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**Presentation by Standard Bank  
to the Competition Commission  
on ATM transactions and related issues**

11<sup>th</sup> April 2007



## Standard Bank representatives

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- Ian Sinton - Head Legal : CIB
- Ravi Shunmugam - Director : Group Payments, Personal & Business Banking
- Nicole Corbett - Business Analyst : CIB
- Peter Schlebusch - Deputy CEO : Personal & Business Banking



- Standard Bank's existing ATM infrastructure
- South African ATM history
- Cash withdrawal at ATM :
  - Explanation of terminology and fees
- Competitive issues raised with regard to existing ATM fees
- Possible alternatives to the existing ATM carriage fee
  - Direct charging to cardholder for “off-us” ATM withdrawal
  - Multilaterally agreed ATM carriage fees with regulatory oversight
- Emerging competing cash withdrawal mechanisms
  - Cash back at POS and mini-ATM



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## Standard Bank's existing ATM infrastructure



## Standard Bank's ATM infrastructure

Year	Cash dispensing ATMs	Cash dispensing ATMs (Joint Venture)	Total
2006	3706	157	3863
2005	3388	121	3509
2004	2921	23	2944
2003	2741	0	2741



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# South African ATM history



## South African ATM history

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- March 1985 – MultiNet direct link to participants
- October 1985 – Saswitch central ATM switch
- 1988 / 1989 – Saswitch becomes only ATM switch
- Carriage fee payable from issuer to acquirer
- SA Banks had voluntarily ensured interoperability for enhanced customer convenience which is an immense pro-competitive benefit



## South African ATM history

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- June 1989 – Standard Bank introduced Saswitch fee (Interbank fee) for its customers
  - Prior to this, Standard Bank charged customers the same cash withdrawal fee for “on-us” and “off-us” transactions
- Saswitch fee incentivised our customers to use our own ATMs
  - Customers could avoid payment of Saswitch fee by using Standard Bank’s ATMs
  - If customers accepted the charge, it was for the convenience of interoperability (additional customer value)



## Why Standard Bank introduced a Saswitch fee for its customers

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- Despite our extensive fixed cost ATM network - absorbing ever increasing costs in terms of carriage fees paid to other banks
- We encourage our customers to transact on our ATMs
  - In line with our strategy to provide the Standard Bank ATM service to our customers
  - Raise volumes on our machines to reduce average cost on our fixed cost network for the benefit of our customers
  - Provide greater certainty on transaction volumes ensuring aggressive roll-out of ATMs
  - Proliferate the use of lower cost, self service channels by customers
- Stronger incentives to invest in ATMs promote pro-competitive infrastructure competition



## Selected South African ATM history

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- March 1993 – Bankserv established, Saswitch incorporated into Bankserv
- Jan 1997 – Standard Bank unilaterally increases its carriage fee to other banks
- Dec 1998 – Standard Bank unilaterally increases its carriage fee to other banks
- Why Standard Bank increased its carriage fee to other banks
  - Increased costs associated with handling cash, servicing and maintaining machines and soaring vandalism
  - Banks with small ATM footprint (eg Nedbank / Investec) “riding” off Standard Bank’s extensive ATM infrastructure
  - The value to other banks had increased as a result of our increased ATM footprint



## Selected South African ATM history

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- Sept 2000 – Payment Clearing House (PCH) agreement entered into for ATM's which entrenches interoperability
- 2000 / 2001 – Standard Bank tried unsuccessfully to negotiate a new carriage fee bilaterally with each of Absa and FNB
  - » carriage fee has not changed for over 8 years, while costs of running ATMs have increased significantly, given annual inflation, ATM bombings and increased cost of cash transportation
- Oct 2004 - Mzansi carriage fee on all ATMs set multilaterally at a flat fee of R3,25 as a co-operative initiative to provide a basic, affordable banking account consistent with the Financial Sector Charter



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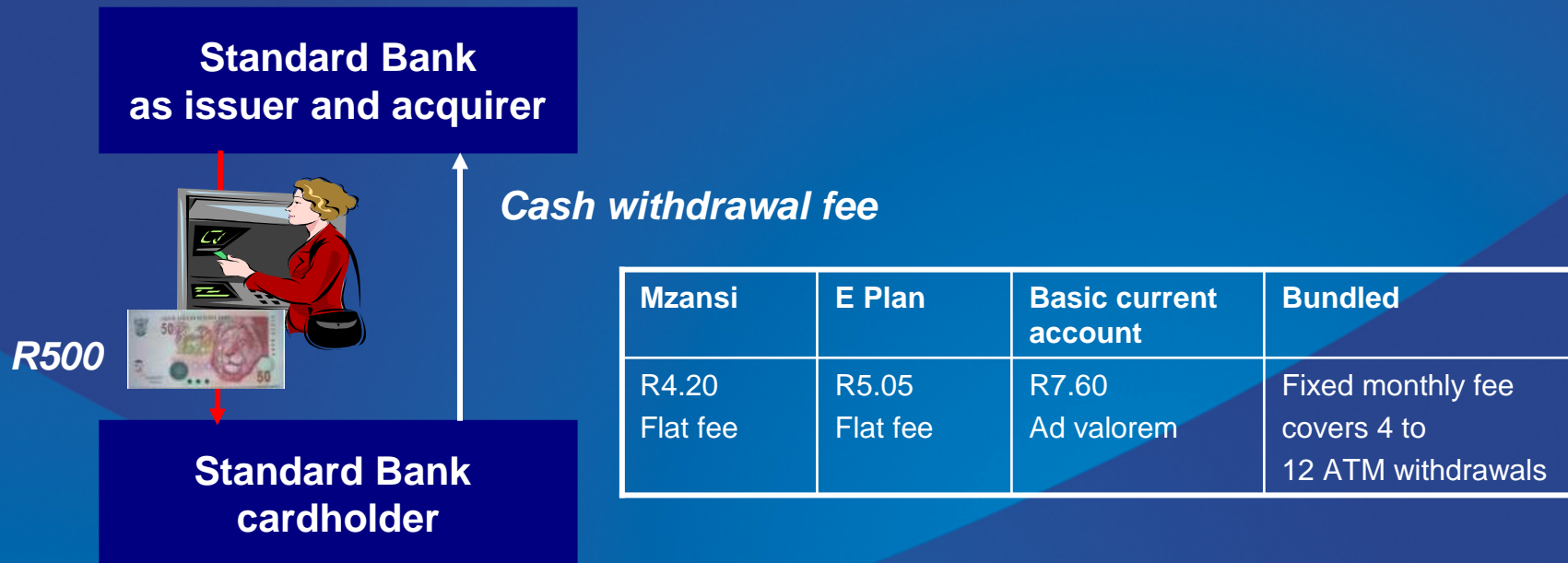
# **Cash withdrawal at ATM**

## **Explanation of terminology and fees**



# The 'on-us' model

*R500 cash withdrawal by Standard Bank customer at a Standard Bank ATM*

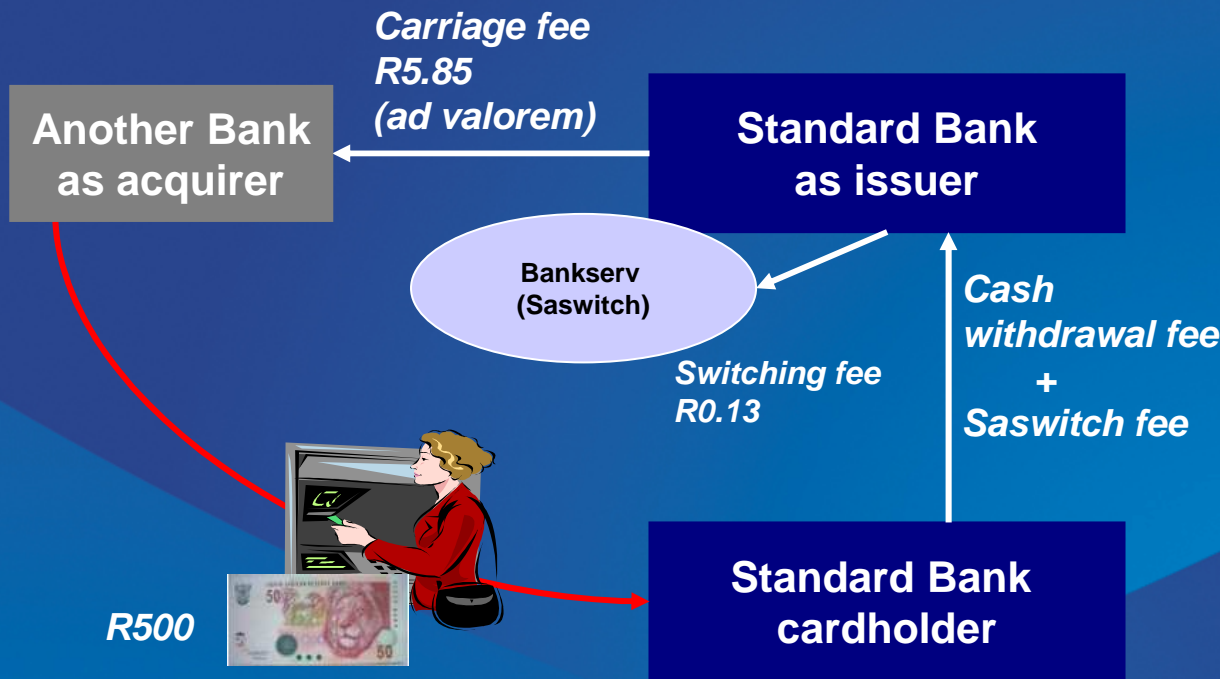


**Note: All customer fees are inclusive of VAT**



# The 'off-us' model

*R500 cash withdrawal by Standard Bank customer at another bank's ATM*



Mzansi	E Plan	Basic current account	Bundled
R4.20 Flat fee	R5.05 Flat fee	R7.60 Ad valorem	Fixed monthly fee covers 4 to 12 ATM withdrawals
	R6.70	R6.70	
R4.20	R11.75	R14.30	

**Note: The carriage fee is an ad valorem fee. The formula used is R3.25 for the first R100, and thereafter R0.65 for every other R100 or part thereof.**



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## **Competitive issues raised with regard to existing ATM fees**



## Competitive issues raised

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- ATM carriage fee thought to be in the co-operative space
- Currently, for legal and practical reasons, the ATM carriage fee is difficult to change
- Concerns around the level of the “off-us” cash withdrawal and Saswitch fees
- Perceived inequality of revenue allocation in favour of issuers, rather than acquirers in an off-us transaction
- Concerns about transparency



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# Possible alternatives to the existing ATM carriage fee



## Possible alternatives

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1. Direct charging to cardholder for “off-us” ATM withdrawals
2. Multilaterally agreed ATM carriage fees subject to a ceiling set by independent expert with regulatory oversight



## Standard Bank's understanding of how ATM direct charging would function

*Example: Other bank's card holder wishes to draw R500 from a Standard Bank ATM*

- Another bank's cardholder keys in request for R500 withdrawal on a Standard Bank ATM
- Standard Bank will display in real-time the following illustrative ATM screen message  
*"Standard Bank will charge you Rx for the convenience of using our ATM network. Press Yes to proceed or No to cancel this transaction immediately. Your own bank will still charge you an additional fee for processing this transaction"*
- If the customer proceeds with the withdrawal, the Standard Bank ATM will dispense R500 in cash
- Standard Bank will charge Rx which the other bank will pay to Standard Bank
- We anticipate that the other bank will charge its own customer a fee for the transaction (for "off us" transactions, Standard Bank will still charge a cash withdrawal fee).
- The other bank (issuer) will still pay the switching cost to Bankserv.
- The Standard Bank direct charge to the other bank's customer may vary, for example, based on
  - Location of machine - attached to metro branch vs deep rural
  - Amount of cash withdrawn
  - Time of day
  - Type and functionality of the ATM device



# 1. Direct charging to cardholders for 'off-us' ATM Withdrawal

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## Pros

- Transparency of the customer charge - will be explicitly communicated prior to transacting (no more carriage fee or Saswitch fee)
- Direct charge may introduce additional competition
- Acquiring banks and third party ATM providers are still incentivised to place ATMs

## Cons

- Transitional costs and customer communication necessary
  - Longer transaction times at ATM's
  - Increased customer queries and hence operating costs
- Could raise costs to small banks?
- Could lead to abuse by dominant players in under-serviced areas?
- Pricing complexity to end user customer
- Banks will have to multilaterally agree consequences for Mzansi carriage fee to ensure achievement of Financial Sector Charter objectives



## Standard Bank's understanding of how multilaterally set carriage fees may work

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- The regulator will meet with ATM acquiring banks and operators and an independent expert to agree the principles to be applied to determining an appropriate level of ATM carriage fees
- These principles may include cost recovery, adequate return for risk, acceptable service availability levels and accommodate differences in the ATM footprints and locations of existing players
- The independent expert will use these principles and the submissions by the ATM acquirers and operators to set a default ceiling for ATM carriage fees
- We anticipate that the default ceiling will be reviewed every three years
- As an alternative to the carriage fee set the banks always have the option to implement direct charging in whole or in part



## 2. Multilaterally agreed ATM carriage fees with regulatory oversight

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### Pros

- Uniform national pricing – irrespective of issuer, time, geography, functionality of ATM
- Favourable to small banks – receive same price as large issuers and acquirers
- Favourable to new issuing banks – receive access to entire ATM infrastructure up front at same price
- If appropriately set, provides sufficient incentive for ATM acquirers to run existing infrastructure and invest in new infrastructure, even third party ATM providers
- Limited costs and speed of implementation as ATM system already works on this basis

### Cons

- Shielding of carriage fee from competition?
- On-going regulatory oversight required
- If inappropriately set or an average charge, it may discourage investment generally or in under-serviced areas



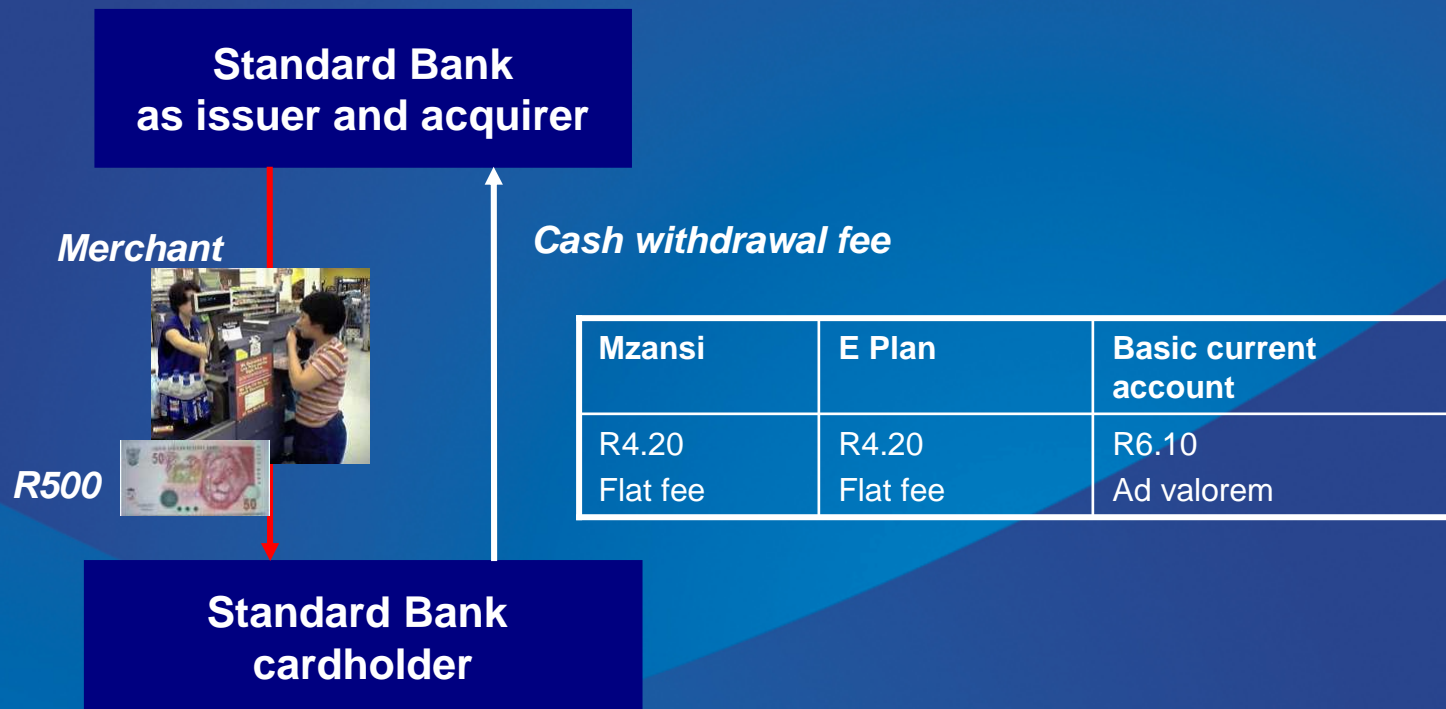
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# Emerging cash withdrawal mechanisms



## Cash back at POS: the 'on-us' model

*R500 cash withdrawal, with a purchase, by Standard Bank customer at Standard Bank POS*

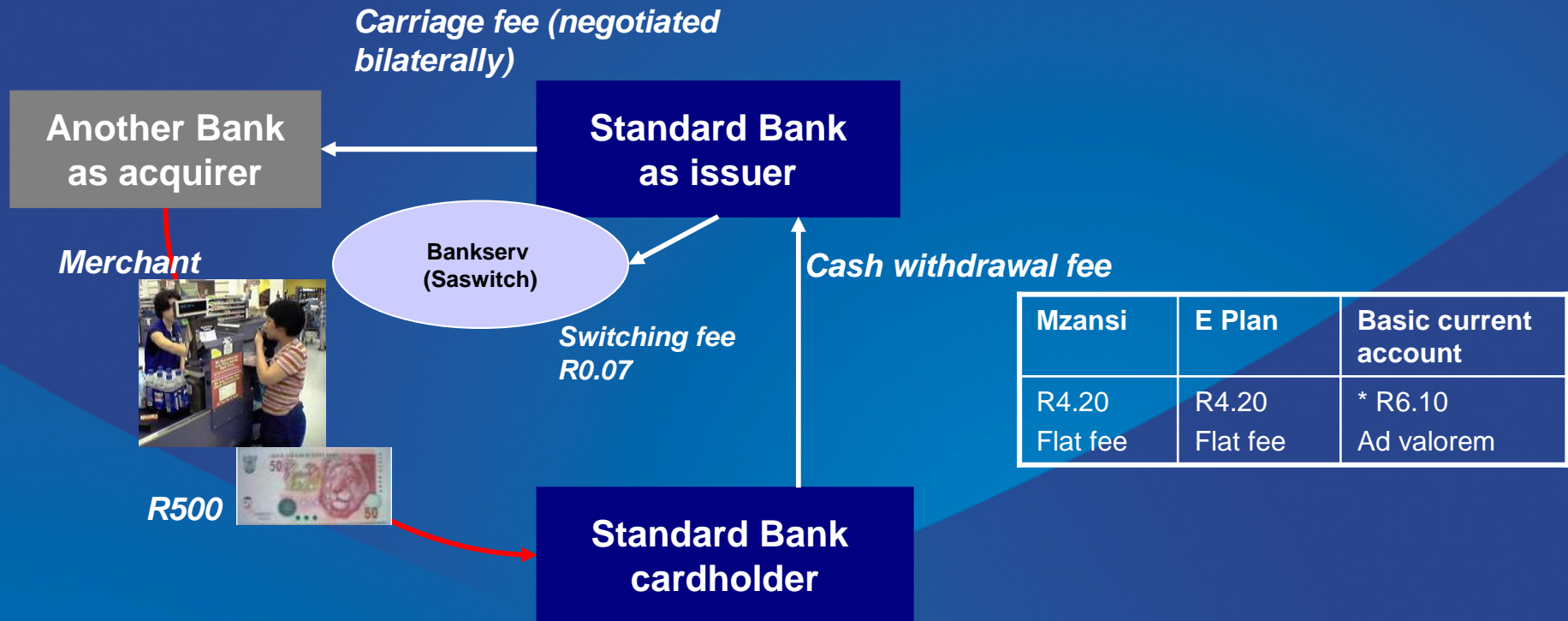


**Note: Customer fees are inclusive of VAT**



# Cash back at POS: the 'off-us' model

R500 cash withdrawal by a Standard Bank customer with a purchase (using a debit card), at another bank's merchant



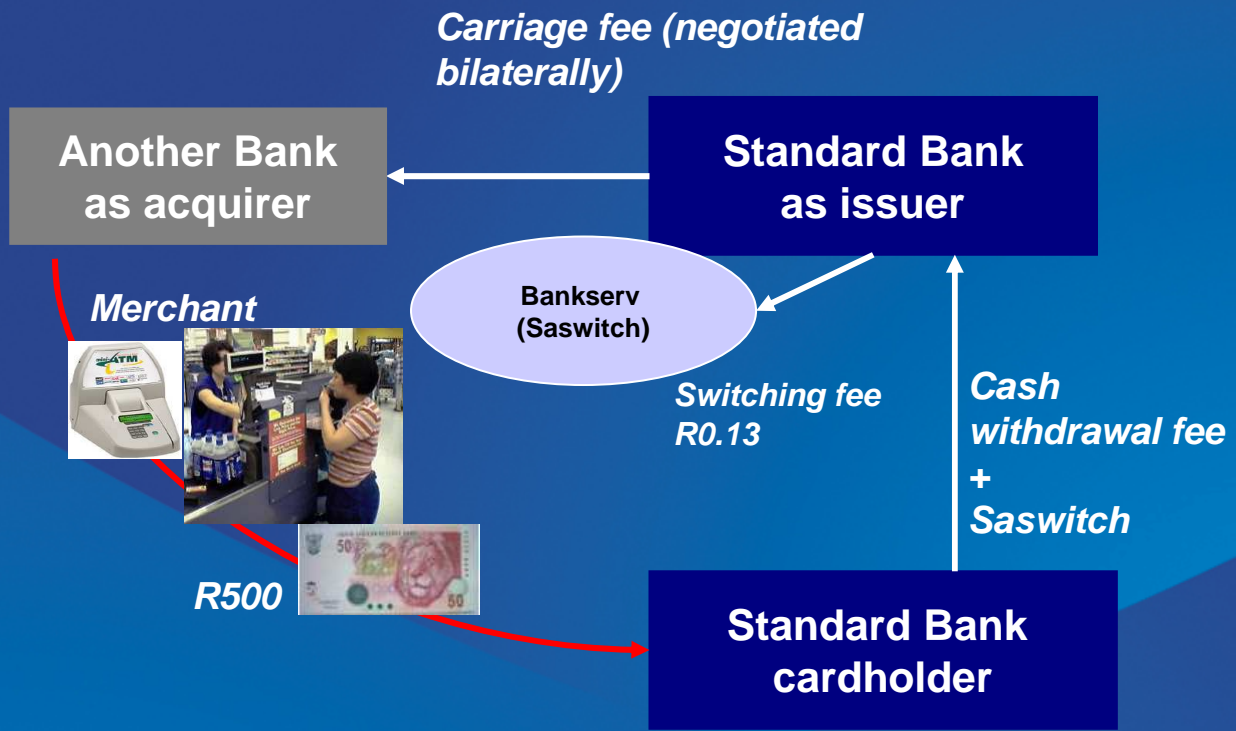
**Note: The carriage fee relates to the R500 cash back portion only of the transaction. The normal interchange fees are applied to the value of the goods purchased, and flows from acquirer to issuer.**

**\* Max cap of R14.00**



# Mini-ATM: the 'off-us' model

*R500 cash withdrawal by a Standard Bank customer at another bank's mini-ATM*



Mzansi	E Plan	Basic current account
R4.20	R5.05	R7.60
Flat fee	Flat fee	Ad valorem
	R6.70	R6.70
R4.20	R11.75	R14.30

**Note: The fee to the Standard Bank cardholder is the same as for an ATM cash withdrawal, as we currently cannot identify mini-ATM vs a traditional ATM transaction (although we are currently correcting this technical issue)**



## Cash-back at POS and Mini-ATM

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- Cash-back at POS and mini-ATM are both merchant assisted
- Merchant will only offer service if it makes business sense
  - Merchant makes no margin on cash
  - Benefits are indirect e.g. savings on cash deposit costs, more feet in the store, greater turnover
  - There are direct and indirect costs
- Acquiring bank incurs costs in offering the service, BUT merchant will not pay
- Carriage fee is the means of compensating the acquiring bank



## Direct charging would not be appropriate for Cash Back at POS and Mini-ATM

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- There is potential for widespread abuse given the difficulty of monitoring 100 000 + merchants
- Regulatory implications of unregulated merchants effecting the repayment leg of the business of deposit taking
- These are relatively new services with an inadequate understanding of the risks
- Could lead to customer confusion and lack of trust



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# Questions



## No customer allocation

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### *Appendix 1*

- Intention of carriage fee was to create interoperability
- There is no agreement to allocate customers – there are wholesale arrangements between banks that permit access to infrastructure
- There is no agreement regarding the customer withdrawal fees or interbank fees (and there should not be any such agreement).
- Standard Bank mainly competes for the bundled customer account
- Customers see Standard Bank as their bank and we are the party to which they have recourse



## Direct access by non-bank ATM operators to Bankserv

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### *Appendix 2*

- Standard Bank would be supportive provided:
  - Regulated by the SARB
  - Proven technical ability to perform ATM operations role
  - Appropriate disaster recovery and controls, and
  - Fit and proper management
- Standard Bank's position is based on the substantial risks that exist, particularly given that any operator will quickly have access to thousands of card and pin details
- PCH principle that survivors make good any failures



## Relationship between ATM customer fees and costs “allocated”

### Appendix 3

- Retail banking is managed as an integrated, complex, multi-customer segment, multi-product, multi-channel, multi-geography, multi payment stream business
- Probably 80% of retail banking’s cost structure or common costs, are of a fixed nature and cannot be allocated on any accurate basis directly to a particular transaction or service, eg branch network, unutilised capacity, legislation
- Standard Bank does NOT attempt to allocate costs to individual transaction or services and management does not run the business on this basis
- Many costs associated with running a full service retail bank for which there is no direct revenue stream to recover costs, eg
  - Operating and closing accounts
  - Regulatory costs (FICA, Basel 2, FAIS, COBP, NCA)
  - Legislation
  - Peak processing capacity
  - Switching of DR order for new accounts
  - Backup power
- Standard Bank retail bank manages costs on an overall level rather than on a by product, or by transaction type level
- Standard Bank retail bank’s cost to income ratio and profitability are not out of line with international norms
- Standard Bank does NOT believe that one can draw a link between ATM charges and the direct costs of facilitating an ATM transaction, given the substantial other fixed costs not directly related to running the ATM network
- The customer fee is part of the transaction account bundle and competition occurs between such bundles
- There is a high degree of switching – if we priced for each service, this could raise switching costs (i.e. charging for opening an account or closing an account)



## *Appendix 4*

- Customer should see “value for money”
- Based on customer segment and demands
- Simplicity and transparency
- Affordability
- Sustainability
- Competitiveness relative to other banks and non-banks
- Natural bundling of services and transactions into single product
- Aim to derive sufficient total revenue to cover total cost of product bundles
- Shareholder expectations