process. We embarked on a strategy, a three-year strategy we named Fix, Consolidate and

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Grow. And really for 2005 most of the work we had to do was to fix our structure, integrate people's bank, re-brand it, sort out some of our service issues, our processing, our new business processing.

And there will be always be elements of fix-it, we believe in any bank over the fullness of time. But as you stabilise your platform that should get less and less. The big focus in 2006 has been to consolidate those early wins but also to do work on our segmentation models, on our pricing and product and we are going to deal with that in a second. And we very much see 2007 as the year that we will start to vigorously compete for clients, for business, for market share, building off the platform that we have laid and that we have worked so hard for over the last two years. We have also had to reorganise the focus on the client, our business is very much looking client in, client out.

We have segmented into the segments you see up there, entry level customers, middle market across the right, high net worth affluence, small business services. We have our five critical product areas in the middle and our three support areas and really are trying to turn our business absolutely into a client centric business model. And really to close off the background section, we are ready now to look outwards, we have re-launched the Nedbank brand under make things happen. We have seen some significant improvements in our service levels, we have had seen some real breakthroughs in product pricing and with this focus on transactional banking charges, we are going to take you through that in some level of detail towards the end of the presentation.

And I think one of the key evidences of our commitment to rebuilding our business and growth is the R1 billion expansion project we announced at our interim results. So really are building for long-term growth. With that as backdrop, moving back to the six critical questions we posed in the earlier part of the presentation. The first three were around the workings of the NPS, is there sufficient access and is there need for cooperation. And that is really tackling the terms of reference that relate to the feasibility of improving access and other general anti-competitive, perhaps issues. We tackle the level and scope of competition, in directly in the question as is there sufficient competition in South African banking.

And then our last two questions, the issues of South African banks making too much money and our perspective on our retail banking charges is really addressing the level and structure of charges, the relationship and the process by which charges are set. So that is really a mapping back of our presentation to the terms of reference of this commission. So starting with the National Payment System and I do appreciate, many of you were here yesterday and have seen some of that and I imagine we have colleagues from other banks who are experts are on this. But I think in the interest of getting everybody to the same stage, we thought it would be useful to sketch a little bit around how this thing actually works.

And I think the first thing to note is that the National Payment System is not owned by anybody, it is a virtual network, various players in the industry own different parts of the infrastructure. It plays an absolutely mission-critical role in facilitating the exchange of payments, it is a mind numbing statistic we have got there, R148 billion per day and you can imagine just how crucial this is to the effective and efficient working of the South African economy. Some of the players in it, companies, merchants, acquiring banks. And the concept of acquiring banks is really where banks such as Nedbank offer services to merchants, to enable them to accept debit and credit card payments, it is probably the easiest way to distinguish that.

The other concept we use is issuing banks and that is really when you pull out your wallets or your purses the name of the bank on your cards is your issuing bank. If you went down to the coffee shop just across the way and you used your card there to make a payment, the name on that device that the card is swiped through would tell you who that merchant's acquiring bank is. So I think it is very critical that we have good understanding of that. Other players, PCH systems operators, that would include Bankserv, it also obviously includes the associations, Visa and MasterCard and then clearly consumers who use the National Payment System all the time to make payments.

How does it work? Very quickly a sort of a galloped through, clients who are wanting to use a non-cash form of payment, particularly a debit or credit card, at a merchant, would present the card. The merchant needs to go through their acquiring bank, who has provided them with the infrastructure to accept payments from all issuing banks that goes through a PCH operator, as I have said, like MasterCard, Visa or Bankserv and ends up at the issuing bank where essentially the enquiry is made is, does this client have sufficient funds in their account, can we accept this payment. That message is sent back through the structure, the client's transaction is authorised and settlement occurs over the course of time through the South African Reserve Bank.

If we look at that in a more practical level, in the merchant space once again you can see the client on the top left, who is making a payment to the merchant, the merchant has engaged the services of the acquiring bank, to enable them to accept this payment, so they can give their clients the ability to use multiple payment streams and the acquiring bank has to then talk to the issuing bank to actually investigate whether that client has funds and whether that payment can be processed. And the distinction we make in the chart, if you look at, and I apologise again for the lack of clarity, but there is a shaded block, a vertical block with competition on the left and the right.

And the point that the slide is essentially making is, the relationship between you as consumers and your issuing bank, those cards that you have in use is absolutely in the competitive space. So if you are a person who is particularly keen on loyalty and wants to use your air miles and then you might be attracted for example by an SAA voyager card. On the other hand we have other consumers who are looking for a really low cost credit card product with no annual fee and they might on the other hand be attracted by Pick 'n Pay Go Banking credit card. The charges, the annual fees and the benefits that are offered are very much in the competitive domain and that is why people, one of the many reasons why people would choose one bank over another.

On the right-hand side you have the relationship between the acquiring bank and the merchant and once again this is fairly and squarely in the competitive domain, it is a very competitive industry, merchants move readily from one acquiring bank to another. Essentially the acquiring bank in most instances is delivering that terminal that accepts these payments, there is a rental fee that is paid for the terminal, there is a commission that gets paid when the terminal is

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used. And we have more than 30 000 of these devices out there as Nedbank in the merchant space, with a customer churn there of significant as well.

So that is all quite comfortable space in the sense of competition. The issue that is perhaps a little nalier is in order for this system to work, so understand in this room we have people who bank with a whole bunch of different banks and in a 500 metre square radius of where we sit today you have merchants who bank for the whole lot of different acquiring banks. And what this system allows to happen is for a client who banks with any bank to use that card at a merchant who banks with any bank. And what enables that is the piece at the bottom, which is the relationship between the acquiring banks and the issuing banks and that is in the cooperative space.

And the fees that are set there is what is commonly referred to as interchange. So I think that is perhaps just useful by way of background. That is really looking at it in the merchant space, we have a similar concept in the ATM space, so once again we all bank by different banks, there are different ATM's out there, but we are all aware that we can use any ATM, we are just going to pay a surcharge if it is not our own bank's ATM. And once again, the National Payment System enables that to take place, that you are not as a Nedbank client restricted to using Nedbank ATM's and in the cooperative space is the process around which the pricing of that is set.

So with that as backdrop, turning to the issue of do players have sufficient access to the NPS and the way we look at this ideologically is to say that if you look on this axis of risk, which is, and on this axis here of regulation, the essential point we are making is that we support access to the National Payment System and we welcome increased competition in the National Payment System. But we need to acknowledge that the different people or different entities will introduce different levels of risk. It is very clear that a user making a payment for coffee at a merchant is not introducing a significant amount of risk into the National Payment System.

On the other hand big clearing banks such as ourselves introduce enormous risk in the sense of what would happen if a bank could not honour credit, if there was operational risk, if the systems did not work, if the disaster of recovery plans were not in place. So our essential view is that along this spectrum, as you introduce different players into the National Payment System you will have an increasingly regulated environment. And that basically is our position there. Is there a need for banks to cooperate in the National Payment System? You have seen these universe of players before.

We essentially believe that the banks are cooperating really in three ways, they are cooperating to manage the risks within the National Payment System, because clearly if it is a system that has systemic risk for the banks and we need to ensure that those risks are appropriately managed. There is an interdependency of players in the National Payment System. We need to cooperate to provide interoperability, to enable clients to use their card at any merchant, irrespective of who the merchant bank is with and any ATM, irrespective of which bank owns the ATM. And we do believe that it avoids a duplication of infrastructure, which does have a knock-on effect into pricing.

You would have seen, those of you that have looked at some of the earlier presentations yesterday, that the cost of these charges, for example the Bankserv charges in these transactions are a very, very small component of the overall fees tree. So our perspective is the cooperation is necessary and I think we say that in a fairly straight forward basis. We believe the regulatory approach has worked to date, we support the view that access needs to be regulated, because of the importance of the National Payment System in the South African economy, the cost are small component and we welcome competition, providing the integrity of the National Payment System is maintained.

In our written submission to the enquiry we obviously have a lot more detail on all of these perspectives. Turning to the issue of is there sufficient competition in south African banking, we thought it might be useful to perhaps just explain to you how we view competition and how Nedbank competes out there in the public space. And the slide that is up there is a piece of research we did in 2005, to identify what the most important factors are that influence why a client would choose one bank over another. And I think it is a very interesting piece of research, because you will see the number one factor is the reputation of the bank. And that is talking to the bank's reputation for providing quality service, it is talking to the bank's reputation for stability, for people to have the comfort that their money will be safe.

We certainly believe at Nedbank that it will increasingly talk to the bank's reputation as being a responsible citizen in South Africa and assisting in the transformation and caring in the communities and all the work we have done in that particular area. The second aspect is service and I think that is absolutely critical. The third aspect is product and we get to bank charges or bank fees fourth along. Now that is not saying bank fees is not a hugely important area and it is a very important lever in terms of how we compete out there in the market. I think the point we wanted to make is that people do not select banks in the same way they would select where to buy a tin of baked beans, it is a complex set of criteria, there is complex reasons why it has happened.

I am sure if you did a snap survey of people around the room we would find everything from a combination of my parents bank there, it is the bank that gave me a student loan when I went to university, it is the bank that has a branch closest to where I work, it is a bank that has a great product for when I bought my first home. And of course we will find those who say it is a bank that offers great value for money. So our challenge as Nedbank is to tackle all of those issues to provide ourselves with competitive advantage out there in the market.

And talking to competitive advantage for a second, we need to make the point that we have to continuously find ways to look different to the competition, different and better, so that clients would choose us over another bank. And some of the ways we do that is product innovation, all the work we are doing on service excellence, transparency, I suppose paradoxically is difficult to see on the screen there, listening to clients, distribution upgrade. Distribution is absolutely critical, it talk to some of the comments made around the bank's provision of access to consumers and we have certainly seen in the reception we have received for our billion rand distribution expansion, it is just how important it has been and how our clients have really appreciated the fact that we are really pulling out the stops to make it easier for them to bank with us.

Fee simplification and obviously fee reductions, all ways in which we continuously have to find a way to look different and provide a case for people to stay with us or for people to move to us or for people coming into the banking market for the first time, for us to be the first destination for them. So looking at what we have done on the product and service axis, there is a bit of spectrum of products. When we sort of started coming out of our fixit stage and looked at what we needed to do in the competitive space, the first area we decided to address was the entry-level market. And we launched the transactor account in October 2005, it is an entry level savings product but provides full access to ATM banking, internet banking, we couple it with our personal loan offering, on reduced interest rate charges for our clients.

At the time we launched this product we were more than 25% cheaper than the next competitor in this segment, which we think really does talk to our commitment to bringing down the cost of banking. We launched the Voyager credit card in September 2006, we were very proud and still are of our small businesses services offering, which recognises the huge role that SME's play in developing the economy, also recognises the fact that the first two years of life of a small business are the toughest. And on the simple basis that we get at least R100 000 worth of lending business, which is also supporting the development of that SME, we offer them two years free banking, which we really think is again part of our commitment to both our clients and also to recognising the importance of SME's and developmental economy such as ours.

More recently the everyday account, two main articulations of that, are you tired of seeing red every time you open your bank account, are you feeling blue every time you, so there was some discussion early around the reds and the blues, which you see we have carried some of that through into the competitive space. And perhaps if it needs some analysis of the green bank, we might have seen some real efforts in that space to bring down the cost of banking in the early presentation. So what is our perspective on the level of competition? I can certainly say I having been involved in retail banking now for two years, that our experience is that the industry is very competitive.

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We saw what happened to us when we took our eye of the ball, customer turn rates are between 30% and 40%, which is very, very high. We have seen aggressive responses in the market, as we have launched new products and new pricing. We have seen some print ads that looked very similar to ours, with the reds and the greens, but we are making comments like buying your first house is always a red letter day, as opposed to the grass is greener on the other side. So we really do experience this as a very competitive market and we have got to work really, really hard to keep our clients and to attract new clients.

Right, dealing with the question of are South African banks making too much money and we have got a few slides we are just going to take you through piece by piece. The first slide is looking at the long-term cyclicality of the banking industry. So it goes back to 1961, which is around 40, 45 years or so and it plots in the blue the year on year change in GDP, which is obviously a proxy for the state of the economy. And the red bar line is looking at the earnings growth of the banking sector. And you can just see the troughs and the peaks and the troughs and the peaks and the troughs and the peaks and we are kind of sitting here in a period of very strong GDP growth and very strong earnings growth of the banks. But I think to judge an industry over three or four years, you actually got to go back and say that banking is cyclical by nature and it is a relatively risky environment.

If we look at that then in a second way, what we have done here is really a sort of a more of a conceptual slide to try and demystify what we have seen in the industry in the last few years and which I was talking about a little earlier, around we see a fierce competition. And the obvious retort to that is, but then why are the banks making so much money. And if we look at what has happened in the competitive space, just pulling out a few examples, home loan originators have had an enormous effect on the banking industry in terms of disintermediation of the banks from their clients, seeking out the best deal for their clients.

We have seen very active competitors in more of the entry-level markets and we have seen those growing up in size over the last few years. We have seen payment service providers come into the market, providing services, many instances to large retailers. We saw standard chartered come in a few years ago, launch retail banking through 20/20 and more recently we have seen Virgin Money. So all of this increased competition one would think conceptually would exert a downward pressure on the bank's returns. And I think the point we are making is, if you look what has happened in the last few years is we have had an extraordinarily benign economic environment.

And there are a few factors that has contribute to that, political change, the stability, economic reforms, declining global inflation, declining global interest rates, low South African interest rates, high levels of consumer demand, high levels of credit extension. And we think these two things are really sort of outweighing each other and over time we certainly believe that the benign environment is turning and I think we have messaged that in our results more recently. We have seen credit extensions starting to slow, we have seen early indications of stress in the consumer market, we think industry levels of bad debts have been below a long term trend and they are going to start to trend up.

And so I think this sort of slightly aberrant period is going to start to normalise over the next few years. We thought it might also be useful to make a comparison against other countries with a similar risk profile. So essentially what this piece of research is, it takes the pre-tax profits of the banking industry in those countries over the capital. So it is a proxy for return on equity. We use pre-tax really because they are different tax jurisdictions in the different countries, looks at it over four years. You can see for example Hungary, India, Brazil, there is South Africa over there and see high ROEs last year and certainly the banking industry you would see from the very cursory evaluation that the biggest drive of that has been very low credit loss ratios in the last year.

But in general we do not believe that the returns are out of line with countries with a similar risk profile. We also did some comparison to local industries, so this looks at year on year growth in earnings, the ALSI as a whole all-share index, banks, retailers, telecommunication sector, so the banks the red line over there. I am once again making the point that we are not seeing an earnings growth rate that is out of line with other industries and with the market as a whole. Looking at the market ratings, this particular slide takes the price to earnings ratios of the banks and devides it by a number of different sectors, the all-share index again, financials, retailers, industrials, construction.

So essentially if all of these players in the economy had similar price earnings ratios, these lines would all be pretty much flat around the one. And because we are indexing the bank off of those, this concentration below one is essentially saying that the market has not given banks the same price to earnings ratios it has given other parts of the sector, which we believe is once again an indication of the perceived risk of banking, the cyclicality of the industry and how quick things can change in a volatile industry such as ours. I think also perhaps it is important to look at this issue of margin versus fees, what we have on the left here is the average margin that banks earn, which clearly is a function of what they are paying for their deposits in the consumer space and accessing wholesale money and the average interest rate they are earning on the basket of lending products, home loans, vehicle finance, overdraft, corporate facilities.

And you can see a very definite structural reduction in margin over the last 10 years or so and obviously as that has gone down the percentage in our to total revenue has increased but it has certainly flattened over the last five years. And I think is really talking to the fact that banks to preserve returns and to still compete effectively going forward, have had to demonstrate cost efficiencies and they have also had to rely more heavily on fee income. Now that is not to say that that is an argument for why our bank charge has been going up so much, it is essentially saying that we as Nedbank in particular have had to build our non-interest revenue to compensate for this drop in NII margin.

And that is a function of increasing in trading revenues, bring in new sources of business, increasing the number of primary clients we have in the corporate and the transactional space. From a Nedbank perspective we have had no fee increases in retail banking since 2004, we have only in fact had decreases over the last two years. So our perspective is that the banks have generated strong profits more recently, but we are in an exceptionally favourable economic conditions, particularly over the last two years and we do think that the set of circumstances is extremely unlikely to be repeated in the near future.

Right, moving towards the end, what is our perspective on retail fees? I think the important thing to make is that we acknowledged the need for change some time ago. It is very clear to us that we absolutely need to be relevant in the context of the South African market, relevant in many aspects, relevant in terms of providing the right kind of products at the right price, with the right level of service, to consumers out there. To be relevant in terms of playing a part in extending access to segments of the economy that have been disadvantaged over many, many years. And I think we really wanted to say here today that Nedbank is absolutely committed to making the cost of banking more affordable to all South Africans and we need to play our part in making all of this happen.

How do we look at our fees? It is a complex set of inputs. We look at economic value, we do net present value analysis of new products, we look at the nature of the product, what volumes we think we can generate, the risks that it has. We look a the market positioning of it, we do look at the costs, they are one important input, they are not the only input. And very importantly we look at value to the customer in the competitive space. So it is a combination of a multitude of factors. There is no doubt that there is a strong market perception that fees are high, we read it in the media, it is partly what has driven us to why we are here today.

And from a Nedbank perspective we hear that and we are not going to ignore it. We ask clients for their views, we run surveys all the time, this particular page is an extract from the Nedbank website that we particularly put up to obtain input for the purposes of this commission, we have over a thousand visits to it in the last few weeks that has been up, we have got some very good feedback. Interestingly enough we have as much feedback on service issues, product issues, as we do on pricing itself. But it is all part of being open and accessible and engaging with consumers on what their concerns are, so we can respond in a competitive space.

We have made a huge effort over the last few years to give our clients value for money. We started this process in March of this year, where we started off with reductions to two critical categories, we had 100% reduction to stop order instruction fees, which I think our marketing people felt was more impactful in saying that we had scrapped them, because clearly it means much the same thing. And we had significant reductions in certain of our penalty fees. So it is sort of open the batting in March in the penalty fee area. July was, I suppose a big month for us, because we had an overall reduction in our current account transactional fees by 13%, it was more than 30 fees that we individually reduced.

And we have really followed that up with some very exciting new product launches in the last few months. We spoke about the Transactor account and the pricing of that and how vigorous we have been in pricing in that sector. And the Everyday account, which we certainly believe is very, very competitively placed in more of the middle market. The small business offering and more recently very attractive terms for clients to consolidate their credit card debt and move across to Nedbank. At the time that we launched that it was the lowest balance transfer rate again in the market. So what is our perspective on our retail banking fees? We believe that what I have put up for you there demonstrates our commitment to making banking more affordable to all South Africans.

In terms of wrapping up, some key questions we had to answer. What is the NPS and how does it work? I think we have been clear, it is a virtual network, it is not owned by anyone particular person and its critical function is to enable efficient payments between all players in the economy. Is there sufficient access? There are various options for access, we do support extra or additional access, but it is absolutely critical that the integrity of the system is not compromised. I think we have been pretty clear that we think cooperation is necessary, for the reasons we have indicated. Is there sufficient competition? We experience the market as very competitive.

Are the banks making too much money? We believe that the profits have been good but not excessive and that we have had a particular economic environment in the last two years. And on our own retail banking fees absolutely committed

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to bringing down the cost of banking and make it more affordable. We are going to show you a short clip of one of our recent ads. Certainly we can say that our competitors experience that as fierce competition. So I think what we tried to do in our presentation is to give you some background information on the enquiry, tell you a little bit about the Nedbank story, to really answer in a transparent way, the six critical questions we felt needed to be answered in the time we have got available.

And I think one thing that the Nedbank journey has certainly proved to us over the time, over the last while, is that making commitments is very important and we have certainly been pulling out the stops to honour the commitments we have made in the turnaround process. And our commitment, generally in terms of this process and out there in the market is that we are committed to making banking more affordable, we are committed to offering great products with world class service and we are absolutely committed to playing in our part in building a better future for all. Thanks for hearing us and my team is available to respond to questions.

MR JALI: Thank you, Mr Shuter. I am going to allow questions from members of the panel of course. The questions will be limited to the presentation, because we have received your submissions, however we have not had time to read them and analyse them and sort of understand where we might have to have a discussion with you. So I would just allow questions on this. Oupa do you have a question, go ahead?

MR BODIBE: Thanks, Chair. Thanks for your presentation. I see that you did not bring your polygraph machine. But anyway… If you could go to slide 25, which basically compares earnings growth and the business cycle. Is it possible to call it up? Anyway, the question I would like to pose, I mean you are making a strong argument that says that banks' earnings are cyclical, but if you are looking at actually a number of cycles, there are instances where they do not correlate. And in some instances, when the business cycle is positive, the bank makes even higher profits. In some instances where the business cycle is positive the banks lose or do not make, or actually are recording losses. The specific periods I am looking at here is the 63 to 71 period and the 81 to 83 period and 91 to 95 period and in 95 especially it looks like or is it 95, 97, where for example it looks like the earnings actually outstrip even the real GDP.

Now, how do you reach that conclusion of bank earnings being cyclical when there is quite a number of variations between periods?

MR SHUTER: If I can just make a few comments and then I will hand over to Tom. The purpose of the slide was not to demonstrate a correlation between the bank's earnings and GDP. The purpose of the slide was to demonstrate the cyclicality of banks' earnings. So we are really focussing on that red line that, in our perspective does show the peaks and troughs of the fortunes of the banking industry over a 45-year period. We have plotted it against GDP, because I think it is useful to look at it against that. But we were not specifically focussing on that correlation. If I can hand over to Tom.

MR BOARDMAN: Yes, I think Rob has made the point correctly that it is the degree of volatility in earnings that you do not just earn big fat profits all the time. Earnings growth sometimes is good, sometimes it is bad. But now even your earnings are growing slowly or growing negatively, it does not mean to say you are not profitable. But just one of the things that I think we also have to bear in mind and perhaps because I carry a few scars with me, is that confidence in banks is what banks are all about. The simple fact that for every R100 we lend R10 in simple terms has got be our own shareholders' funds and R90 is other people's money, it is our depositor's money. And if the depositors lose confidence in the bank because the bank is loosing money, that has a big impact.

So the cyclical impact is a very important aspect and there are leads and lags if you do the analysis. Because in fact, when interest rates go up, generally speaking banks make more on their own capital. So on that piece that are your own capital you are earning a higher rate of interest. But we have all learned through the cycles that comes back to bite you in the bad debt line. So banks indeed do have very cyclical phases in their earnings.

MR BODIBE: Thanks. Second question is, when you are talking about access to the NPS and you say you welcome that, can you be much more specific as to who you are talking about and to what will they have access to?

MR SHUTER: I am going to ask Carmen Whately to tackle that one for us. Thank you.

MS WHATELY: Thanks. I think the approach to the answer I will take is a philosophical approach because that is what we are really putting forward, is to say that there is an existing regulatory framework which works and which has managed the risk to an extend that everyone has confidence in the system. So the axis that we drew was to illustrate that should someone wish to provide a payment service or to provide a service similar to what banks offer around payment, which includes clearing etc, that there is a framework within which that is possible today and we provided that the risk that needs to be managed on the National Payment System is not compromised along that axis. Whoever feels that they would like to offer that service and that they can adhere to the necessary rules of the game, that would also be fine.

And I think just to add to that, it is quite important to note that it is not a point of saying that it means that the rules that stand today must be the rules of tomorrow. We have seen over time that there have been a, that regulation follows innovation. And as new innovation comes to the fore the necessary regulation to manage the risks and to mitigate the new risks that may be introduced are necessary. That is really what we are saying is that should there be a desire to provide a payment service that introduces further risk because it has greater breath, has greater volume, has greater closeness to the ability to perhaps introduce systemic risk, then the necessary regulation needs to be applied. Does that assist?

MR BODIBE: Thanks. A related question, this will be my last question, Chair, what benefits accrues to Nedbank from the payment system that enables it to position itself in the market?

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MR SHUTER: I think that, as I said in the presentation, the National Payment System is an essential network to enable the multiple use of different banks, debit and credit cards and different banks acquiring infrastructure. In the absence of inter-operability individual clients would be restricted to their own bank's infrastructure, you would only be able to use a debit or credit card at a merchant that banked with your bank. And that would, I think, significantly affect the customer experience, but absolutely would also affect our ability to sell services into both the consumer and the merchant space.

MR JALI: Can I just follow up on that? I think, let us say we all accept that there is a need for the National Payment System; let us all accept that the current National Payment System is effective and it is working well for the country. Now let us take for example, I like using examples, Bankserv, it is one of the components of the National Payment System, then if you say changes are welcome, what changes would you like to suggest? Just take Bankserv for an example.

MR SHUTER: I think our perspective is that Bankserv is an essential part of the infrastructure, the costs that Bankserv introduce into the payment streams are very small and I think that point was made quite clearly in the feasibility study. In the Bankserv space as shareholders in Bankserv, we are very open to introducing new shareholders, we are very open to introducing new board members and we certainly do believe that the arrangements between the shareholders require some review. So we have an open mind on Bankserv, our primary perspective on Bankserv is that it is a utility that is collaboratively owned by the banks.

MR BODIBE: Can you confirm that Bankserv at this present stage determine its fees on the base of volumes, which means the higher volumes here the lower the fees?

MR SHUTER: I am going to ask Carmen to pick that one up, thank you.

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MS WHATELY: Okay, if I could just check if I have understood the question correctly. For the users of Bankserv, you are asking whether there is a volume, a relationship between volume and cost?

MR BODIBE: No, I am asking whether Bankserv, in the presentation yesterday it was made, argument was presented that if you have higher volumes Bankserv, you pay lower fees, compared to when you have lower volumes. I just want you to confirm if that is the case.

MS WHATELY: That is the case.

MR BOARDMAN: Which we know all to well in terms of needing more customers to get higher volumes to get lower prices.

MS NYASULU: Mr Chairman, I wonder if you could have the lights on so I can see my questions.

MR JALI: Are you falling asleep?

MS NYASULU: No, I just need to be able to read my questions. Mr Shuter, thank you very much. Just one of the slides that you showed us was about the criteria that people use to choose banks and reputation being one of the top ones, do you have a slide that shows or have you ever asked a question anywhere why people leave the bank or choose to migrate, is my one question? And if you could give me some indication of a correlation between people choosing to migrate and the queries or concerns that you have. Or let me use, say that differently. When people come to you and complain, what has your research shown has been the biggest concern and query?

MR SHUTER: Thanks, if I can answer that in a couple of parts. Because of some of the challenges we have been through and the high levels of churn we spoke about earlier, we have invested an enormous amount of time and energy in understanding why our clients are leaving us. It is not the particular part of banking that we would choose to be experts in, but it is a slightly function of the history. And generally our research has consistently shown us that the

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reasons articulated for leaving are roughly a third product, price and service. Now, we need to balance that against, I suppose the second question, which is one is to understand the sort of exit reasons and then the second one is to understand what are they concerned about when they are not yet in the space of leaving, which gives us a slightly different answer.

And what we put up on our website, which is available at Nedbank.co.za is the nine principle client concern areas that we have picked up from the research we have done more recently. And in that particular piece of research bank charges is number one. So it is advanced as roughly a third of the reasons why people leave, but for people who are banking with us, who are expressing their opinion on what is concerning them, it is the most concerning issue. Our consumers are concerned that Nedbank is not offering them great value for money. And we take that on board and that is what we are working so hard to solve.

MS NYASULU: Okay, Mr Chairman, if I can just continue while I have the floor. One of the examples you gave and I must say, because in my previous life I was a marketer, I enjoyed to see that at least we have moved in terms of comparative advertising. But you focus my mind on specifically the question that I would like to ask and that being that in that very space of marketing there would be four things that are key, the four P's of marketing and you have mentioned some of them, product, price, place and promotion. Now in answering the question about how competitive South African banking is, you focussed on the two P's, product and on promotion.

What is your view on or have you done an analysis on how competitive South African banking is on the other two, specifically pricing and place, which talks to distribution and therefore access of people to the products?

MR SHUTER: Maybe just to clarify, we certainly focussed on product, we also focussed on price, as well as on the marketing side of it in the presentation. A perspective on distribution is it is critical in the eyes of the consumer, it is right up there in the top nine that we put on the website. Our clients are very focussed on how easy we have made it for

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them to bank with us, looking at proximity of branches, proximity of ATM's, looking at our ability to offer mobile banking solutions. So we believe it is an area we need to work on, from an industry perspective, there has been some research done that has looked at issues around what we describe as densification, do we have appropriate level of infrastructure for our population and where it is spread out and it is absolutely clear that there is a lot of work to be done on densification.

Part of that is in the sort of existing ambit of the financial sector charter around the sites we have identified. But the research done more recently and our partners in those, particularly in the Access Committee, I am sure would reaffirm that, is that we have not tackled fully, providing reasonable access to all segments of our population and it absolutely is a critical thing for us going forward.

MR PETERSEN: My light is on. Thanks, Mr Shuter and Mr Boardman, Ms Whately. I just want to emphasise again, in case there should be any misunderstanding, that the object of the questions now is just to pick on a few things in the presentation, for clarification and perhaps to explore some implications of spontaneous answers that have been given and not to delve thoroughly into the issues, whole range of issues, which are no doubt addressed in your, which are addressed in your form of submission and which we will take further with you by a process of further engagement, which may well involve asking a whole number of questions. And that my understanding is that you have indicated your willingness to, as it will continue this engagement and come back to further hearings, if so be the need. Would that be correct?

MR SHUTER: That is absolutely correct and we will bring our polygraph next time as well.

MR PETERSEN: With that, without the polygraph but on the basis of that understanding, then I will venture a few questions now on a few of the issues. If we could just, sorry we seem to have lost slide 25, I do not know if that can brought back, but perhaps in the meanwhile I will go on to something else. Following up on what was asked and what was said about Bankserv as really in many ways a public utility, although provided by the banks. We have had it confirmed that there is indeed differential pricing by Bankserv, which is related to the volume of the transactions which any particular customer of Bankserv puts through. Now my question and I suppose it is directed in the first instance to Mr Boardman. Would you consider it appropriate if Bankserv were differentiating in price, in relation to volume, on any basis other than the difference in costs, which those different volumes entail?

MR BOARDMAN: Well, I would think that there is generally a correlation between volume and price, so if you talk to the discount supermarkets, the more volume they can push through the lower they can, the smaller the margin is that they can take. There is always a price/volume ratio and I mean Raymond Ackerman even split up from his previous employers on that particular point and I think proved it by dropping prices significantly in Pick 'n Pay and through the low prices getting the volumes. So there is absolutely that correlation. And so for me there would always be the primary correlation that you buy bigger volumes you are going to get a better price and I think that applies to industries of all kinds.

Whether there are other areas that could be considered in terms of developing the national interest to find alternative ways of particularly pricing particular products, I think that would be open to discussion. But I would think that price and volume would be the primary correlation.

MR PETERSEN: Thank you. Now Mr Boardman, again in your spontaneous response to the presentation, which preceded you by Mr Jan Mahlangu, you indicated that in fact there are certain services, which are being provided, free, in connection with payments and so forth. And perhaps you would prefer to come back further on this in due course, after you have had an opportunity to consider it together and therefore not necessary answering it today. But do you indeed think in, in follow-up to Mr Mahlangu's presentation, that there is scope for the expansion of free banking services? If so, what would that scope be in your view and what would you regard as being the responsibility of the banks, if at all in that connection?

MR BOARDMAN: Without going into it in detail, yes, I think there is scope and particularly, the particular example that I used is that we have an incredible distribution of retailers around our country. You can go into the furthest outlying areas and you will find small shops there and even the big chains have got their smaller outlets. And they collect cash and as I said, that cash collection is very expensive, because of the risks and the infrastructure you have to put in place nowadays to collect cash. And we face a huge challenge in just not the banking industry but in commerce generally, for the making cash movement more secure. So an absolute alternative is to recycle the cash out of the retailers, into the hands of the consumers, thereby saving some of the costs of transporting the cash and passing that saving on to the consumer.

Now you might not be able to get it to zero, but it certainly can be looked at. So a cash back at point of sale is an area that we as the bank certainly are pursuing very aggressively with the number of retailers.

MR PETERSEN: Thank you. Now following and perhaps this is one for Mr Shuter, following your presentation, I think it would be helpful to us if in due course, again it is not something that can be fully answered today, we were given in Exhibit "C", which was Mr Mahlangu's printout of his presentation, on page 7 of the version which we received, a table of the notional Jan Mahlangu paying certain bank charges for certain services. Would you be able, by way of a follow-up, to show how your more recent offerings might affect the position of Mr Jan Mahlangu in the notional table, which is put before us?

MR SHUTER: We will be delighted to do that. Will we receive copies of Mr, is that on the public record, the ...

MR PETERSEN: It will be and since I have particularly asked it of you, perhaps we can see that a copy is made for you immediately.

MR SHUTER: Thank you. We will respond to you directly, we will put our response on our internet site for those that are interested and we will make every effort to persuade Mr Mahlangu to firstly bank with us, since we have answered his question.

MR PETERSEN: Now one more. And then finally coming to your slide 25, I just need a little bit of help to understand what is going on here. What is meant by earnings?

MR SHUTER: The slide was produced by our Economics Division, my understanding is that it has aggregated the headline earnings of all players in the financial sector and is measuring their year on year change as the red line graph on the right-hand axis.

MR PETERSEN: So we are dealing with an aggregate mass amount, which is not the same as profit, is that correct?

MR SHUTER: Headline earnings is the generally accepted best profit figure.

MR PETERSEN: Fine, fine, so we can take this as the volume of profits generated, but the graph is showing, not the volume itself, but the growth in the volume.

MR BOARDMAN: Percentage change.

MR PETERSEN: Percentage change in the volume? Thank you. That clarifies it for me, I am sure.

MR JALI: I am going to go back to Bankserv, as I said I like examples. You made reference to Pick 'n Pay and volumes. Now, would it not create problems for example to, in the eyes of the end consumer, if Pick 'n Pay was saying, we will give you,… who will be getting the benefit of the volumes when they are buying from their own wholesaler. I am raising this in the context of… the big four banks are like 92% owners of Bankserv, so your volumes, because of the volumes, then you pay less. The issue is then, what about the end consumer, how does he view that, in the eyes of the end consumer or in the eyes of the competitor? That could be yours, Sir.

MS WHATELY: Sorry, if I could ask to just clarification on the question, I am not too …

MR JALI: No, no, no, I am raising this and you know, my understanding is that Bankserv looks at volumes, because of volumes then you are charged less.

MR BOARDMAN: Yes, I absolutely see the point there and saying well, that is fine, so if you have got big volumes as one of the banks using Bankserv or using the payment system, you get a lower charge. But how does that, what does the consumer feel about that? The bottom line is, is that somewhere along the line you have got to produce your return to your shareholders. And if you are making more money you can pass on the savings to your consumers.

MR JALI: That is what I am trying to find out, whether those are being passed on to the consumer. Because as I say, about 92% of the shareholding in Bankserv is by the Big Four.

MR BOARDMAN: The thing that we should follow up on is what comes out of Bankserv versus what it costs you to use Bankserv as a provider. And by far the most important point for us is what it is costing us to use Bankserv as a provider. And there, if we can get our volumes up and get our cost down, we can be more competitive to win more of those customers that we want to get, by pricing down to attract them.

MR SHUTER: Perhaps I think the, obviously an issue of Bankserv is a topical one and perhaps if we can consider the questions you have been asking and put a more structured response together, I think it is a critical issue.

MR JALI: We will really appreciate that, because it is quite an issue, which is a topical issue we need to look into, in terms of the access to National Payment System.

MR SHUTER: Okay, thank you.

MS NYASULU: Just one final question from me and again I am restricting myself to the key questions that you listed and attempted to answer through your PowerPoint presentation. And this one relates to your second question, do all players have sufficient access to the National Payment System to compete. Just for clarification, who would you define as all players and what would you define as sufficient access?

MS WHATELY: I think I am going to start perhaps, because perhaps the previous answer was not, did not get to the meat of the issue and perhaps the best way of answering that would be to say that what access means to different and it did come across even in the Feasibility Report, that access means different things to different people, which is why our response has been a philosophical one. To say that if for example the corner store decided that they had really great technology and that they wanted to provide some payment services to retailers for example. By changing from just being a retailer, in other words a user of the system, to being someone who actually uses technology and sends messages technically into the system, the scope and breadth of the services that are being offered has changed and as a result the risk that was introduced has changed.

And therefore, as one moves up the axis to maintain the integrity of the system, there would be additional regulation and that is the principle. With that in mind as the context, our view is that whoever wants to participate and offer payment services, there are rules of the game. If the rules of the game can be met then people must be quite comfortable to compete.

MS NYASULU: Yes, Chairman, I think I need to understand that. So when you defined sufficient, sufficient access, you were saying sufficient to what the needs of that particular player are? If that is your answer then, can I just ask how you would define as sufficient the needs of a player such as Ithala and Post Bank, who are registered as banks but are not totally into the National Payment System without being sponsored?

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MS WHATELY: I think firstly it would be inappropriate for me to speak on behalf of what their needs are, but if the requirement is to offer, so I will go back to theory, if the requirement from let us say Ithala or Post Bank is to provide a payment service to their customer and they wish to do it at and their economics talks to a certain cost, then their need would be, I do not want to have to take on the additional cost that the additional regulation would require if I was to become a full clearing bank. That is what I am trying to explain. So if, does that take care of it?

MS NYASULU: Okay, that is fine, I was just asking about sufficient, just the definition of what you see as sufficient and what you see as all the players. I am happy. Thank you, Chairman.

MR BODIBE: Thanks, Chair. In your follow-up, could you at least also cover the question of the flow of fees and the proportions between the acquirers and issuers?

MR SHUTER: Yes, I think we have got quite a bit of detail there in our written submission, but we will have a look at it and see if we want to send you anything further.

MR JALI: Thank you very much, Mr Shuter, Mr Boardman and everybody else, thank you very much, we do not have any further questions at this stage. If we have any other questions we will through the technical team or ourselves communicate with you to get clarification on a number of issues. The one request we have, if we could have Exhibit "D" electronically transmitted to the Competition Commission, so that it would be easy for us to use it? Thank you very much, thanks for your time.

MR SHUTER: Thank you.

MR JALI: Our understanding is that the next presentation will be from Mercantile Bank and they will need some time to set up as well. So because of that we will just take five-minute break.

(Enquiry adjourns)

(Enquiry resumes)

MR JALI: Welcome once again. We would like to welcome Mr Bloem, Derby and Coaker from Mercantile and thank you for coming. The floor is yours.

MR BLOEM: Thank you, Mr Chairman, we would like to thank you for the opportunity to come and address this forum this morning, as we do believe that transparency in terms of banking fee structures is essential for the development of the market and to make the market, the banking environment, accessible to the broader community. We do believe that the Hawkins Report did provide some balanced view, a nicely balanced view on this issue, in the sense that it did raise the question whether banking fees are too high. It at the same time also recognised the need that the providers of banking services need to be rewarded for, for the services they provide. And I think that it also raises the point that the scope of the investigation was not wide enough to investigate all cost structures behind banking fees. So I think it is a nicely balanced report from that point of view.

I hope that this enquiry will offer the opportunity to the general public to develop a good understanding of the cost drivers behind banking fees, because I do believe that they need to understand what they pay for when they make use of banking services. We will not focus in our presentation on the broader banking environment and the theory behind that and I would like to thank Nedbank for setting the scene in that regard, so it makes it a little bit easier for us. Our focus in our submission, as well as in the presentation today will be to share with you our perspective on some questions that were raised when we met with you at our premises a little bit earlier.

It is important to note and I think this will, this specific issue will be touched on, on a number of occasions during this presentation, it is important to note that mercantile acts as both price taker in certain environments, as a small bank, as a small participant in this market and the price maker and we do face challenges on both sides of the equation and we will try to share some perspective in that regard with the commission this morning. If we can go into the presentation, the

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structure of our presentation is far more operational of nature than the previous one. What we will try to do is to give you a small introduction into Mercantile Bank, as I think it is important that we set the scene from that point of view. Then Matthew Coaker will address the electronic payment services perspective and Vernon Derby will talk about card services.

If we can look at Mercantile Bank, yes, we are a small bank, we are one of the smaller local banks, we are listed on the JSE, but yet we are 91.75% owned by Kaisha Geralde Depostos, which is the biggest commercial bank in Portugal, 100% owned by the Portuguese Government. So it does put a nice unique scenario or set a unique scenario when you look at Mercantile Bank and how we operate. The focus in Mercantile Bank, I think it is important to just briefly touch on the history of Mercantile Bank. The bank went through quite a bad period of continual loss making and that resulted in our parent company deciding to put all the banking operations on hold, back in 2002 and we went into a rehabilitation programme, which lasted for two years.

They were fairly happy with the outcome of that whole process and in September 2004 our parent company decided to re-capitalise the bank. The believed in the business model that we have put forward and they decided to re-capitalise us in order to allow us the opportunity to start growing the business again. So we are fairly new from that point of view, in that we only started growing business actively since September 2004. The focus of the strategy going forward is basically on business banking through our commercial banking arm and only 15 retail branches. So we cannot really talk as a retail bank today, so we will most probably not be able to answer all your questions as far as retail fees are concerned, because the focus of the bank is not to provide personalised service into the general public.

The focus is on business banking and the mechanisms that we use is the commercial banking arm and then a limited number of retail branches. The second focus area and that is where I think we can add value to this investigation, is the strategy to offer card and electronic services to or alliance partners. We carry a full banking license, so we can provide all the processing and settlement services to anybody that any of the Big Four banks can provide. But because of our

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limited footprint we do not want to sell that to the general public, we will rather identify certain alliance partners who are interested in providing banking type of services to their client base and we will provide them with the processing and settlement capability to offer those services and products to their clients.

The last pillar of our strategy is the set of treasury services that we offer to our own clients and also to alliance partners, in the sense that we do allow them to source their clients and we again provide the processing and settlement services. In all of this we do not walk away from any regulatory responsibilities. So the bank retain all the regulatory responsibilities but we allow the alliance partners to find the clients, to carry the credit risk and then to provide banking type services to their client base. I think we have introduced ourselves already, Vernon Derby on my right-hand side is our head of card business, Matthew Coaker is the head of electronic banking and I am looking after alliance banking and treasury at Mercantile Bank.

Just to touch a little bit as an introduction on some of the comments made in the Hawkins Report, I think it is important to just share with you a few ideas around the relationship between fees and costs. I think it is important to say that there is no single model that is working for all banks in the country. If you look at the different business models you will find different fee models present in all of those banks. MBL subscribes to the principle of swop and I think there was a nice explanation in the report around the whole concept of swop. We believe that the relationship between fees and costs is more complex than what meets the eye on the face of the question, around banking fees.

And finally we strongly agree that the final conclusion on the level of banking fees is dependent on a proper analysis of all the cost drivers behind a fee. We then decided just to list a few of the cost drivers that we believe should be considered and I am just going to run through these quickly. First of all the direct cost of participation and when Matthew runs through his presentation you will see that we refer to the Bankserv pricing structure, we have very specific views as far as that is concerned, but he will share that with you a little bit later on. Then obviously the cost of SAMOS, participation in SAMOS.

The cost of infrastructure, Mercantile, once again if you look at the financials, yes, we had a very bad cost to income ratio until last year and we are in the process of lowering the cost to income ratio. I think that is something that is very important to take cognisance of when you calculate the level of fees that the bank charge to its clients. Obviously the cost of regulatory and industry compliance, I need not to run through these, the cost of the license, the banking license and everything that goes with it, the cost of risk management and I do believe that Nedbank did touch on these elements as well, the asset and liability management cost and everything that goes with it. The credit and fraud management and then cost of compliance.

What I am trying to say is that before final conclusion can be drawn, I think it is important that we consider total cost versus fees before you can determine the mark-up that a bank apply to its clients. That is my part of the presentation, so I will hand over to Matthew to talk to the electronic banking side of our presentation.

MR COAKER: Good morning, Mr Chairman. I am going to touch on a few of the elements that we interact with in terms of providing electronic banking services to our customer base. Obviously one that is very topical and has been addressed fairly broadly this morning is the Bankserv. We note that there has been some questions around the Bankserv pricing structure. From our perspective the volume based pricing structure that is applied by Bankserv does impact on our ability to compete effectively in certain of the payment streams, merely by the fact that we are a low volume player and hence we will end up paying the higher price per transaction.

Saying that we want to take nothing away from what Bankserv does offer, the banking industry in terms of the interoperability and the access to the National Payment System that it affords ourselves as a small bank. I just wanted to also speak a little bit about the Bankserv board structure, which can be a bit of a challenge from our perspective when we would like to influence a few things our way. We only hold 7.5% of the Bankserv board, but that is held through a special purpose vehicle company, Dandishelf 3. Each of the smaller volume banks participates in the

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Dandishelf 3 structure on a voluntary basis. We currently have, I think it is around six shareholders within that structure.

The Dandishelf structure is entitled to two of the 10 voting seats on the Bankserv board and thus you can see we have little or no influence unless we are called upon to make a breaking vote in a conflicting situation where some of the bigger players do not agree on a particular item. We were also asked to comment around the Saswitch and ATM switching fees, etc, and we just do not think that we will be able to give you any kind of an objective view, because we only host 15 ATM's in our branch networks. We do have a few alliance partner ATM's, but in the big scheme of ATM's in the country it is very difficult for us to give you any kind of objective idea of what the cost impact is of running a broad ATM network in terms of support, cost of the hardware and all the logistics that goes around the cash management side of it, etc.

So the only real thing that we would like to possibly look at is in terms of access to banking. One side of the ATM structure that has been put out… and is possibly a fairly controversial amongst the banks at the moment is the so-called mini ATM device. And the cash back at point of sale kind of structure within it, within which we can operate. And we would probably like to see further enhancement of that product offering going forward, because it is a cost effective mechanism to get banking into rural areas and into previously disadvantaged areas. We were also asked to make a few comments around multilateral and the bilateral pricing structure.

As you are aware, the only pricing structure whereby banks can currently negotiate the interchange fees at the moment is the bilateral pricing structure, due to the Competitions Act. This can potentially have a major impact on us as a small bank and our ability to compete in the various payment streams. There is no way of us having any kind of transparent view of the prices being offered to us by the major banks for the services in a particular payment stream and we have also seen in the past certain volume based pricing structures also being offered by the bigger banks, whereby they will have, let us say for instance a 25% shift between the higher volume player and the lowest volume player in a particular payment stream, in terms of the interchange fee that might be charged.

And as I say, there is very little transparency in the bilateral structure, because each bank is negotiating with each other bank and nobody really has a complete view of what the underlying costs of each bank is. So it does have a potential to almost shut the smaller banks completely out of offering payment services over a period of time, if the bilateral pricing structure is continued. The other thing around the bilateral pricing structure, it is incredibly cumbersome to implement, with each bank negotiating a separate price with each other bank on each particular facet of the payment stream. You end up with having to build an engine to run your pricing, that is probably bigger and more complex than the engine that runs the actual payment stream itself. And there is very little transparency in that process.

This creates huge complexity in terms of managing the payment stream and also potentially creates confusion in the minds of the consumers. Because for instance I might agree a certain price with ABSA and a different price with Standard Bank for the same service. Now do I charge my customer different prices from the different banks and it will just go to creating even more confusion at the consumer end of the market, where you would have to know potentially with whom you are dealing and with whom they bank before you know how much you are going to pay for a particular service in terms of the payment stream.

We would therefore just like to place our support for the multilateral fee process which we believe should be independently overseen by industry experts, just to ensure that the costs that are taken into account when we start looking at setting a price for a particular service offered on interbank basis, that those are fair costs and that they are independently overseen, as I said, by the experts. And that can provide a transparent methodology for interbank pricing. That concludes my presentation, I will hand over to Mr Derby.

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MR DERBY: Mr Chairman, I do not know if you can see everything on there, but I refer to it as a full party model, Nedbank also referred to it in the card environment. On the left-had side it is the issuing fee or referred to issuers, on the right-hand side we refer to acquiring banks, at the bottom left-hand side we refer to card holder and the right-hand bottom side we refer to merchants. Now relationship again between the card holder and the issuing bank is highly competitive in the environment at the moment. Issuing banks will usually recover either an interchange fee, they will get interest on the cards and these other annual card fees, etc, involved on it.

On the right-hand side the ratio between the acquirer and the merchant is also highly competitive. Again usually your bigger merchants will earn or would pay a lower merchant service fee, as compared to your smaller merchants that will pay a higher merchant service fee. Just quickly again on the card fee side, in the past it was customary in South Africa to charge an annual card fee, in some instances it changed to monthly card fee, lately all new products that is coming on board is no card fee, because we base it on, again just stressing the competitiveness of the card environment. Then I just want to put interchange fee into perspective. Interchange fee is a fee earned on the purchase transactions on a card.

Issuers use the revenue stream of interchange fee to offset cost of managing his card base. And there is additional risk in the card environment such as fraud and of course there is a huge fraud prevention cost that must be taken into consideration. And the big cost driver on interchange really or in your card environment is the interest-free period. Usually cards have an interest free period of up to 55 days. And I thought it will be good to just give you an explanation of how it works. If you get a customer it will refer to as a transactor. He will do a transaction, he will make use of his interest free period, but he will settle his full balance before due date.

In this example, if you did a transaction of R1 000, the interchange fee will be charged 1.71, the issuing bank will receive R17.10. Now that R17,10 you have to allocate as follows: The funding cost and here we only use for example the repo rate plus 1%, you then multiply that by R1 000 over 55 days, it means that your cost for funding is R13. 56. So the real income only is R3.54. The moment you take that percentage up to prime rate, then you do not make anything at all, because then your funding cost is over R18. The next slide then just gives the other opposite. If you get the revolvers, those people that transact and they do not pay the full balance, in this example we say they require or they repay a 10% of the minimum due, then of course there is no funding cost, because it is covered by the interest the customer pays and then your full transactional cost is R17.10.

So you want to look at the interchange fee on your card base. If you have got a lot of transactors you are not going to get a lot of interchange fee really, because everything will go for your funding cost. If you have got a lot of revolvers then it make sense and then you can challenge the income that you receive on interchange, that we refer to as a transactional income. On the other hand these cards are one of the highest types of lending risk and that results into high provisions, sometimes up to 5%. Usually there is no other transaction fees on credit cards itself. In the next slide I will continue to debit cards, of course there is a lower interchange fee, same principles apply, interchange fee of 0.55%. Usually there is a transactions fee at point of sale of R2.50, it depends between R2 and R3 as well, but average about R2.50.

All transactions are authorised online and therefore your risk and fraud are minimised. But there is the other challenge then here, the acquirer and the merchant has the cost associated with the point of sale infrastructure to do the card transactions. Just then touching quickly on the merchant acquiring side. Transactions are acquired through merchants, which got a relationship with the acquiring bank. Issuers at this point in time usually switch either through Bankserv and the card associations. Most instances in South Africa the smaller banks are switching through the card association. Reason being again the Bankserv fee is volume driven and you have to have a link to your card association to accept international transactions coming into the issuing base.

And there fore it is sometimes more cost effective for a small bank just to have the one link and to route everything through the card association. The downside of that is you build in dollars. So the moment there is a foreign exchange fluctuations you can end up paying much more for your transaction fees, if you switch through the card associations.

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Then the other topic that is also referred to often is the sorting at source issue. Everybody thinks that it will necessarily be and a beneficial for the smaller banks. Not necessarily, if you start with sorting at source a small bank have to then build connectivity to the larger retailers and that is high cost, if you have 10 or 20 connectivity points coming into your system, instead of one going through a card association or one coming in from Bankserv.

And then of course you have to enter into multi-bilateral agreements, it will be also costly exercise for the banks and then again there would not necessarily be a standardised bank procedure which could have a big impact on the cost, if you have to arrange different relationship for charge-backs between the merchants and the issuing bank. At the moment the average merchant service fee is around 3.5% in South Africa. But again, as I previously said, the merchant bears the cost of the point of sale, to actually get that transaction to the issuing bank. And then of course also the merchant service fee includes the interchange fee payable to the issuer. So if you look at the issuing fee at credit cards, 1.71% and compare that to the average 3.5%, the difference is what the acquiring bank will earn as an income.

Then quickly we were asked to also touch on the governance in South Africa on the card side and we specifically here refer to the association of bank-card issuers. The five largest banks each have one representative, the next five banks has together one representative. It needs the majority vote of 80%, either by hands or by poll, but in the poll base a voting is based on card sales volume, again on the volume issue, which effectively give the larger banks control, smaller banks do not have a voice and there is no process at this point in time of arbitration, if you do not agree with their decisions of the… ABCI

Then also we just touched on private label cards, specifically on the garage and petrol cards environment. To highlight that fore court merchants do not pay a merchant service fee. Also refer then to the Edgar Dunn Study, that was provided to the Commission and the auspice of the ABCI. And our recommendation in this instance is that to be competitive, open up and accept branded credit cards and debit cards at a full court, at the moment it is not allowed. And that is it.

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MS NYASULU: Mr Derby, just for clarification, when you talk about the fact that a majority vote of 80% is what goes and it is a show of hands or on a pole, what exactly would you be voting on, I mean what will be some of the issues that come up in the voting?

MR DERBY: It is all about business rules around in the card environment and specifically on the branded cards, Visa and MasterCard. For instance, one example could be that there is certain card association rules, let us refer to it as a card bullet turn or a out-card file internationally and the local industry can then vote and change the rules that the local rules supersede the international rules. For that instance acquirers will obviously point to a local out-card file, where the smaller issuers like Mercantile Bank, who is using the card association, will not point to the international card bulletin file.

MS NYASULU: So basically, just again so that I understand the governance around this ... then the shaft would have two representatives or did I get that right?

MR DERBY: This is not the Bankserv one, this is the association of bank cards issues ...

MS NYASULU: Oh, this is the, okay.

MR DERBY: Then it is five larger banks and one representative for all the, or the next five smaller banks.

MS NYASULU: Okay, but on this specific one then, if you had a particular agreement with the rule, because for whatever reason it prejudices the smaller banks, are you then saying that the larger banks would probably, basically have a ... veto on the basis of 80%?

MR DERBY: Quite right.

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MR BODIBE: Thank you Mr Chairman, my question is directed to Mr Coaker. It is in relation to the Bankserv pricing structure and I have got a two-part question there. Firstly, in your knowledge, is there a difference in costs for Bankserv in terms of the amount of volume it processes, what does it cost per bank serve to process a particular volume of transactions, would you know whether the higher the volume, the higher the cost, or what is the relationship?

MR COAKER: Mr Chairman, essentially the payments industry is a volume driven in terms of the high volume, the better the cost. You know, if you have got ten transactions at an average cost of R1.00, if you have a hundred transactions, you are going to go down by a multiple of ten because there is a fixed infra structure which is placed at Bankserv at a certain cost, and the more volume you can drive through that infra structure, the essential cost per transaction must drop, obviously there comes a point where you have to upgrade your infra structure, but generally it is a volume driven exercise.

MR BODIBE: How much do you mean that Bankserv is using up to date, technologically advanced equipment to process all these transactions. Now the question I am asking is, from the point of view of Bankserv, what does it cost them to process all these transactions, which means, does it cost them less to process more transactions as compared to the processing smaller volumes?

MR COAKER: If you look at Bankserv as a whole, their major customer basis obviously their four major shareholders, you provide them with probably in excess of the 92% of their volume from that perspective. So their real interest obviously lies in retaining their current customer base, particularly focussing on the major banks, because that is where the volume is drive out of at this point in time. So I do not know if that quite answers your question, but the volume driving perspective from Bankserv's point of view is the more that they get, the less it is going to cost them to a certain point where they would then obviously, there would be an implication on their electronic infra structure.

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MR BODIBE: Thanks, what will be your proposal for an ultimate, as an ultimate for a volume based pricing structure, what will you propose as an ultimate?

MR COAKER: Again we see banks, Sir, with a fixed cost infra structure that is pretty much paid for already and there is sufficient volume flowing through the Bankserv's structure at this point in time to maintain that infra structure and also to upgrade it when necessary. Therefore we would propose that there is a fixed kind of fee that would be put across to all the participants within the industry, which would provide a completely level access for both the smaller players, new players and the large players.

MR PETERSEN: Mr Coaker, if I can just follow up on these questions to do with Bankserv's pricing. Now, are transactions, does Bankserv charge per transaction?

MR COAKER: Correct, they do.

MR PETERSEN: And that charge is different according to the volume, which the customer of Bankserv provides, you being one of Bankserv's customers?

MR COAKER: That is correct.

MR PETERSEN: At what point is that volume calculated?

MR COAKER: The structure of the Bankserv billing model is, each customer and that would be each bank, would have to guarantee to Bankserv a minimum income for a particular year, and based on the guarantee given for that minimum income, a price will be given to that bank according to what their guaranteed volume would be or the value of transactions that they are going to give to banks. Say for instance, if we guarantee Bankserv a R3 million income for a particular year, there is a tiered pricing structure, whereby we would then pick up the prices on the R3 million tier, for across the board, all our transactions volume, be it at ATM, EFT, whatever the type of transaction, and that pricing structure works from, I think from R1 million to R99 million in terms of how it is structured and there is a flattening of the curve, the higher that you go. So the differential is lower, the higher the transaction volume.

MR PETERSEN: Is there a subsequent adjustment depending upon whether you fall below or go above the promised level?

MR COAKER: You can apply for such an adjustment if you wish to, with a month's notice.

MR PETERSEN: So the intention is that it is as close to volume related as possible, is that correct?

MR COAKER: Correct.

MR PETERSEN: Now you have already indicated that, with respect it is obvious in principal, that the greater the volume, the lower the unit cost of the transaction. Would you say that the differences in price charged by Bankserv, I know they are volume related, but are they cost related?

MR COAKER: That question I do not know if I can answer with any real knowledge. I think that question will have to be directed to the bank itself.

MR PETERSEN: Now you have indicated that you consider that a flat fee irrespective of what volume would be appropriate?

MR COAKER: Right.

MR PETERSEN: But coming back to the structure that we have now, structure of charging by Bankserv, that we have now, can you say whether the price differential that you experience, currently does or has in the past actually impacted on your ability to expand within your market?

MR COAKER: It is definitely one of the components, which does have an impact on our ability to expand in certain of the payment streams. In some of the payment streams currently the Bankserv fee is relatively negligible in terms of the total cost of providing a service. But in certain other of the payment streams, there is a definite impact on the price structure of Bankserv on our ability to compete in the higher volume customers, where we would like to attract their business to our bank. We would be unable to because our cost price would be higher than the price that one of the large volume banks could and does offer that particular type of customer who has a high transaction volume.

MR PETERSEN: Because this hearing is taking place, so soon after the closing date for submissions, we have not had an opportunity to study in as much detail as we would like, what you have in fact put in. If what you are just explaining to us now as not being extensively covered in your written submission, would you be prepared to prepare further material on that for the enquiry?

MR COAKER: We have prepared an example within the written submission of this particular issue and if you require any further detail surrounding that, we will be happy to provide that.

MR PETERSEN: Your example as I understand it, shows how close you are to having no margin on these transactions, in comparison with banks putting through a major volume. But you have not in that part of your submission which I read, dealt with the impact of that price difference, the actual impact of that price difference on your market position, on your ability to expand. You dealt with it in principle, how it could impact but I would be interested to know whether in fact it does or has. So, if you could supplement that in due course. I will have a number of other questions relating both, to your very helpful presentation today, but also to the written submission that you have put in, but as I understand it, questions today are mainly just for the purpose of clarification of your submission and that we will have a further process of engagement and that you will be willing to answer further questions down the track. Is that correct?

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MR COAKER: That is correct.

MR PETERSEN: And may I just in that regard indicate to you that, I note that your treatment today of interchange and you are dealing with interchange within the four party model, as I understand it, you have also in your submission dealt with interchange in connection with EFT debit orders. You have not dealt with it specifically in the ATM context, but nevertheless, coming to interchange within the four party model, you have dealt with it on the basis of the difference between bilateral and multilateral negotiation of interchange and I understand that. But I think we will want to pursue with you a more fundamental question about interchange in that context, as to whether it is in fact appropriate for the issuer's costs to be recovered and the issuer's return on those costs to be recovered, by way of the flow of interchange, as oppose to directly from the card holder, and to the extent that you have views on that. I hope you will let us have your contribution there as well. Thank you

MR COAKER: You are more than welcome to contact us in that regard, we will gladly assist you.

MS NYASULU: Chair, I just want one final question and I am not sure who raised it, I think it was Mr Derby. I need just to understand for my own, really, education, I seem to have missed the significance of why you were raising the issue of the branded credit cards and debit cards, and what the impact is?

MR DERBY: Mr Chairman, the branded, I specifically referred to petrol cards, and South Africa is one of the few countries that do not accept branded cards under Forkot , that is a point of how we can buy fuel, and the merchant does not pay a merchant service fee. And for the industry it will be much better to accept credit cards on that point. So at the moment you have to get a separate card, ... pays additional fee and also transactional fee on that card. And for instance, international visitors to the country cannot use their credit cards at a point of sale.

MS NYASULU: Okay, so the significance was really not on branded but on the type of card. I read the wrong significance. Thank you.

MR JALI: Thank you. It does not look like we have any further questions for you and I thank you for coming. The one thing, which we, just for the record, need to know, is that, your submission will be Exhibit "E", that is the slide. And also, if we could have them ... transmitted to the Commission, so that it will be easy for us to use them. Thank you. We will take lunch adjournment until 14:15.

(Enquiry adjourns for lunch)

(Enquiry resumes)

MR JALI: Good afternoon ladies and gentlemen. We want to welcome the Benchmark Foundation who are going to give us their representation for this afternoon. Welcome, and that is Mr Ramadie and John Capel.

MR RAMADIE: John Capel is not here.

MR JALI: He is not here, okay. Alright, you may proceed.

MR RAMADIE: Thank you Chairperson and the rest of the members of the panel. I will begin by giving a background of who we are as Benchmark Foundation. The name, the full name of the organisation is Benchmark Foundation for ... Responsibility. This organisation is an organisation that was started by the religious community with the key stakeholders being the South African Council of Churches as well as the Southern African Catholic Bishops Conference. So this is basically an economical phase based organisation that seeks to promote good corporate conduct as well as to instil a culture of ethics and morality in the world of business.

As Benchmark Foundation, we believe that corporations do play an important role in society, including shaping government policies and structural relations in society. We agree that business has a specific responsibility to ensure that its practices are not harmful to the broader community as well as the environment, and this requires that business incorporate responsible practices into its code business model, taking into account the broader needs of society. And the background to our submission, just briefly Chairperson, we have conducted a studious part of the programs that we undertake in terms of assessing or evaluating the conduct of business, in terms of respecting its consumers, its customers, the environment, human rights, and so on, and so on.

And we undertook a study on the financial services sector based on a document that we have produced called "The Benchmark Principles". And we pulled two aspects of that document, according to which we then did a study on the banking sector. One section is 2.5(c)(4) of that document and I will read it for your benefit. "The financial institution must have clearly stated policies and practices to promote community reinvestment scheming, that include provision for the full range of financial services to the local communities in which they operate, or upon which they have an impact".

And the second principle that we pulled out, according to which we did this study, is 2.5(b)(4) of that document and it reads as follows: "Financial Services, including macro financing, discounted loan services and other fair lending practices are made available to local communities including those that are under-served on a fair and equitable basis". I will then proceed to offer some background to, or the detail of the background to the submission. We believe Chairperson that the financial services sector operates in a very challenging environment in South Africa. In the past the major banking institutions were set up to respond to particular challenges of both political and socio-economical nature.

It is a fact that banks account for the bulk of the economic power of the white community, while they play an insignificant part in the impoverishment of the black majority. This was done through lending policies including risk assessment mechanisms, service charges through which rich us, subsidised by the poor, creating limited or no access for the majority of people to financial services etc. Now we have transited from the apartheid era wherein banks and other financial institutions colluded with the political order of the day, there is an expectation that they will play a constructive role as agents for socio-economic change.

This sector has a potential to act as a catalyst for economic growth across all sectors of society, both private and public, and thereby contribute constructively to the eradication of poverty and the elimination of inequalities. The financial sector can play a leading- role in transforming a society that is characterised by extreme inequality into one, which is more equitable, facilitating societal participants access to sustainable and dignified livelihoods. It is therefore vital in a country such as South Africa, Chairperson, that the power of financial institutions be harnessed to contribute positively to the eradication of poverty, job creation as well as skills development.

In order that this aim may be achieved, a number of critical conditions and contributions are required of this financial sector, and this include amongst others, (1) an understanding of existing inequalities that need to be addressed, (2) a commitment on the part of the financial sector, not merely to engage in philanthropic activities, but to alter its core business and practice, such that these are responsive to existing inequalities and for the expensive financial access and economy growth, thirdly, involvement of insurance, both banks and for its shareholders as well as its customers who stand to lose their entire savings in scams, if they are not insured and so are dissuaded again from investing in banks, and of the insurance industry to engage with and to alleviate instead of only avoiding this scam.

Finally, a synergy between the financial sector and broader society, in order to create an enabling environment for the equitable development of the dignity of all the members. I will now, Chairperson and honourable commissioners, move to some of the issues that we have picked up from our studies, from the interactions that we have had with people that we interviewed for the study that we had undertaken to actually build a case for our submission, and we essentially have about three submissions to make in that regard, and I will now move on to them with your permission.

The first submission is the whole issue around the complex nature of the banking system, the banking culture and practice and other issues. In that respect we submit that a South African Financial Sector is caught up between local and global challenges and pressures. While global competitiveness is not in itself bad, this is often done at the expense of local needs. In order to be competitive, South African banks exercise monopoly over the national payment system, resulting in the marginalisation of small actors and potential actors in the sector.

The other consequence of this pursue of international competitiveness and relevance, is the fact that a significant section of the population is excluded from banking services and the figure ranges from between R13 million to R14 million. Cosatu and FSCC statistics are at around R13 million and ours at R14 million. It is a fact that the financial service sector has the potential to set the precedent, wherein, by increasing access to financial services to its currently un-serviced, un-banked, the banks code and general enabling environment, for transformation of equality, into greater equity and to increase economic growth and prosperity for all the people of South Africa.

There is also not enough competition in the banking sector, we believe. Competition is generally accepted as a key mechanism to increase efficiency and economic development. As a result of this lack of competition, and of the exclusion of the majority of the citizens of this country, and potential banking customers from the formal banking sector, and due to the high risk aversion in the South African financial sectors, the are mutually enforcing exclusionary fees, people, this role of catalyst for social change, that we anticipate for the banks.

And therefore our argument is that the preoccupation with international standards, at the expense of local imperatives, has led to the monopoly of the national payment system by the big banks, and thereby limiting competition between them and between them and other players. In the final analysis the consumer is then made to bear the cost of this global competitive. And I will move to the second submission, which is access to banking services.

In 2004, in order to even gain access to any financial services, restrictions such as the monthly income of R3 500.00 and the longer term of permanent formal employment generally apply. Without meeting any of this criteria, a person then is restricted or even remains un-banked, and often finds themselves in a vicious cycle of being un-banked and

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unable to become either employed or bankable. Indeed it costs an un-banked person more to access and transfer money, than it does a banked person, and we will demonstrate that by way of example.

According to the study that was conducted by the South African Competitiveness Report, well, a report that was released by this body, it would cost an un-banked individual who lives on the outskirts of Johannesburg for example, a total amount of R32.00 to make a payment of R250.00, using a post office facility, whereas somebody that has an account with one of the four big banks, and somebody that has access to electronic banking system, it will only cost that person R3.75 to make that same payment of R250.00. So clearly that example demonstrates that the cost of accessing bank services, banking services is higher for clients of small banking providers, as compared to the bigger banks, and the cost of that difference is borne by the consumer.

Also another important element here is what we call hidden costs for accessing banking services. Travel and transport costs to access this service, are hidden costs, that are laid on the shoulders of the consumer, and as a result of that, the rural and poorer areas are punished by banks, due to the long distances to be travelled, in order to get to the nearest service point. And to summarise that submission, we are saying, it costs the poor more in rand terms, to access banking services. Secondly, a proximity of banking facilities to the consumer could facilitate access and the cost of bringing these services closer to the consumer, should in our view be borne by the banking institution, rather than by the consumer.

And thirdly, as a consequence of skewed competition, clients of bigger banks pay less for services as compared to those of smaller players, thus clients pay more as a result of unfair competition. And I will now move to the next one, which is access to bank accounts specifically. We recognise some what stringent conditions that are placed on the individuals when they are to open a bank account. For example, a cheque account stipulates that a minimum age of 21 years, an annual income of at least R24 000,00, should be applicable when one accesses, when one opens a bank account, and even when these requirements are met, leverage fees, either for transactions, make this access very difficult.

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Furthermore, a personal loan of between R4 000.00 and R50 000.00, excludes all potential customers based on absence or lack of telephone contact, a permanent domicile address, same employment, work for the same employer for a certain stipulated period and so on, and so on. So fundamentally we are saying it is impossible to accrue an employment record, which perpetuates marginalisation and inequality, effectively working against economic growth and eradication of poverty.

And our submission in that regard, Chairperson, is that the lack of access to bank accounts, tends to make people vulnerable to crime and pushes them to the informal and inadequately regulated money lending sector. This can be attributed to the fact that there is effectively no context in the sector. Instead, what we have, we believe, is a dictatorship of the big banks. If a prospective customer is turned down by one of these big banks, for failing to comply with the criteria set above, maybe it is likely that the rest of the bigger banks will also turn this person down.

And the next one will be the banking fees. Discriminatory pricing, prevails the banking sector in South Africa, according to a study that we have conducted. Administered through its three basic charges, that is the rate of interest on deposits, the rate of interest on loans, and then area of charges that banks impose for particular transactions and services. And we also did a comparative study of what is costs in South Africa to do a particular transaction, and we discovered that comparatively speaking, South Africa still has one of the highest banking fees in the world.

And I will skip the comparative things, they are already included in that submission. Through high costs for cash transactions, the banks marginalise the low income earners, the poor and un-banked. Cash withdrawal for instance over the counter, costs about four times that of an ATM cash withdrawal. Secondly cheque account holders pay less for services such as debit orders and stop orders, as compared to saving account holders for the same services. The majority of lower income earners as well as students, runs saving accounts and the fact of this system of charges on services, is that low income earners subsidise high income earners.

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And the summary of our submission is that (1), the relationship between the service charge or service fee and the services offered, has not been sufficiently explained by the banks, and therefore we believe that an explanation is warranted. Secondly, the fact of the system of charging customers, list the wealthy benefiting more from the bank, compared to the poor and we also believe that an explanation to this effect will be helpful. And finally Chairperson, we are working on submissions from individuals that we encountered, as I said, through the studies that we conducted, and we are hoping we will get all of them.

We have so far got sufficient evidence from about three of these categories and I just run through the categories of case studies that we will present in detail. One is the holder of an Umzansi account, through which we will try to show that the Umzansi scheme cost too much in banking fees and other charges, and that it is not available in urban areas, and that to set up such an account, is impeded by various requirements and criteria that are set up by the bank, including proof of income, proof of residence and so on, and so on.

The second case study will be more around the smaller and medium enterprises and we are still trying to work on that one. The third case study will be around an ordinary worker, who has a savings account, has a stop order on that account and his elder brother is a middle income earner, has the same services and the two, when compared, find that they pay more for different services, while the ordinary worker actually earns less than his sibling, who is a middle income earner. So thereby with the case we will be trying to do a comparative analysis of what in terms of presentations. It costs a low income earner and a middle to high income earner and the cost to some of the banking services.

We are hoping to get sufficient information on a church burial society and we are still trying to collect that. And the next one, which is the last one, will be a case of a pensioner and through that case, we will be trying to demonstrate that, to demonstrate how banking fees actually erode State assistance to old age pensioners and to also prove that even recipients of social granting including pension funds, have to pay more or less the same bank charges as those of us that are employed including your middle and high income earners.

And with that case study, we are also trying to argue that for pensioners, banks should begin to consider offering free services, because whatever amount of money will be involved, in terms of service charges, we go a long way in terms of a particular case of this pensioner. But second to that, we will also be trying to demonstrate that, in the absence of a bank account, in the context of difficulty of accessing banking services, the pensioners are also vulnerable to criminal activities, especially those that find themselves in the remote rural villages. But also to demonstrate that, in the absence of these very services, in the context of difficulty of accessing them, then these pensioners get tempted to access resources through micro lending facilities, which we not believe is the best thing to do.

So in the case of all these cases, we are busy working on those things, to provide detail of the case that we are trying to demonstrate with them. I shall end it at this point Chairperson, and on that note, I wish to thank the Commission Enquiry for giving us the opportunity to do this, taking into consideration also the difficulties of the terms of reference of the Commission and we nevertheless believe, that this is a good starting point for the kind of thing that we are involved in. I thank you.

MR JALI: Thank you. Just for clarification, you referred to the five case studies, namely the whole Umzansi account, burial society, pensioners. Now what I want to find out, when are we likely to get your input on those case studies?

MR RAMADIE: Well, in my discussion with the staff this morning, it was not properly communicated to us that it will be necessary for today but we will be working on that as soon as tomorrow morning.

MR JALI: No, but we will get them in due course?

MR RAMADIE: Of course, yes Sir, yes.

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MR JALI: Okay, thank you, as long as we get them, I just wanted to make sure that we will get them.

MR BODIBE: Thanks. You may not necessarily give an explanation now and perhaps you may consider putting that in your supplementary submission. I am very much interested in how you arrived at the conclusion that we have a high fees, comparative and which countries are you comparing South Africa to and which product ranges were you looking at. I think now I am quite interested in seeing how you arrived at that conclusion, thanks.

MS NYASULU: Mr Ramadie, thank you very much. In the same vain as the question that you have just been asked by Oupa Bodibe, if you could just spend some time just unpacking, you made reference quite a number of times to how the rich are subsidised by the poor. If you could just start to unpack that for us, that would be quite useful. And I am not necessarily asking that you do it now, because you may not be ready to do it, but in your later submissions, if you could give us a bit more information on how you arrived at that conclusion. Thank you.

MR JALI: If of course you are in a position to deal with any of the questions now, that would be fine, but if not, we will just leave it for a further submission.

MR RAMADIE: Yes, I think I will rather go for the second option, to say we go back and do a thorough input into that and then submit that at a later stage.

MR JALI: Thank you Mr Ramadie, it looks like we do not have any further questions. I am sure you, once we receive your further submissions, we might have some questions and then we will communicate with you further in that regard. We might even ask you to come back for another presentation before the Commission. I hope you will not mind that?

MR RAMADIE: Okay.

MR JALI: Thank you very much then for coming this afternoon. My recollection was that it was indicated this morning that the South African National Consumer Union is not in a position to do a presentation this afternoon. So this will then bring us to the end of the session for today. We will resume again tomorrow morning. According to this program, we are starting at 9:00 tomorrow morning. So we will then adjourn until tomorrow morning at 9:00. Thank you.

(Enquiry adjourns until 3 November 2006)

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