MR JALI: Before you talk you just press the button and then it will … right then, you may proceed.

MR STASSEN: I understand that we will field certain questions, but perhaps just for the members that are not aware of our bank and what we do, I will just give you a bit of a background, because we did not do an initial public presentation. Capitec was formed in March 2001, I believe we have been the first new retail bank in South Africa in over 10 years. And our objective was to become a significant player in the market for people who need a basic low cost banking, better known as the mass market or the lower income market in South Africa. Since then we have established the full banking infrastructure, we partake in all the important PCH agreements within the banking association, more particular PASA.

Our offer to our customers is a simplistic one, we have really built our bank model on the platform of four core needs that we have identified in the market, namely affordability or low cost is a better word, access, accessibility, simplified banking and personal service. And we have developed a bank model that we believe can deliver on those four core needs. Relevant to us is the current debate with regards to the

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structure ATM fees, because ATM fees currently do play quite an important part of our service delivery to our costumers. As you know it is by inlarge still a practice of this market to withdraw total funds available after month-end or after they have received their salaries.

And it is one of the objectives of Capitec to change that behaviour, to steer the market away from total cash withdrawals and operating in cash and to that extent it was quite important in the development of our bank model to incorporate elements that will steer that behaviour away, because we believe that the cost of cash distribution in the traditional way is expensive and it also brings high risk, not only to the bank but also to its customers.

And to that extent we have decided not to charge any fee for debit card transactions, making it attractive for our customer base to transact electronically, wherever their cards are accepted. Secondly we have started with a pretty aggressive negotiation and agreements with the major retailers, which we believe should really be the dominant distributor of excess cash to the market at a much lower cost to the total banking industry.

And we have started experimenting with what we call card balance readers, that enable our costumers to check their balance, check their pin before they shop at retailers, so that they can do so with more confidence. And apart from that, also to steer that behaviour away from total withdrawal of cash we offer a pretty aggressive interest rate or an attractive interest rate to our client, to the extent that we also support smaller value savers. And to that effect we pay a higher percentage return for smaller value savings. The total of that, I think up to now has proven that we did manage to steer the behaviour away from the traditional ways. And in doing so that model is obviously quite or the costing of each transaction type is obviously quite important.

Then starting with the ATM withdrawal fee, currently we believe that the basis of banks agreeing on traditionally a multilateral basis an interchange whenever fees are used by the issuing bank at an acquiring bank is relevant, especially as a smaller player we believe that there is some protection, not to be priced out of the market, which is possible on a bilateral basis, so that is one area of contention. Secondly we believe that the proposed change in the structure, whereby the acquiring bank can

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decide on the fee to be charged to the customer will be extremely dangerous and not beneficial in the South Africa circumstances.

The three main reasons why we believe that that would be the case is first of all you need to take account of the literacy levels of the market, by and large our customer base and especially the customers in the rural areas need assistance at the ATM. We find in areas that as many as 80% of our customers are assisted by bank staff. For that reason and just to really elaborate on the point, we currently employ full time people to assist our customers doing their transaction at the ATM. So the idea that there will be more transparency, I think is a fallacy. The customer does not really understand what he is charged for and if you have got differentiated fees it will be very difficult to communicate with your customer base what they can expect to be charged for each transaction.

I want again to get back to our objective of simplified banking and to that extent Capitec has chosen a very simplistic price structure at, we currently charge R2 per ATM withdrawal, disregarding the amount and if a person, or our customer uses a Saswitch ATM we charge them R6, 50. And that R6, 50 basically equates to the

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average withdrawal amount or the cost to ourselves, the external cost to ourselves of the average loan amount. What is important in that, we believe that an advelorum type charge is not understood by the market, so to simplify banking we have got a straight, very easy to understand charge, which is very transparent to the market.

And if we are dependant on external operators to determine the fee to our customer, you will have two or there will be two complications. First of all I am quite sure that the customer will not understand what he is charged for, because in most circumstances he is either assisted by a bank official or in a lot or instances by security personnel employed by outside companies and they basically do the transaction on his behalf. So he will only realise what he has been charged for once he will go into the bank to get a bank statement. And even in those circumstances he will be dependant on the interpretation of all the cost and charges by the bank official. And then secondly we believe the fact that we lose control over that charge make it very difficult for us to communicate the total cost of banking to our customer.

Because currently we negotiate the interchange with the other Saswitch or with the other banks. And we can determine to what extent, we either want to subsidise or we want to profiteer when our clients use a foreign ATM but the charge to the customer is quite clear to him. Bear in mind that if the suggestion is that the so-called penalty fee or the carriage charge will fall away, that still does not mean that the bank can add a charge to his customer, which again will complicate the total cost of that transaction to the customer. I think that insofar as ATM fees are concerned … is really our concern, we believe that the existing structure works well. We believe that especially with regards to smaller organisations there is a level of security and that the new structure might mean that your new entrants into the banking market can be priced out of the market and remain non-competitive.

MR JALI: Thank you. You are finished Mr. Stassen? Right. Before I sort of allow everybody to ask questions, the one point I want to highlight to you, contrary to what might have been reported in today's newspaper, FNB actually supported the direct charging model, I do not know whether you are aware of that. Yes, they supported that yesterday. And also access by non-banks as acquirers, they also not opposed to

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that view. So that is the premise from which I am going to carry on asking the questions. I just want you to understand that, that is the position from yesterday and that is where we are today.

Now, you have raised two points. The first one I could recall… Three points. You said three points, but I can …. my notes give me literacy levels, was your first concern, the second one was that you might lose control of the charges if it is given to a third party or to this direct charging. What was the third one?

MR STASSEN: The third one is just basically the ability to communicate with our customer exactly what he can expect.

MR JALI: What they can expect?

MR STASSEN: Yes.

MR JALI: Okay.

MR STASSEN: And the complication to us in that is obviously that we regard ourselves to be the owner of that client, they will return to us if there is a lack of clarity, which leads to the higher level of inefficiency in our total operation.

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MR JALI: So that creates quite a bit of a problem for me, immediately you talk about owning the client. How much do you charge, for example, when it comes to off us transactions?

MR STASSEN: A flat fee of R6, 50, VAT inclusive.

MR JALI: R6, 50, all-inclusive, that includes your carriage, your, everything, it includes everything?

MR STASSEN: Everything, yes.

MR JALI: Okay fine. Now, I am going to allow the others to ask questions, I have got a couple of questions I would like to ask, but maybe the one issue I just wanted to confirm with you before I ask the others to ask questions. You said you do have people who sit at ATM's, explaining to customers about how to use ATM's. So you are in a very advantaged position basically, in that sense.

MR STASSEN: Well, we believe that that is very relevant to the total market, especially more in your rural areas, you can go to most of your rural areas and you will find either a security guard or a bank official, assisting the client to do an ATM transaction, even insofar as processing his pin number.

MR JALI: Okay. Now talking about communication and literacy problems you referred to. Now can you explain to me why can't the same official explain the charges, if there is direct charging, to say in actual fact in this ATM machine you will pay R4?

MR STASSEN: I am comfortable that my own bank staff can explain to a foreign cardholder our charge. I am not… I have got no control over what the security person or an opposition bank official explains to my costumers.

MR JALI: But if he is already there, doing the service, as you say, he is there doing the service currently, why can't the job description extend to when the situation has changed, to say, you can also explain whatever the changes might be?

MR STASSEN: I am dependant on the other bank's official to do that, okay and I have got no...

MR JALI: Not your bank officials?

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MR STASSEN: Not my own bank officials, so therefore …

MR JALI: So basically I am saying in your bank it would be easy, that is why I am saying you are in an advantaged position, in the sense that you have got people who are actually explaining.

MR STASSEN: That is right, I am concerned about my customer.

MR JALI: If they go to the other machine?

MR STASSEN: If they go to another bank. Okay, and that fee is not explained to them, so they do not understand what they are charged for. And I have got difficulty in explaining that to them as well.

MR JALI: But who explains it to them now?

MR STASSEN: Nobody, because currently we have got a fixed fee, whatever they charge for I negotiate an interchange with the acquiring bank. And therefore I can determine exactly what I want to charge my customer, which is difficult theoretically in the other model.

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MR JALI: So are you saying your customers pay exactly the same, whether it is an on us or an off us?

MR STASSEN: No.

MR JALI: Right. Now the point I am making is, if they go to the other machines, your customers, nobody explains?

MR STASSEN: No.

MR JALI: The obligation is on you to explain, because you said you own the customer.

MR STASSEN: Yes.

MR JALI: Now the question I am asking, now why can't you explain if the charging model has changed?

MR STASSEN: Well. I still have got to decide whether I can afford to have a single fixed fee to my customer and pick up the difference.

MR JALI: No, no, the issue is not about the fee, what we are discussing now, it is about literacy levels, communication and explaining whatever the situation might be. I am saying, if they use your machine they pay X amount, if they use somebody else's machine they pay Y amount.

MR STASSEN: Correct.

MR JALI: You have explained that to them, now why can you not do it if there is a change in the model, which is being utilised?

MR STASSEN: Because the change in the model allows any acquiring bank to determine the charge or the fee to the customer.

MR JALI: Yes, but you will explain that to your customer.

MR STASSEN: That fee will most probably not be in line with the principle of simplicity. If you look at some of the acquiring banks currently, the way they charge the customer is an advelorum fee. So it is R2,75 plus 90c per R100, we do not believe that our customers understand a complicated fee structure like that.

MR JALI: No, my issue is not about the actual fee, how it is composed. My issue is about the process of explaining, that is all. Not as to what the fee is…. just explaining it, because the whole entire issue about transparency, clients need to know what they are going to be charged, you just need to tell them to say, if you use so and so's, you are my customer, I am explaining it to you now, if you use Bank A's ATM you pay R20, if you use Bank C's ATM you pay R30, if you use Bank Y's ATM you pay so much.

MR STASSEN: Well, you have just explained it, so there is four banks.

MR JALI: Right.

MR STASSEN: And maybe six independent operators.

MR JALI: Right.

MR STASSEN: So I need to explain to my customer that there is ten (10) variations of charges that they can expect, impossible for them to understand that.

MR JALI: No, no, no, I think we are underestimating the recollection of how customers recall cheap things. If they know that Bank Y is cheap, that is all they need to capture in their minds, they do not have to know all the other or what everybody else is charging, they just need to know …

MR STASSEN: You are assuming that there will be a single charge by the acquiring bank, wherever they have got an ATM, which I think is a dangerous assumption. Because you might find that operators like ATM Solutions might have 20, 30, 50 or individual ATM bank fees. So I am just suggesting that it will be very difficult, if not impossible, for us to explain that offer to our customer.

MR JALI: Well, I think we will disagree as to whether it can be explained or not, because right now I actually see a brochure coming from banks, which list about 20 transactions and they give you all sorts of figures and we are all expected to remember what is being charged and nobody has ever said it is …

MR STASSEN: Where you can disagree is on the fundamental of simplifying banking and making it transparent. We believe that that is the core cause of this investigation, not necessarily the level of bank fees, but merely that customers do not understand the offer, they are not sure what they are charged for. And that is exactly the way that we have gone about it, our customers know exactly what they pay, it is easy to understand. Whenever they go to an Absa, First National, Standard ATM, they get exactly the same charge.

MR JALI: Well, I am not disputing that, I am not disputing your model, your business model, I am not disputing that, but I am simply…, the issue I am sort of taking up with you is about literacy levels and communication, because the direct charging model you are talking about also includes amongst others when clients walk into the machine they will see what is going to be charged, it is written there. If they cannot read, as you said, we are already in an advantaged position in that there is somebody there who explains exactly what is going to be charged in this machine. But let us leave it, because I do not think we will agree, I will let the others ask questions.

MR BODIBE: Thanks, Chair. Good morning.

MR STASSEN: Good morning.

MR BODIBE: Do I understand you to suggest that for all values of withdrawals you charge R2, so it does not matter if it is a R100, it does not matter if it is a R1000?

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MR STASSEN: Correct.

MR BODIBE: Now for the last.., since yesterday and since this inquiry began we have been told that advelorum is important because of the cost of cash and the cost of the risk increasing with the amount of the withdrawal. Can you respond to that?

MR STASSEN: Well, when we determine our pricing structures we take account of the impact of that on our customer and the way they will interpret it. And we believe by simplifying the pricing structure that that will lead to a higher level of efficiency within the banking and that will reduce our cost structure. So we, in order to do that we work on average values and in determining the pricing we also determine what will be the spread of different value transactions, cost it on that basis and then determine our price.

MR BODIBE: But it does remain flat for …?

MR STASSEN: It remains flat.

MR BODIBE: Okay.

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MR STASSEN: Yes. Mainly because we believe that the market find it difficult to understand an ad valorem charge.

MR BODIBE: Yes, I was asking more from the perspective of the banks, not from the clients.

MR STASSEN: Okay.

MR BODIBE: The banks are saying they have to charge an advelorum, because the cost of providing cash increases as the amount increases.

MR STASSEN: That is correct.

MR BODIBE: And the risk increases.

MR STASSEN: We agree with that.

MR BODIBE: Now how do you manage to charge R2 and still stay in business?

MR STASSEN: Well, our fee is dependant on our cost structures and we are comfortable that we recover our total cost for doing that or for servicing our customer in total.

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MR BODIBE: Thanks. If a customer of another bank comes to your ATM, how much do you charge them?

MR STASSEN: Well, we have got an agreed interchange between ourselves and the issuing bank, which is currently R3,25 plus 65c per R100, exceeding the first R100.

MR BODIBE: My last question is, what is the size of your ATM infrastructure?

MR STASSEN: We have got just under 450 ATM's.

MR BODIBE: That means you depend a lot on the other banks?

MR STASSEN: Well I think, what one must bear in mind is that we are a very focused bank, we are not everything to everybody and to that extent we believe that our branch network of currently just over 280 is well positioned to service our particular target market. But we still find that our customers make use of the other bank infrastructure.

MR BODIBE: And what is the proportion of off us transactions compared to on us transaction?

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MR STASSEN: It is currently less than 40%, I think.

MR BODIBE: Less than 40?

MR STASSEN: Yes, less than 40.

MR BODIBE: Which one?

MR STASSEN: Making use of off us.

MR BODIBE: Foreign? Okay. Now you are making a point about literacy. Do the clients understand that the other banks charge on a different model?

MR STASSEN: I believe so, yes.

MR BODIBE: Is that explained to them by yourselves?

MR STASSEN: I am not exactly sure, just repeat your question?

MR BODIBE: Okay. I am your client, I want to use the other bank's infrastructure, do you tell me in advance what the pricing model of the other banks is?

MR STASSEN: Absolutely.

MR BODIBE: Okay.

MR STASSEN: What I can do is to give you our product leaflet and it will be quite clear to you exactly what you pay when you use a Capitec ATM or any Saswitch labelled ATM.

MR BODIBE: So it is not a human-to-human explanation?

MR STASSEN: It will always be human to human as well. ATM withdrawals is a key part of the service offer. So the charge and the limitations must be explained to the customer as part of our sales training and our sales rules.

MR BODIBE: Okay, thank you.

MR STASSEN: That is the maximum amount as an example that can be withdrawn per day and what can be done to increase that maximum amount.

ADV PETERSEN: Mr. Stassen, could you just please amplify a little bit on your own ATM infrastructure? If I heard you correctly you currently have just under 450 machines.

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MR STASSEN: That is correct, yes.

ADV PETERSEN: Great. Do you have plans to increase that significantly?

MR STASSEN: Well, our ATM numbers increased from, if I recall correctly, 280 in the previous financial year, February last year to 450 and I am on record saying that that will increase to 700 by February next year. What we, as part of our business model we, as I said initially, believe that we need to steer the behaviour away from withdrawing total funds at pay-day and preferably for our clients to transact electronically and to a larger degree get cash at the retailers. So our preference would be not to invest heavily in our own ATM network. And the main reasons for that is we believe it is an expensive mechanism to distribute cash to the market. We believe that the most efficient cost efficient basis to distribute cash would be to use this retail infrastructure that is there.

ADV PETERSEN: Cash-back at the point of sale?

MR STASSEN: Cash-back at point of sale and to some extent just a cash withdrawal at point of sale as well. Obviously with regards to the, insofar as the retailer is

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concerned, they would prefer they purchase with cash-back. So that is a critical part of the way we would want to see our business model deploy, going forward. And to that extent we have decided to limit the investment in our own ATM infrastructure to only one ATM per branch. We extend our reach with contract ATM’s and that we see as a sort of an interim phase to get to where we believe would be best to both our customers and ourselves. And the advantages, the contract ATM's is that they are placed at the retail shop and they are replenished by the retailer. We would see that as an interim phase to get our clients to migrate to get their cash at the retailer, but still at an ATM. And then eventually at point of sale.

ADV PETERSEN: May I just interrupt you there? In understanding your figures, the figure of approximately 450 that you gave, would that be all your own ATM's or would that include contract ATM's?

MR STASSEN: That include 145 contract ATM's. And we see the growth then in our ATM network more on a contract ATM basis.

ADV PETERSEN: And that is specifically at retailers or perhaps not exclusively so?

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MR STASSEN: It is not exclusively at retailers, it might be fuel stations or whatever the case may be. It is wherever our clients, it is comfortable for them to get cash.

ADV PETERSEN: Is cash-back at the point of sale then additional to that?

MR STASSEN: We regard cash-back at point of sale in addition to that.

ADV PETERSEN: In addition to that? Now what would be the typical arrangement, would you be entering into an agreement directly with all the merchants, to provide that service to your customers?

MR STASSEN: When it comes to purchase with cash-back that will be impractical, for the simple reason that you will have to duplicate infrastructure, we will have to place point of sale machines at those retailers. We would prefer that to be agreed amongst all the acquiring banks, that we set a specific fee that relates to that transaction.

ADV PETERSEN: What is the current position?

MR STASSEN: The current position is that to a large extent we only advertise to our customer base that they can get a purchase with cash-back at two of the major

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retailers, Pick 'n Pay and Shoprite/Checkers and we would like to see that extended to other retailers as well, where we are comfortable with the cost that is negotiated between ourselves and those retailers, to the extent that we can pass on that cost or that lower, the cost advantage to our customer.

ADV PETERSEN: So do you then currently have a specific agreement with each of those two major retailers as to what they would charge?

MR STASSEN: Yes.

ADV PETERSEN: And does that charge come through, let me first ask, is that, is it the same figure in the case of both?

MR STASSEN: That is, today it is the same figure.

ADV PETERSEN: But it could vary though?

MR STASSEN: That could vary, yes.

ADV PETERSEN: And would that then be aggregated in your charge to the customer, would you then have a flat free charge again?

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MR STASSEN: Yes, we would prefer to aggregate that.

ADV PETERSEN: Yes.

MR STASSEN: Obviously, once you negotiate with the major retailers it is easier to set a sort of a parameter that is easier to negotiate with your smaller retailers.

MR DU PLESSIS: Excuse me, through the chair, just to make sure that everybody is on the same page, we basically have four charges. The one is for a purchase for the debit card, the second one is for cash-back from a retailer, the third one is for the use of our own ATM's, which includes the contract ATM's, because we charge exactly the same fee for the two ATM's and the fourth charge is effectively a charge when our clients use the ATM's of other clients. And that is basically the total of the fee structure.

ADV PETERSEN: So the last thing, what is conventionally termed an off us transaction, is that correct?

MR STASSEN: That is correct, yes.

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ADV PETERSEN: Now coming back to the on us transaction, either at your own ATM or at a contracted ATM, of R2 flat fee per withdrawal.

MR STASSEN: That is correct, yes.

ADV PETERSEN: If I have understood you correctly you have arrived at that by an averaging of what your customers withdraw?

MR STASSEN: That is correct, yes.

ADV PETERSEN: Okay. I do not know whether it is a problem for you to disclose that average, but if you can, would you tell us what is your average withdrawal?

MR STASSEN: The round figure is around R500.

ADV PETERSEN: Now, the R2 flat fee, in your assessment, does that cover your cost of providing that service?

MR STASSEN: We are comfortable that we cover our cost.

ADV PETERSEN: Which would include the provision of the ATM infrastructure, the cash handling and the processing aspect?

MR STASSEN: To our savings clients, yes.

ADV PETERSEN: Yes. And general costs concerned with having a customer and maintaining accounts?

MR STASSEN: We have got a flat monthly fee of R3,50 and that covers your client acquisition cost, certain of the other elements that we do not charge for, like balance inquiry, we would want it to have a zero fee for information provided to our customer, but our experience over the last three years was such that there was a bit of a misuse, we believe, in just getting bank statements for no good reason. So this year we introduced a smallish charge for a bank statement as well.

ADV PETERSEN: But it would seem to me, to follow from your answers, that we should conclude that it is possible for a bank to charge as little as R2 for a withdrawal of R500 from its own ATM infrastructure and cover its costs.

MR STASSEN: Well, I think that is probably a difficult assumption, we believe we have got a specific cost structure which is very different to that of banks that I have worked for earlier or previously. So I think it will be dangerous to conclude that.

ADV PETERSEN: But you are confirming that that fee of R2 in your case is adequate to cover all those costs.

MR STASSEN: We are uncomfortable with our fee of R2, yes.

ADV PETERSEN: So you are not subsidising it out of other revenue streams?

MR STASSEN: Well, it depends how you do your costing.

ADV PETERSEN: Well, how am I to take that answer, as yes, no or maybe?

MR STASSEN: Maybe. Through you, Chair, what I am comfortable with is to disclose to you in private the cost structure and how we have arrived at our numbers and we would prefer to do that in writing maybe at a later stage. I just want to confirm, I mean, cost structure of different banks can vary substantially, depending on their model and the market they service.

ADV PETERSEN: Yes, I appreciate that, but as I am sure you know better than I do, organisations can also be saddled with all costs of expensive infrastructure, which they either have or have not yet recovered.

MR STASSEN: Understand that, yes.

ADV PETERSEN: And that new entrants can come with advantages of new technology, which has become cheaper, you are agreeing with that statement?

MR STASSEN: Yes, I agree.

ADV PETERSEN: And the competition then subjects the old dinosaur to that lower cost and lower price by way of competition.

MR STASSEN: Well, we believe that that is absolutely relevant in the industry that we are competing in. I do not think we would have succeeded in acquiring a million customers in four years' time if it was not an attractive offer that was on the table.

ADV PETERSEN: Yes, because one of the things that we are really concerned about here is to open up as far as possible the field for competition, including in the area of ATM service provision, we appreciate that. You are nodding.

MR STASSEN: Yes.

ADV PETERSEN: Yes. Do you recognise that the existence of interchange or what is also called carriage, an interbank agreed flow of revenue, is connected with a constraint on competition, on direct competition at the point at which the service is provided?

MR STASSEN: Well, I think I referred to that earlier and we have had experience of that, on both terms. Currently in place are mostly interchange negotiated on a multilateral basis, must have been driven by the four major banks in South Africa. To some extent I believe that that protects a small player, the alternative is to negotiate interchange on a bilateral basis. And for a small player you have got very little if any negotiating ability. Because unfortunately you are interdependent and if you take the recent examples of the EDO introduction, it is pretty difficult for us to negotiate with a big bank, where we are dependent on the transfer of funds from that institution to ours.

Mainly because they are hundred times your size and they can sort of preset what the amount should be. Whereas on the interchange basis our experience have been that that was set pretty much on a basis that that cover the cost structures of the existing

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major players. And in time I think that can be lower, if newer players come, form part of the industry, having a lower cost structure.

ADV PETERSEN: Yes, now in general I am quite ready to accept that, as I indicated yesterday, that if in a network agreement is needed between the participants, regarding some internal flow of revenue, that a multilateral approach or independent approaches, was also suggested yesterday, a setting that makes a lot of sense and I can accept that as a general proposition if there is genuine bilateral negotiation that a smaller player would be at a power disadvantage in those negotiations. But now if we confine ourselves to the facts of interchange or carriage in the ATM situation, if I have understood your answers correctly, you have succeeded in negotiating bilaterally with other banks a carriage fee of R3,25 plus 65c per R100.

MR STASSEN: No, that was the multilateral agreed fee.

ADV PETERSEN: That is not arrived at by bilateral negotiations?

MR STASSEN: No.

MR JALI: That would have been a fee, which was agreed when?

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MR STASSEN: No, it has been, it is since we joined that PCH that fee was in existence, it has not been renegotiated at any time, after that.

MR JALI: It is not been renegotiated even bilaterally with any of the banks?

MR STASSEN: No, … .

MR JALI: Will that be, I am trying to get to the exact figure …

MR STASSEN: It is R3,25 plus 65c per R100.

ADV PETERSEN: Because it has appeared to us that that is the prevailing carriage fee across the industry.

MR STASSEN: That is correct.

ADV PETERSEN: Down to the last cent?

MR STASSEN: Yes, absolutely.

ADV PETERSEN: So it does appear extraordinary when it is said that that has been arrived at by way of a whole range of bilateral negotiations is that not so?

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MR STASSEN: As far as I know that was not established by bilateral agreements. I mean it would be very unlikely in any event.

ADV PETERSEN: Now, you obviously appreciate that if the provision of ATM services in South Africa was moved over to a straight forward direct charging model, that there would be no need for multilateral or bilateral fixing of any interbank flow?

MR STASSEN: Understand that, yes.

ADV PETERSEN: So your power disadvantage in negotiations would not affect you at that point, at that level?

MR STASSEN: It can.

ADV PETERSEN: Please elaborate.

MR STASSEN: Any acquiring bank can decide per bank what it is going to charge for that cash withdrawal. And if you want to take the extreme example, if we say we are a new upcoming virtual bank and they want to neutralise or your opposition want to neutralise you, they would normally, all the acquiring banks would normally have

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the same objective. Then they can set a different fee to that bank's customers versus any other.

ADV PETERSEN: So that is your concern?

MR STASSEN: Yes, Sir.

ADV PETERSEN: Okay. If we were to clarify the direct charging model along the following lines, I would like to know what your reaction is: That there is no charging by one bank of another bank, but the ATM provider simply charges the customer who is making the withdrawal an explicit stated fee and then recovers that in the same way that it recovers the R500 or whatever that has been dispensed, recovers also the stated direct charge. And I would now add to that, that that must be the same for all customers making that withdrawal. How would that affect your answer?

MR STASSEN: It would not affect my answer in that regard. I mean then there can, if I understand you correctly, be no discrimination against any issuing bank's customer, so the acquiring bank will charge any foreign customer the same amount.

ADV PETERSEN: Yes, that is the hypothesis, according to you?

MR STASSEN: Yes.

ADV PETERSEN: Yes. What do you say then?

MR STASSEN: No, then I am saying that my statement would not be relevant, that a young player can be at risk or can be neutralised, singularly or by all the other players.

ADV PETERSEN: So would I be correct then in concluding, that if there is to be a change to a direct charging model, you would regard it as very important?

MR STASSEN: Yes, Sir.

ADV PETERSEN: That discrimination between customers, according to which bank has issued the card should be disallowed?

MR STASSEN: Yes. Then, if I can just clarify on that issue, then there is obviously still the question about having different charges at different sites or locations. So if you have got an ATM in Thohoyandou you might have a premium to having, the same acquiring bank having an ATM in Johannesburg and I still maintain that the communication to our customer base would be quite complicated.

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ADV PETERSEN: Now apart from that and I think I am going to defer to Mrs. Nyasulu to perhaps to pursue that aspect further, but apart from that, reading the submission that you put in by way of a letter on the subject of ATM's, the last week or so, you take up the question of a disadvantaged smaller players, rolling out an ATM network under those competitive conditions and an advantage to the bigger players with the established infrastructure. You are nodding, is that a serious disadvantage?

MR STASSEN: Well, I think it relates to the previous point that you have made. If there is a single charge to all issuing banks, then that obviously caters for that concern of ours.

ADV PETERSEN: Would you just repeat that, what does it do to the case?

MR STASSEN: I am saying then you are not in a disadvantaged position.

ADV PETERSEN: You are not in a disadvantaged position?

MR STASSEN: Not in a disadvantage.

ADV PETERSEN: Because you can then price compete?

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MR STASSEN: Yes.

ADV PETERSEN: And you seem to be able to do that effectively.

MR STASSEN: Yes.

ADV PETERSEN: With a provision of your own ATM?

MR STASSEN: Yes.

ADV PETERSEN: So one is left then with complexity and confusion, as in the illiterate customer?

MR STASSEN: Yes.

ADV PETERSEN: Thank you.

MS NYASULU: Chairman, thank you very much. Mr. Stassen, as Advocate Petersen said, I am going to restrict my questions to rather the consumer behaviour, which you painted a psychographic profile of a consumer who is illiterate, who is not too mobile, but I want to say before I come to that, that one of the reasons that Capitec has been so successful, is you have actually been pioneers and you ventured where the other banks have, either did not have the interest or the expertise to actually move into. So you have moved into areas that are very high-density areas, where consumers do not have too much mobility.

And some of the things that you said would suggest and it is a feature of rural illiterate communities, that they have so much trust with an institution that has actually invested in their education, that you have actually succeeded in areas that others would fail and that is in changing the behaviour of that market, which suggest a very close relationship. Now one of the other features of an illiterate consumer market is that they are very reticent about change. And the point I am coming to is that having ventured into areas when none of the other banks had the ability to. And the fact that chances are the probability is it is your ATM's that proliferate in those areas. How disadvantaged could your consumers be, because, and I mean, I worked for Unilever for many years and I understand that market quite closely and they are very difficult to change from one thing.

So the point I am making is, what are the chances that because of their familiarity with your system, the fact that they had a support in terms of people that you have

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appointed on a full time basis to explain things to them, what are the chances that you are going to have a proliferation of off us transactions?

MR STASSEN: Well, you know, to me it always comes back to certain fundamentals and I think the fact that we did simplify banking and that we, that our product offer is a very simplistic but a very, and also a very transparent one, that was the reason for the success. And it is for that reason that I have got a concern, because as I mentioned earlier, up to about 40% of our customers still make use of off us ATM's. And I am just concerned that that pricing structure or various pricing structures would be confusing to them.

MS NYASULU: Okay, if I may follow up, how do you think they would behave and let us remember the psychographic profile that we are talking about, they trust you, they trust your people, how do you think they are going to behave if your people were explaining to them that you can guarantee them a certain fee if they stay on the home base and use you’re ATM's and that it would be very difficult for you to tell them what the charge is going to be if they go anywhere else?

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MR STASSEN: Well, we do that in any case. I think what you need to bear in mind, we are on a transformation route, with regards to cash withdrawals and that is the only reason why to some extent our customers still use off us ATM's. It is not only convenience, I mentioned earlier that we have deliberately only invested in one ATM per branch and another factor is that we have also decided in most cases to place our ATM's inside the branch, for security reasons. That does limit access to cash withdrawals to some extent to our customer base and that is the only reason why they still make use of foreign ATM's, they understand that when they contract with us. And our belief is that we will be successful in migrating that behaviour, away from branch-based ATM's to getting cash at retailers and transacting electronically.

And in that process we would rather prefer to concentrate on that, than to change the existing system.

MS NYASULU: Let me just get some clarity on your point, you said then the ratio of on us versus off us transactions is a 40-60 in favour of on us?

MR STASSEN: On us, yes.

MS NYASULU: So the point I am trying to come to is, because you have such a close relationship with these consumers and they trust you and you have educated them and they are more likely to revert to you if there was confusion, do you not see them, see that ratio, then moving back to let us stick to Capitec, because we know that ATM and what it will do?

MR STASSEN: Yes. You know, I still maintain, if there is an understandable off us charge by the acquiring banks in the dispensation that you are looking at and that there is, if there is a proviso of no variation of fees to different banks, then obviously I am a lot more comfortable, for the simple reason I can communicate that fee to my customer. And I might have the ability to do exactly what I am currently doing, to charge what I believe is the aggregate cost of that ATM. If the issue really is the significant difference in own ATM charges versus what we normally refer to as Saswitch charges, by some of the opposition banks, then they have the problem, not us.

MS NYASULU: That is my understanding, thanks Chairman.

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MR JALI: I just got a couple of other questions for you, Mr. Stassen, what will be Capitec's view on non-banks acquiring?

MR STASSEN: We have got no issues if non-banks acquire ATM's in particular.

MR JALI: ATM's, yes, we are dealing with ATM's, yes.

MR STASSEN: Provided that there is the necessary security in place, with regards to systems and infrastructure.

MR JALI: Okay. Will that mean non-banks being able to connect directly to Bankserv?

MR STASSEN: I believe that, I do not have a principle problem with that at all.

MR JALI: And then secondly, you …

MR STASSEN: Again just with the qualification.

MR JALI: Subject to the regulatory …

MR STASSEN: Subject to security infrastructure, standards, controls and so forth being set in place.

MR JALI: Okay. And then secondly, you made some very interesting comments regarding interchange in your original submission. Can we discuss them or they are confidential, the comments you make regarding interchange in your original submission? I just wanted to know whether you still hold those position about the state of interchange.

MR STASSEN: We still hold the same position.

MR JALI: You still hold the same position with regard to interchange? Okay, I do not have to go into the details, because I cannot remember whether it was confidential, I have got a summary of it here, I cannot remember whether it was said to be confidential or not. It was not said to be confidential, so we can deal with it? Okay. You stated that your view is that interchange is relatively high?

MR STASSEN: On credit card transactions, yes.

MR JALI: Yes, that is what you said, you said it is relatively high. I think it should sink with your business model really.

MR STASSEN: Yes.

MR JALI: Because you have been able to contain the course.

MR STASSEN: Yes, sir.

MR JALI: On general credit card. Then you make an interesting statement, that is why I want to know whether you still, you say interchange should ideally be at a level which is substantial to cover the processing cost, it should not be the main driver behind the acceptance of a new product, as it should be as price neutral as possible. And then, and should not be the main area of income.

MR STASSEN: We believe so, yes.

MR JALI: You believe so? And not be treated as a profit centre in its own right.

MR STASSEN: Correct.

MR JALI: So that would still be your position?

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MR STASSEN: Yes.

MR JALI: My next question was going to be, do you believe that it is being treated as a profit centre, as a main area of income by other providers, we do not have to mention names?

MR STASSEN: I would think so, yes.

MR JALI: You would think so? Okay. Mr. Stassen, once again, thank you very much for coming, we do not have any further questions for you. I must thank you in particular for coming at a very short notice, we really appreciate that, because you have, I think the communication was done on Thursday last week or Friday and you were able to come and join us, to give us this very informative submission. Thank you very much. The time now is about 12:45, we are scheduled to break for lunch at 13:00, so we might as well just break now, we will reconvene at 14:00 with Nedbank. Well, I see some of you are here, do you want to start early? You think 14:00 is fine? Okay, we are adjourned until 14:00.

(Hearing adjourns)

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(Hearing resumes)

MR JALI: Mr. Rob Shuter, Sakhiwo Ntombela, Sydney Gericke and Carmen Whateley from Nedbank, you are all welcome. You gave us…. there was a submission in October, then you did your presentation in November, now this will be the second presentation. Alright, I am told you want to make a brief presentation before we start with the questions on your submissions.

MR SHUTER: Thank you, Chair.

MR JALI: Right, you can go ahead.

MR SHUTER: Let me just cover off the team I have with me, you have heard the name Sydney Gericke, he is the Managing Director of Nedbank Card, Carmen Whateley is managing our Competition Commission process, also looks after our Interbank arrangements, I am in Nedbank Retail and Saks Ntombela is Head of our Transactional and Investment products. So they will be assisting me in navigating through some of these complex issues we have before us. We have, as you said, put some slides together, really to give some background and to position some of our perspectives on the issues that are before us. I am going to go through them very, very quickly, obviously to leave sufficient time for Q&A, as was your preference.

We do have some people stuck in the traffic, so we have hard copies for you, they are just on their way and as soon as they come in we will pass them across.

MR JALI: Those would be copies of the presentation?

MR SHUTER: They are copies of the presentation.

MR JALI: Alright, then we will take them, they will be, whilst I still remember, that would be Exhibit "EE".

MR SHUTER: Okay. Right, so what we have on the screen then is, firstly we have a few slides just by way of background and some commentary around different ways of accessing cash and card-holders' accounts, critical success factors, what you really require for a shared ATM network and some of the dynamics of accessing cash, which really gets important by way of a background information. And then we will be focusing essentially on four alternatives, the current ATM model, we have some views on advantages and disadvantages of that, direct charging without a carriage fee, the existing model without … in the way Nedbank articulates it, pricing would be without a convenience fee, I think some of the other banks use Interbank or Saswitch.

We would like to propose also the consideration of the independent interchange model and then we have got some assessment on each one of those. This slide really tries to show the various ways in which clients can access cash from their account and the alternatives broadly range from a bank-owned ATM device, that could be on us or off us, devices generally owned and distributed by the banks, third party ATM, third party provider, sponsored by a bank, cash-back at point of sale, we have seen some coverage of that over the last few days and essentially a cashier in a retailer providing a cash service, which can be done either in combination with a purchase or a standalone transactions, the mini ATM's and NED stand-alone devices, which generate slips, which are used to disburse cash and clearly clients are also able to access the bank's branch.

On top of that there are a number of cash, alternatives to cash, which have increased in popularity enormously over the last few years, debit card in particular, credit card, cheques, internet, proliferation of cell phone banking, electronic banking. And the points to make essentially are that even within banks these services compete against each other, the cash alternatives compete against the non-cash alternatives and obviously in the industry the different banks compete against each other. So we really wanted to paint a backdrop of multiple ways in which clients can access cash or make payments, to put in perspective the discussion that is particularly around ATM this afternoon.

Critical success factors for a cash service, very importantly, you need essentially three people in the stance, if you want a shared network you need card-holder, who is looking for maximum access to cash, who is attracted by being able to use an ATM for example. You need the acquiring bank, the bank that owns the ATM infrastructure, who needs to be incentivised, to place and manage that infrastructure. And you need an issuing bank who is incentivised to enable the cardholder's account to facilitate ATM. And essentially the acquiring bank and the issuing bank in that context are essentially jointly providing the cash service.

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Offering a shared ATM network. So if we focus for the moment on that joint service of an acquiring bank and an issuing bank, essentially what the shared network requires is a complex set of technology, shared technology platform, which essentially we use Saswitch, Bankserv, you need a set of rules to govern the transactions, there is a lot of definition and administration of query resolution processes between the two banks, technology and industry compliance, commitment of resources to the administration and maintenance of the process, query resolution, call centres for all the participants in the shared network and you need an economic incentive for both parties to participate.

So there is a lot of infrastructure that is required to enable the shared network that allows interoperability in the South African context. The dynamics of enabling access to cash, we have been through this, the provision of the cash device, the enabling of the service. If you look at the dynamics of that in slightly more detail on page 7, essentially the acquiring bank cannot offer the cash withdrawal service to another bank's card-holder, the classic off us transaction we have been discussing, without the issuing bank offering that service to its own client. So you need both parties to cooperate in this process. We do not believe that it would be effective for a single player to roll out the kind of ATM distribution network that we need in a market the size of South Africa's.

And the acquiring bank and the issuing bank, essentially they provide a mutual platform through which the cardholders can make cash withdrawals. The economic point there essentially again is that the cardholder in an off us transaction is being serviced by both the acquiring bank and the issuing bank and various protocols need to facilitate that. That is really the background and some theory very briefly around that. And we would like to focus just for a second then on the current ATM model and you see the various schematics of this over time. In particular we are focusing on the off us transaction, which is where the requirement for the carriage fee arises.

Very simply the parties there, the acquiring bank, the ATM owner, the issuing bank who has issued a payment card to the card-holder and in this particular example the card-holder would be levied a fee by the issuing bank. Now, on an off us transaction, we describe that as a Saswitch fee, the whole fee in the way Nedbank describes its fees is regarded as a Saswitch fee. Within that is the cash withdrawal fee and what we call the convenience fee. So for clarity, one of the other banks that presented yesterday, they would describe the convenience fee as the Saswitch premium, we call it a convenience fee.

So in this instance the client would be levied a Saswitch fee, comprising cash withdrawal and convenience fee, the issuing bank pays a carriage fee to the acquiring bank, the acquiring bank, which is the provider of the ATM infrastructure, has a service relationship with the card-holder, they are dispensing cash at their branded ATM and the issuing bank pays a relatively modest switching fee to Bankserv. I think by now you are all very familiar with this model. If we can move then to some of the rational for the various fee and focusing on the Saswitch fee for the moment, in an off us transaction, the combination of cash withdrawal and convenience.

Essentially what a bank that offers its clients the ability to transact at another bank's ATM is essentially providing them with additional service, the convenience of using ATM's other than their own. I think importantly to note that there are enormous fixed costs associated with the full service banking offering and I am sure it is probably both perplexing and frustrating to the panel, this issue with banks finding it

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very difficult to identify specific costs for specific transactions. And if I just look at our own business for the moment, we have about R7 billion worth of costs in Nedbank retail, of which about R2,5 billion are actually transfer price to us from other areas within the bank.

So we already have a whole lot of assumptions and methodologies on transfer pricing for things like Group HR, our IT systems, marketing, we get a small piece of the Nedbank Challenge as an example. By the time you get underneath Nedbank Retail, into our product areas, home loans, card, transactional accounts, you have a whole new set of assumptions around how we allocate cost down and by the time you start getting to individual product profitability or transactional account profitability you have such a myriad of assumptions that it is very difficult to pin that down. We are working very hard on that, we have got a submission due into shortly and we certainly are giving it absolutely our best shot.

But I think it is perhaps a peculiarity of banking that very high cost infrastructure, a very high fixed cost means that you have a whole bunch of assumptions around how that gets allocated. The cost of providing an integrated shared network, we have depicted some of those on an earlier slide, the maintenance of the underlying account, supported innovation on the shared network and there is a varying array of that, product innovations, the issue of space, things like SMS notifications, resolution of fraud and in particular on an off us transaction the cost of cash is incurred by the issuing bank in the form of a carriage fee and that is recovered in the Saswitch fee.

The switching, really to cover the cost of the switching infrastructure, the Bankserv infrastructure, a modest fee around 13c in most of these transactions, the carriage fee which flows to the ATM owner, provision and maintenance of the ATM device, ATM availability, uptime, cash in the device, securing the device and the costs of handling cash, which generally vary depending on the volumes of the particular ATM or the transactions. If we focus for a moment on some of the pros and cons of the existing model and I think you will see it as a theme throughout our presentation, is whilst there are some challenges in the existing model we do believe it is working well. And we are, I think to be frank, fearful of some of the unintended consequences or things we simply do not know about moving to a very different model.

So we are going to try and objectively look at the pros and cons of each, in the spirit of really trying and get towards the best solution for the industry. If we look at the existing model, there is no doubt in our minds that acquiring banks are incentivised to place ATM devices. We know that we have had a huge roll out in ATM infrastructure in South Africa over the last 10 years, we know that smaller banks have rolled out ATM infrastructure and so that certainly seems to be having the desired effect of ATM placement. Issuing banks certainly are actively enabling their clients to withdraw money at both their own and other banks' ATM's.

It does create a level playing field, that accommodates smaller players and new entrants and I think I perhaps need to say it at this juncture that in this context we would regard Nedbank as a small bank. Nedbank has approximately 1 200 ATM's, our largest retail competitor would have more than four times that, around 6 000. We have approximately 3,4 million clients, which is probably around half of the next competitor. We have a very much smaller number of branches. So we do regard ourselves as a small bank in this particular context. And the existing model, certainly for us the rules of the game are very clear, the interchange arrangements are very clear and we can plan around that with some degree of certainty. We believe the model has accommodated the entry of third party ATM providers and we have seen the sponsored ATM's playing in some size in our market.

Nedbank has sponsored ATM's, most of the other banks do and we heard earlier Capitec has about a third of their infrastructure sponsored. So certainly the existing model has allowed that to emerge. I think another important point is uniform national pricing for all off us transactions. So in particular for a Nedbank client who uses another bank's ATM, irrespective of which bank it is, our client will pay the same fee, because that is the fee that we have determined that we will charge them for an off us transaction. Furthermore, whether that transaction is done in urban areas or rural areas, the fee is uniform. So it is both uniform in terms of national coverage and it is uniform in terms of whichever device is used, which we think is an advantage of the current arrangement.

It supports the attainment of the FSC objectives for the Mzansi account, we have not had a lot of airtime on this up until now, but I am sure you are all aware that the ATM withdrawal charges for Mzansi account holders are identical for off us and on us, so no bank makes a distinction between off us and on us charging. The charges themselves vary from bank to bank, but Mzansi account holders are indifferent, irrespective of whether they use their own bank's ATM's or another banks ATM's. And this is really facilitated in this process, where the banks have reached agreement that that is the right thing to do in that sector of the market. I think the other advantage is that there is a lot of innovation spent, a lot of efforts by the banks to look at their pricing, to look at product innovation and a lot of effort is directed in that direction.

And there is a risk that if we have moved to a dramatically different model, that that is going to soak up a lot of the bank's energy, efforts and resources over the period. Some of the disadvantages, certainly a possibility of regulatory concerns on the manner in which the carriage fee is set, possible discrimination by banks with large ATM footprints to increase the cost of accessing the shared network to smaller bank through bilateral negotiations. Now there has been, I think a fair amount of discussions, potential confusion, around the existing interchange arrangements. Are they the same and how were they set?

If I can say from Nedbank's perspective, through a variety of factors, the BOE, acquisition, integration of People's Bank, management changes, we have not been able to establish the manner in which the current fee was set. We understand from the ABSA submission that it was last reviewed in 1999, so we need to find people who were involved in that process eight years ago and generally those people no longer work for us. We are continuing to track them down, but I cannot say at the moment whether that fee was agreed multilaterally or bilaterally. Certainly our perspective is that it is the same fee, in our capacity as an acquiring bank we obviously have a relationship with all the issuing banks. And in our capacity as issuing banks we have relationships with all the acquiring banks and the same carriage fee is being used, R3,25 plus 65c per hundred.

So I think all … and we understand that to be common across the industry and certainly it is common for all the arrangements that Nedbank has, both in its capacity as issuer and acquirer. So I think that …

MR JALI: So as far as you are concerned that is common amongst the entire industry?

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MR SHUTER: Yes.

MR JALI: There has not been any change?

MR SHUTER: We would only know in respect of our own acquirer/issuer relationship, but because we have those relationships across all the players our perspective is that it is identical across the industry.

MR JALI: This was fixed on a multilateral negotiation?

MR SHUTER: Our understanding from the ABSA submission is that it was last reviewed in 1999.

MR JALI: No, no, I do understand from the ABSA submission, I am talking about your understanding about whether this was bilaterally or multilaterally.

MR SHUTER: Sir, I think, just to be absolutely clear on it, we have not been able to track down people who were working at Nedbank at that point in time, it is eight years ago. So the honest answer is I do not know, but I think if you have exactly the same fee across all players across the industry, it must strongly suggest that it was agreed multilaterally, I do not see how one gets to a different conclusion.

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MR JALI: Alright.

MR SHUTER: I cannot factually say it was done or not.

MR JALI: You can finish your presentation, we will get back to this point. We will get back to this point.

MR SHUTER: Are you sure?

MR JALI: Yes.

MR SHUTER: Okay, so one of the disadvantages, concerns around how the carriage fee was set or how it is set in a model such as this, the danger, if one moves to a set of bilateral negotiations, that the negotiating power of a small bank, such as ourselves, in those discussions would be weak and we would be exposed to potential forces there. And the other potential disadvantages that the carriage fee is shielded from competitive forces. Now we know that the fee has essentially been the same for the last eight years, I think it is interesting that it certainly has not gone up and in fact, with inflation running at 6%, 7% over the last eight years in real terms, it has actually been steadily declining, if you look at it from an economic perspective.

So that is a sort of crisp, hopefully, assessment of our understanding of, and our views of advantages and disadvantages of the current model. If we move to the direct charging model without a carriage fee, that is set out in the schematic on slide 11. Fairly straight forward again, the card-holder would pay a fee to the issuing bank, in an off us transaction the acquiring bank, the owner of the ATM, would levy directly to the customer, a fee based on the transaction, the issuing bank would still have an obligation to settle the transaction, do the authorisation, etc and there would be a fee that would flow to Bankserv.

If we look at the pros and cons of the direct charging model, similarly acquiring banks are certainly incentivised to place ATM devices, they would have flexibility now to charge on an open market basis. Issuing banks are incentivised to enable the necessary services on the underlying account, it accommodates the entry of third party ATM providers and possibly the most significant advantage is, no need for agreement on the carriage fee, no argument around bilateral, multilateral, it simply is not there anymore. If we look at some of the disadvantages of moving to that model, significant costs of change within the industry and for the banks. We do believe there is a potential anti-competitive outcome, through the creation of natural monopolies in areas of low supply of ATM devices, rural areas where an ATM provider could charge potentially unnecessarily high prices, because there is a lack of competition, because it is very costly to service ATM's in remote areas.

We do think there is a potential anti-competitive outcome for new banks in gaining access to the shared network and to small banks in using the shared network, due to the relative power of large ATM device owners. Another possible negative point is the ability of smaller banks to acquire new clients. Potentially no consumer benefit, it is not clear to us that moving to this model would make life any better for the consumer, we do not see any certainty that that would result. I think the potential complexity for clients of multiple off us fees, between acquiring banks and across geographies, should not be underestimated.

Perhaps an important point in the context of the Mzansi arrangements is that if we wanted to keep the existing situation where Mzansi account holders are not treated differently for off us and on us, we would still need to make arrangements between the banks, to facilitate that and particularly between the acquiring banks. And clearly, as we have said earlier, a lot of spending would be diverted into the adoption of this new model. Something perhaps before I move off the slide, the direct charging model is essentially one of the two common models we see all over the world, it is not particularly new or exciting alternative. But we do believe that there are significant risks of moving to a model that is very different to the one we have got.

I do not think any of us really know the answer as to what will happen in this move and we just want to make absolutely clear that all the key stakeholders in this process think through these issues with the appropriate level of detail and attention. We have a short slide on Australian experience with direct charging, I am sure you followed the Australian experience in some level of detail, they went through a commission and a regulation process, quite similar to this, but a few years ago. They first considered the issue in 2001, the direct charge model was initially suggested as the most appropriate alternative. Australian Consumer Association highlights its concerns with the model.

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The Payment Systems Board, which was set up by the Australian Reserve Bank to pronounce on this whole payment reform process, issues an annual report every year. In 2006 they recommended that the industry focus on three things, liberalising access arrangements in the ATM system, essentially non-banks being allowed to come in directly to the ATM system. Exploring common interchange arrangements, important that the bilateral process is not used to adversely affect access for competition. So quite interesting that from 2001, when everybody is really keen on a direct charge model, by 2006 there is a requirement or review that - that is a key thing that should be looked at.

But they did say there also should be no restriction on direct charge, subject to agreement between the participants. An update was issued, just in fact last month, March 2007, which again slight changes, we requested that the industry focus on the retention of bilateral and negotiated interchange fees and if industry participants want to pursue direct charging they negotiate with the interchange partners. So we offer this analysis and I am sure you are very familiar with the Australian situation. Again as a word of caution around leaping too quickly to a new model when one looks also at the international experience.

Option 3 is the existing model without the convenience or in your notes to us, without the Interbank or Saswitch fee. Chair, would you like us to pause for a second? Sorry? Okay, so this is the existing model with the, as we understand it, the carriage fee retrained, but the Saswitch fee abolished, eliminated, no longer charged. And I think fair to say, this is a proposal that emanated from one of our competitor banks. We are not exactly sure what the proposal is, to be frank. So if you remember our earlier example, when a Nedbank client transacts on another bank's ATM, we charge them a Saswitch fee, which is in our minds a combination of the cash handling fee plus the convenience fee. The convenience fee is theoretically comparable to what they described as the Saswitch premium, but the fees are not the same.

So much as we have common interchange, the way in which that interchange is recovered is different across all the banks and certainly amongst the big four those fees are different. So we are not clear exactly what it is that should be abolished. Is

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it the entire Saswitch fee, which means that for an off us transaction the client would pay no fee at all? Is it the convenience piece? We would understand what that is in the Nedbank context, but that is not the same as you will find in other banks. And after considering it, our interpretation is that what is essentially being said is that the fee should be the same for off us and on us transactions. That is our interpretation of what underlies the concept of not charging the Saswitch fee.

So that is the assumption we have made in trying to give some views and perspectives on this particular suggestion. If we look then at some of the advantages and disadvantages, once again, acquiring banks are incentivised to place ATM devices, issuing banks are incentivised, the carriage fee is flowing, entry of third party ATM providers is encouraged, we have a level playing field to accommodate new players and new entrants, accommodates the entry of third party ATM providers and it supports all of our thoughts around the Mzansi account. Potential disadvantages, the carriage fee is retained, with all the complexities around that, again potentially shielded from competitive forces.

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In this case though we need a different agreement between the banks, it is not now a carriage fee, but it is an agreement that the banks will not distinguish between on us and off us transactions. And if that is not the case, then we need some kind of regulatory oversight to ensure that this happens. There is a risk that what was called previously the Saswitch fee becomes a similar fee by a different name and essentially then we have less transparency in terms of what is being recovered from a cost perspective. So we have some concerns around really the efficacy of this whole thing, which maybe we can touch on further in the Q&A.

I think the model that we would like to propose also for consideration in this process is what Nedbank has described as the independent interchange model and we describe it here in the context again of an off us transaction. Essentially it is operating in a similar way to the current model, that the card-holder would pay the issuing bank a Saswitch fee, the card-holder has a service relationship with the acquiring bank, the bank who is dispensing the cash, the carriage fee still remains, but it is set by an independent party with the appropriate amount of governance and it

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is regularly reviewed. The issuing bank would still, as in the other examples, have the obligation to settle the Bankserv switching fee.

If we look at some of the advantages and disadvantages of the Nedbank proposal, advantage number one really is you have an objective, independent and regular assessment of the carriage fee, which we believe would reduce regulatory concerns. We believe there is a very much lower risk of unintended consequences. We know that the existing model has stimulated ATM roll out, we know that it has facilitated the entry of small banks and in moving to a brand new model, I do not think any of us really know what the consequences might be.

So we think it is a less risky option for the industry. It is not costly to implement, it can be done very quickly, it would ensure once again that acquiring banks are incentivised, issuing banks are incentivised, we have a level playing field for small players and for new entrants, that accommodates third party ATM providers, we again have uniform pricing, both nationally and for off us transactions across different banks, continue to support the FSC objectives and it means the banks can continue to invest as they currently are.

Disadvantages? Still has regulatory concerns around potentially the fact that interchange is still there, but we believe that that is being substantially mitigated by the process in which it is being set. So we really think that is something that needs to be properly considered. Finally, last slide, gee, I just used up half an hour or so, all the advantages have…. all the options have advantages and disadvantages. We would have to all invest substantial resources, outcomes are potentially risky, unintended consequences can result. And we think that perhaps it might be useful in your deliberations and all of our deliberations around where the industry should move, to really agree for critical filters, against which we would analyse any alternative.

Firstly the attention of interoperability, we think it is fundamental, but we have confirmed pro-competitive and efficient outcomes, we do not run a risk that a new solution, which is viewed as being more competitive, ends up having a whole array of anti-competitive outcomes, benefits to clients are realised, Nedbank remains absolutely committed to bringing down the cost of banking, affordable banking and we do believe we need a client benefit flow from whatever we adopt and that the

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outcomes and benefits are sustainable. We are looking for a long terms solution for a very important industry in South Africa and not for a short-term outcome. Thank you.

MR JALI: Thank you, Mr. Shuter. Before we start asking questions, I just want to get clarification from you, I have got your two submissions here, the original one, in which you have highlighted a whole lot of areas and indicated that they are confidential. That is still my understanding, that what is being highlighted will be confidential.

MR SHUTER: That is correct, Chair and we will accept the onus to not respond or to alert you when we feel questions are venturing into that domain.

MR JALI: Yes, because we did raise the concern previously, because some of the stuff which is highlighted as confidential is stuff which is readily available in the banks' brochures. I mean we find that strange, we would have raised it, I think with Mr. Boardman the last time you were here. But anyway, let us leave it at that.

MR SHUTER: Thank you.

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MR JALI: If there is anything which you think you cannot deal with because it is confidential, we would just leave it. But let us start, I just want to go back to that slide where you had the carriage fee. Is it your submission that the carriage fee is R3,25 plus R65 per hundred.

MR SHUTER: R3,25 plus …

MR JALI: Plus 65c …

MR SHUTER: 65c per hundred.

MR JALI: Per hundred, yes, for hundred, right. You said that was agreed multilaterally? You said you do not know.

MR SHUTER: We said we do not know, Judge, we continue to investigate internally within Nedbank, but we certainly believe that there must be a strong view that if the whole industry is using the same fee there is a strong presumption that was multilaterally agreed.

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MR JALI: Right. I just want to turn page 38 of your original submission, the original submission, the section, the first, the old one, the very first one. The section which says, document number 3, which says confidential.

MR SHUTER: Yes Judge, that is our first submission from October.

MR JALI: Yes, do you have that?

MR SHUTER: I do not have that in front of me, we have our submission, our most recent submission with us here.

MR JALI: Oh, I thought we are going to cover everything, that was the understanding.

MR SHUTER: We will respond to the question if we can.

MR JALI: Well, I have got a bit of a problem, because what I want to refer to is something you have highlighted. I will let you read it, I will just let you read it and then tell me whether that statement is correct or is incorrect. Because from what you are saying now … you will get a copy? No, no, you can give them this, I am not going to be long on this. That will be the October submission.

MR SHUTER: Judge, at the time we submitted this particular submission our investigations had indicated to us that what is recorded here was how the fee had been set. In our subsequent investigations would not be able to confirm this, so you would have to take our current position as a change from this position, we have not been able to establish if these fees were bilaterally set.

MR JALI: So we can say the assertion that it was bilaterally set is incorrect?

MR SHUTER: You can say that, yes, further investigation has not been able to substantiate this.

MR JALI: Okay, thank you. Yes, I am, I have. Okay, we have dealt with that, now the other issue I want to raise with you, it relates to this submission now, the latest one, page 5. You did a correction yesterday, you sent us an amended page of page 5. Alright. The HM section, it is the HM section. Yes, the green tab, yes. The first block, you shown the carriage fee to the acquiring bank as R6,66. I asked you earlier on about the exact figure, you said R3,25 plus 65c per hundred.

MR SHUTER: Yes.

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MR JALI: Correct me if I am wrong, is this the correct fee that I have?

MR SHUTER: Yes.

MR JALI: So if you work it out to …

MR SHUTER: The R3,25 …

MR JALI: On R500?

MR SHUTER: Yes. The R3,25 plus 65c per hundred is a formula from when you apply to value of a transaction and you add VAT, then this is the fee that you would get.

MR JALI: So this includes VAT as well?

MR SHUTER: Yes.

MR JALI: Okay, alright, that is why I was not sure whether this was correct figure, because I tried to do my additions, they did not give me, the R6,66, I was not sure what, maybe there was something wrong there.

VAT at 14%. Okay, that takes care of that particular concern. Now, going back again to, I want to go back to the original submission, but I will wait for the other copy to come back, so that I can go back. Now I just want to deal with your position with regard to the direct charging model. You believe that it may not be appropriate?

MR SHUTER: I think, Chair, that we have concerns around the model and we have tried to set them out as clearly as we could there on page 12 and I do not think really any of us know whether these concerns will eventuate or not if we implement this model, but there is a risk that they do and the danger is that we spend a lot of money and effort and consumer education to move to a model that does not give us any of the benefits that we have hoped for and in fact has some negative consequences as well and that is what we tried to set out on this particular slide.

MR JALI: Okay, okay. And then in listing out, in the current ATM model, the off us assessment, you listed pros and cons and then other cons you have got, that is slide number 10, nè?

MR SHUTER: Yes.

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MR JALI: Yes, that slide, yes. I just want you to elaborate on, under cons, the first bullet point and the last bullet point. I do not seem to have understood you well as to what you mean by the possible regulatory concern with regard to the carriage fee, what will those concerns be?

MR SHUTER: As we understand it, there are legal complexities with the multilateral setting of a fee such as this, in terms of the Competition Act and as we sit here today it is not clear to us, as we said earlier, whether these fees were set bilaterally or multilaterally. And so absolutely our view is that there are possible regulatory concerns on the manner in which that fee was set.

MR JALI: So in other words, will I be correct that in assuming that if the fee you are currently charging was set in a manner which you think might be contravening the Competition Act, you have actually acted illegally.

MR SHUTER: I think it is an industry issue, the industry is using a common fee and there is a potential contravention of the Competition Act in the way that fee was set. I am not a legal expert, I cannot say whether there is or there is not, but certainly we

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understand that there is a concern around multilateral fee setting from a Competition Law perspective.

MR JALI: Okay, if that will be the case, I mean, we all agree we are speaking hypothetically, we are not sure, according to your evidence, whether it was set multilaterally or bilaterally.

MR SHUTER: We are not sure.

MR JALI: Okay. And you are also not sure whether if it is set bilaterally it means it complies with the Competition Act, it is still an issue we have to look into, all of us?

MR SHUTER: I think we all need to look into that.

MR JALI: Okay, follow up on that.

ADV PETERSEN: Mr. Shuter, I just want to follow up on that narrow issue for the moment. My impression is that your bank is not the only bank that has had advice that they maybe, a Competition Act problem with multilateral setting, but I just want to explore with you the logic of that problem. It is to do with a prohibition against parties in a horizontal relationship, that is to say competitors or potential competitors

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fixing for example a price or some other aspect of the market, in my view when they do not need to do so, but it applies to two competitors fixing their price. As much as it applies to all competitors fixing their price. Now if I am correct on that, what is the difference logically, why would bilateral, why would fixing by two parties escape the problem, whereas fixing by all parties would be in the problem?

MR SHUTER: The front row of our team is uncontaminated by lawyers, as we, that is an unfortunate choice of words, but we have a great deal of them behind us. I think it is very difficult for me to comment on the legalities of it. I have in my possession and an opinion from my legal advisors that said there may be a problem with this.

ADV PETERSEN: With multilateral setting?

MR SHUTER: Yes, with multilateral setting.

ADV PETERSEN: But no opinion saying there may be a problem with bilateral setting?

MR SHUTER: My counsel says that is privileged information.

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ADV PETERSEN: I accept that. So just let me leave you with that logical dilemma, because if my logic is incorrect I would like to have that pointed out to me as to why it is incorrect.

MR SHUTER: Thank you, I will ask our legal team to put something forward for you on that.

ADV PETERSEN: Because if that logic that I have suggested to you is correct, then the problem lies in carriage itself.

MR SHUTER: Our understanding is that, in our proposal on the independent interchange model, the legal issues around carriage can be overcome by an exemption and then it is competent to move forward with the carriage model.

ADV PETERSEN: I think all that would be appropriate for me to say is that I hear you, but I will not respond with any view on the correctness or otherwise of that. And if you are going to take up the invitation to give us legal submission on that issue, all the more reason why I should say nothing at this point.

MR SHUTER: Okay, fair enough.

ADV PETERSEN: Thank you.

MR JALI: I just want to get clarification, your reference to interchange includes carriage fee or when you are talking about interchange you are not including the carriage fee?

MR SHUTER: We are using interchange and carriage fee interchangeably, Chair, using them as the same concept, the fee that flows between the issuing bank and acquiring bank.

MR JALI: Yes, I am asking you this because in your submission, the original one, at page 30, you make reference to the fact that interchange is one of the inputs, is not, by the way, it is not highlighted, if you think, have a look at it, so that you can, I do not want to put confidential stuff in the public domain. Page 30 of the second section, document 3, that is what it says, it is the very last section, it talks about ATM's and …

MR SHUTER: Perhaps you continue, Chair, while we …

MR JALI: I do not want to read it if it is confidential and put it …

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MR SHUTER: It is not highlighted, you most probably …

MR JALI: It is not highlighted. It says, interchange is one of the input costs incurred by a bank that participates in any payment system. A further distinction is that the interchange is determined in a cooperative arena of payments, while client and merchant fees are set in a competitive domain. Now, that is the statement you are making, now I am trying to find out whether you do regard carriage fee as being in the competitive domain or not. Because if I take what you just said about interchange, in your view, including carriage, it means you are saying it is not in the competitive arena.

MR SHUTER: Sir, we are saying that interchange and carriage fee we view as one concept and in the quote that you referred to we are saying that that is set in the cooperative domain, because it is an Interbank arrangement, whereas the fees that are levied to the end consumer are set in the competitive domain.

MR JALI: Okay.

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ADV PETERSEN: Chairman, if I may just then add one word of clarification to the question I addressed you earlier, so that you can deal with it in due course? For me the issue is, something is taken out of the competitive domain and is handled in the cooperative domain, between potential competitive parties in the horizontal relationship. The fundamental questions is whether that is necessary or not, for the viability of the venture, in this case a payment network in which they are involved?

MR SHUTER: I think we do understand that, I think the concern, for example if you look at some of the other alternatives is, if we look at the alternative of abolishing the Saswitch fee, once again you need an arrangement that there will be no distinction between off us and on us. If you look at the direct charging model, one of the options that was raised in the last enquiry was that there was a regulation that banks could not distinguish between issuing banks in the way they set the off us transaction. So again there you have a level of intervention. And the danger is that we move to a new model but end up overlaying a whole series of interventions and we find ourselves with just a more complex version of what we started with.

ADV PETERSEN: Thank you.

MR JALI: Right, back to the slide, I just wanted to address the last bullet point there. I had said I would like you to just expantiate on those two bullet points, the first one and the last one under the cons, that say the possible shielding of carriage fee from competitive forces.

MR SHUTER: I think this is acknowledging the comment that was made just a few minutes earlier, that because that fee is set in the cooperative domain, rather than the competitive domain, there is a risk that is not exposed to competitive forces.

MR JALI: So we all agree there?

MR SHUTER: We are saying there is a risk.

MR JALI: Okay.

MR SHUTER: Yes.

MR JALI: Alright.

MR SHUTER: Yes.

MS NYASULU: Rob, I am sure it must be as uncomfortable for you to call me Mrs. Nyasulu as it is for me to call you Mr. Shuter, but I am told we should enjoy it while we can. I want to restrict myself to your slide 12, if we can, because the way I look at it, your pros are just so compelling for what this commission is trying to achieve, if you look at slide 12, that is exactly what is on the left-hand side, why this panel is sitting, to achieve exactly those kinds of things. So if we agree that those things are positive for the banking environment and its consumers, we have got to accept that that is what we would want to achieve and therefore look at how we can start to mitigate some of the things on the right-hand side.

And if I look just at the cons or the disadvantages that you have put on the right-hand side, the second and the third bullet point, I think it is fair to say that you could leave it comfortably in our hands to make sure that that does not happen. Because that is what we are about, basically to ensure that those two points do not happen.

MR SHUTER: Maybe if I could just …

MS NYASULU: And so, sorry.

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MR SHUTER: If I could just interject there for a second. I think maybe just in the preamble to your question, the view was that if we all accept that we are after the pros, then we need to find a way of mitigating the cons, that is one approach. The other approach is to look at ways of mitigating the current model, to achieve as much as possible of the advantages of this.

MS NYASULU: Okay, let us restrict ourselves to this one first.

MR SHUTER: Yes, but I think, just directionally, that is something that we think …

MS NYASULU: Okay, let us just talk about this one first.

MR SHUTER: Yes.

MS NYASULU: And so having taken care of bullet point 2 and 3, I have to look at your first bullet point, about significant cost of change for the industry and within each bank and the fact that current innovation spend would be diverted to the adoption of a new model. Now, every bank submission, not just yours, has gone to great lengths to tell us of the 216 different legislative things that banks have to deal with.

So I have to say that I am a little baffled as to why a simple change like this to people who can deal in an environment of 216 different acts, would find a tiny change and tweaking of a model and this environment and particularly banks who actually brag about how innovative they are and every innovation means that you have to change your systems, you have to make your systems adaptable.

I really find those two points very difficult to deal with. And then lastly and I will give you a chance to come and, now, is, when you say the potential for multiple off us fees between acquiring banks and across geographies could be a problem, how different is that from buying a can of beans, to a consumer?

MR SHUTER: So let me start with the first one and I will come onto the beans. This is not a tweak, this is not a small change, we really do not believe that, as an acquiring bank we would have to adopt a whole new system of levying charges directly to clients, we would have to rewrite the interfaces between issuing and acquiring banks, all our pricing models would have to change, our customer information, our products, our marketing material, it is not a tweak and it might be something worth probing with some of the other banks.

We have not had, we have not mapped out exactly what would be required to deliver this, but in our experience of preparing for things like the NCA we just see the complexity of making changes and particularly a bank such as ours, that has a lot of legacy systems, old systems, multiple interfaces.

So this would be a significant thing for Nedbank to do and it would cost money.

MS NYASULU: Accepted. Maybe tweak simplifies it too much, but the point that I am trying to make is, by the very nature of the industry, it is very adapt at dealing with changes, because it has all of these environments that are full of acts and legislation and Basel Two and, you name them. And banks have shown themselves to be quite adaptable, if necessary. So maybe you are absolutely right, it is not a tweak, it is a big change, but the point I am saying is, banks have never been fazed, either in the area of regulation or in the area of innovation, have never been fazed by the ability to change to achieve certain objects. So I would like to say, of course it will be a challenge, of course it will have cost implications, but I do not see that as a serious barrier, if the will is there to make it happen.

MR SHUTER: So maybe for clarity, I mean it is certainly possible to do, it is not a technical impossibility, so we are not offering that it cannot be done and if we all end up believing that this is the best long term solution and we can mitigate some of the things we are worried about, then we are more than happy to do that.

MS NYASULU: Okay, we are on the same page.

MR SHUTER: I think just from a regulatory perspective now, I think Nedbank, probably in good company with other banks, having been through Fica phase, Basel Two and the NCA, all in the last four years, was really looking forward to a period where we would not have a huge challenge around regulatory compliance and to direct our efforts in, more in the customer direction.

MS NYASULU: I am sure and we would like to assure you, you will not, but there is no guarantee, I mean you might have others to deal with.

MR SHUTER: I think the second question was around the …

MS NYASULU: The beans.

MR SHUTER: The multiple off us fees and the beans. And it is a very real risk. Currently a Nedbank client is going to pay the same for an off us transaction, irrespective of which bank they go to and irrespective of where that ATM is located. The minute the ATM provider can levy directly against the client, you are going to have different banks adopting different charging models. So the Nedbank client now will in all likelihood pay a different fee, depending on which bank's ATM they are using. And there also is the flexibility to differentiate between ATM's in different locations. So you could easily have eight, 10, 12, 20 different fees, dependent on which bank and which area.

Now I understand that gives you perhaps a closer relationship between the client and the acquiring bank and the fees out in the open and it is transparent and all of that, but there is no doubt that it is a lot more complex for the client. A Nedbank client who wants to use their card at an ATM has two fees, on us and off us and that is it.

MS NYASULU: And I understand that, but it still does not answer in the broader environment in which a consumer operates. There is choice, there is differentiation and hence, I know it is simplistic and I bring it back to a can of beans, but if a

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customer decides now they want to buy a can of beans, they do not know how much it is going to cost them, it will cost them 20c here, at Haffajees it will cost them 60c, at somebody else's place, why is it so difficult in the banking space or why do we assume in the banking space that a customer would find it so difficult to deal with different charges and different systems, is the question I am asking?

MR JALI: Maybe just to follow up, you know, I find this discussion interesting, because a greater part of your submission, the first part thereof, deals about how in the last two years you have changed your models, your charging models, you have come up with all sorts of new accounts, now why suddenly this one will be any different, because you have been doing it, that is what the greater part of this submission is about.

MR SHUTER: And that is absolutely right and from a Nedbank perspective we are very proud of the work we have done to simplify and reduce our fees over the last two years. So this is not fighting that at all. We are raising as a potential disadvantage of this model, is that you would have a proliferation of fees for off us transactions, which we believe would add complexity, it is an observation.

MS NYASULU: Okay.

MR SHUTER: It is not decisive.

MS NYASULU: Accepted.

MR SHUTER: I think …

MS NYASULU: Now I will stop for a while, you go, I will come back later.

ADV PETERSEN: I would just like to pursue that question of complexity with you a little further, if I may, the nature of it. Now, taking up Mrs. Nyasulu's comparison with a can of baked beans, in testing out this idea of the direct charging model, we obviously have in mind that the ATM service provider, in the off us situation and in the on us, the ATM service provider would transparently disclose to the user of the ATM the fee that is being charged by the ATM service provider for dispensing the cash. Now let us assume it is R500 that is being dispensed, in an off us situation the ATM service provider will then recover the R500 plus the fee from the issuing bank.

And the issuing bank will debit the client for those two amounts, plus of course any fee of its own, for whatever it may be that it is providing its customer with on the issuing side. Is my depiction of that model, so far, up to that point, the same as the way you have been understanding it? Or have you been considering that the issuing bank might still charge its own fee in lieu of the ATM service provider's fee, so that there could be a change there? We are thinking of a direct throughput.

MR SHUTER: We understand it the way you have described it, but the ATM owner is going to levy a fee on the client and that that fee will be transparent to the client at the time that they are making that withdrawal.

ADV PETERSEN: So provided the client can read the price label on the tin of baked beans or the ATM, there should be no confusion?

MR SHUTER: Sir, confusion is not my word, my word was complexity and I think we are dealing with an issue of transparency and an issue of complexity and they are not the same thing. I do understand that what you are proposing will be transparent, but at the time the client agrees to say yes, I want to withdraw this R500, the proposal on the table, the working hypothesis, is that the screen is going to flash up and say, it is going to cost you X, do you still want to proceed. That is the hypothesis, so that is very transparent. The question we must answer though is, is it more or less complex?

Because our perspective is that when you have one fee for an off us transaction, irrespective of bank and irrespective of geography, that is less complex than the potential for many different fees across banks and geographies.

ADV PETERSEN: Thank you.

MR JALI: Before I hand to Mr. Bodibe. I am trying to understand your position on the direct charging model. Are you against it or you are for it if certain conditions are met?

MR SHUTER: It is a straight question and I will endeavour to give you a straight answer. We think that there are four options on the table: There is the current model without variations, there is the FNB proposal of the abolition of Saswitch, there is the direct charging without carriage and that is what we describe as the independent interchange model. That is how our submission is calculated. We do not believe we should spend a lot of time on the FNB proposal. By their own admission they would be mad to do it …

MR JALI: Actually, let us not spend time even on the others, my question relates to the direct charging model.

MR SHUTER: We would hope that the outcome has not been prejudged so early on in the process.

MR JALI: No, no, no, it is just a question about whether this model is, what are your views on it, that is all I want to know.

MR SHUTER: Sir, I am getting there, if you will humour me for a second. So that leaves three, as is direct surcharge independent interchange of the four that we have suggested in the presentation you have in front of us. We believe that the independent interchange is preferable to the current model. So that leaves two, the direct surcharge and which is in our document option 2, model number 2 and the independent interchange model, which is option 4. Now your question would be, well, which of those two do we prefer.

MR JALI: No, no, that was not my question.

MR SHUTER: Okay.

MR JALI: My question was, are you against the interchange model or you will support it on certain conditions, sorry, the direct charging model? That was my question, that is why I was saying, let us just confine ourselves to the question.

MR SHUTER: We believe that both models can work and we are concerned …

MR JALI: There is only one.

MR SHUTER: We believe that the direct surcharge model can work.

MR JALI: Alright.

MR SHUTER: We believe that it is risky, because the consequences are not known. We believe that a lot of the concerns that we understand there to be with the current model can be mitigated in the independent interchange model and we really want to ensure that a proper debate and analysis is done of those two options. So we are not per sé against the direct charging model, but we remain unconvinced that it is the best option for the industry.

MR JALI: That will be a slight modification on your submission at page 21? Correct me if I am wrong. The conclusion, you come to that, page 21, I do not think it is confidential is it? No. I can read it out: It is Nedbank's view that the direct charge model could be adopted with equal ability to support interoperability, to the extent that the issues of concern outlined above can be addressed in switching to such model, Nedbank would support a change to a direct charge model.

MR SHUTER: So for that to happen, Chair, we would need to be comfortable that the disadvantages set out in our submission, which are largely replicated on the screen, can be addressed.

MR JALI: Otherwise you would support it? That is why I was asking you whether you support it or you support it with certain conditions, the conditions being to rectify that, but you will support it. So you will support it?

MR SHUTER: And we would also support the adoption of the independent interchange model.

MR JALI: That is not on the table … My question, by saying it is not on the table, I mean my question related to that particular …. you are putting it on the table, we will consider that as well.

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MR SHUTER: Thank you.

MS NYASULU: Can I just clarify, Chairman, sorry Oupa, when we talk about the one with the independent, sorry, I am trying to get to that slide, the one way and as third party independent … Yes, page 16, 17. What we essentially, as I understand, talking about is status quo, except that instead of either multilateral or bilateral we would just have a third party, independent party setting the carriage. So that is the only thing that, it would be the current system, but not with the bank setting it multilaterally or bilaterally but by a third party.

MR SHUTER: Yes. And two key characteristics, independently set and regularly reviewed.

MS NYASULU: Yes, okay.

MR SHUTER: So that it responds to changing market circumstances.

MR BODIBE: Thanks, Chair. You have to bear with me, I find myself in a predicament where I know what I want to ask, but it is phrasing the question that is difficult, because of the different terminology that is being used by the different banks. So please, if I am a bit slow, please bear with me. If I understand you now you say your Saswitch component has what you call a what? A convenience fee plus a carriage fee.

MR SHUTER: A cash withdrawal fee, plus a convenience fee.

MR BODIBE: A cash withdrawal fee plus a convenience fee. Now, can we go to page 5, the revised version of it? Okay, … explained that the R6,66 is with VAT and that the R4,45 above, which is when you withdraw from a Nedbank ATM also include VAT, does it include VAT?

MR SHUTER: Yes.

MR BODIBE: It does? Okay. Why when you, on the same kind of….. can you confirm again that for a R500 cash withdrawal on this account, if you do it off Nedbank you will pay a convenience fee of R5,29, is that right?

MR SHUTER: Correct.

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MR BODIBE: Can you explain to me then the difference between the R4,45 that you would pay if you are withdrawing from a Nedbank ATM and when you withdraw from another ATM?

MR SHUTER: I am going to ask Mr. Ntombela to pick up that question.

MR NTOMBELA: Sure. So, if I can just explain again what makes up what we term the Saswitch fee. We have a cash withdrawal fee, which our client pays to withdraw cash from our ATM. If a client withdraws cash from a foreign bank's ATM, we charge them a cash withdrawal fee plus a convenience fee.

MR BODIBE: So in this particular respect, which one is the cash withdrawal in the R5,29?

MR NTOMBELA: Okay, so the client will pay R11,95 and in that fee there is a cash withdrawal and a convenience fee, as described by the …

MR BODIBE: So how much is the cash withdrawal?

MR NTOMBELA: Okay, the cash withdrawal, you see, the difficulty with specific examples, Mr. Bodibe, is that we, the fee that we pay over to the bank is the R6,66, okay, which is the fee that the other bank charges us, part of the carriage fee for providing the cash service. What is left is then the convenience fee and … . In an example that the client draws a different amount from an off us transaction, the value of the carriage fee will vary, because the cost of providing the cash service, there is with the value of the transaction. What then happens is the amount that we earn as a convenience fee will then also … less. On outreach of the range of transactions or the values that our clients withdraw cash from other banks … .

MR BODIBE: But you have used R500 here.

MR NTOMBELA: Yes.

MR BODIBE: As the value of the transaction for both on us and off us.

MR NTOMBELA: That is correct, Sir.

MR BODIBE: Now what I want to understand is, why on an off us situation for the same amount, you would charge R5,29, whereas on an on us situation you will charge R4,45?

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MR NTOMBELA: But that is what I am trying to explain when I say that these fees, sorry, the fee is a formula and depending on the value of the transaction, the carriage fee or the withdrawal fee is an amount X.

MR BODIBE: I am with you.

MR NTOMBELA: Now, in this particular example this is the way it turns out. Now over the range of, and if the amount varies over the range of the transactions, our average value of withdrawal, the lower that average value, the amount that we have from our clients is less than the carriage fee, but above the average it is greater. So an average … .

MR BODIBE: Okay, I must say I do not understand, that is something we would have to pursue differently.

MR JALI: I am also struggling to follow. If I look at this example, maybe, okay, I just want to follow up, to seek clarification.

MR BODIBE: Sure, sure.

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MR JALI: Withdrawal from a Nedbank ATM, it is R4,45, that is R500 being withdrawn.

MR NTOMBELA: Yes.

MR JALI: That is a Nedbank ATM?

MR SHUTER: Correct.

MR JALI: A withdrawal from a foreign ATM, whatever, an off us transaction …

MR NTOMBELA: Is R11,95.

MR JALI: It is R11,95? Okay, out of the R11,95, if you take out the carriage fee of R6,66, you remain with R5,29.

MR NTOMBELA: That is correct.

MR JALI: Now the question is, why does he have to pay R5,29 and then in the other one is paying R4,45?

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MR NTOMBELA: The answer is, you are providing the client an additional service over and above when they draw cash from your ATM. Because you are now providing them the ability to draw cash at another bank's ATM.

MR JALI: What service do you provide, because I thought you are just …in this case the entire transaction is with the other bank. Everything is with the other bank, the only thing which happens the money gets deducted from your bank, now what service do you provide?

MR NTOMBELA: Can we look at the …

MR JALI: Okay, can we go back to the slide with the diagram? I cannot remember, slide number? Yes, that is the one. Right.

MR NTOMBELA: Can we go into the next slide then? So the Saswitch fee, okay, as you say, in any Saswitch fee there is a portion of it that is the convenience fee, okay, which is our first point, that we are providing additional service to the client and in that way enabling them to draw cash from their account at another bank's ATM. Okay, that is the first thing, that we are recovering the Saswitch fee. We

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believe that is an … that we are providing to the client and there is money to value attached to it. What we also recover is the fixed cost of providing the banking service that the client has. So for example, the cost of providing client service when the client does walk into branch and to interact with us.

The cost of resolving any queries that the client has, based on a cash withdrawal or any other issue that they want to carry out. If the clients changes an address and is to provide us with proof of change of address, our back office has to scan and retain that document. So there are a number of costs that we incur in providing that banking service to the client.

MR JALI: Right. I think in that example none of that has happened, he just withdrew cash, he did not ask, all that, all the other queries you are raising, those were never asked. He never changed the address, he never did anything, he just went to an ATM and withdrew the money. Now what I want to find out from you is, then what does the monthly fee do, what is the purpose then of the monthly fee, the annual fee, all those other fees, in addition the money which he has invested with you, on which you are earning interest?

MR NTOMBELA: In the, our transaction … so this particular product is our only current account, you do not have a monthly service fee on this product.

MR JALI: On this product there is no monthly service fee?

MR NTOMBELA: No, we charge clients transactional banking fees, based on the transactions that they carry out. And in those transactions we try and recover not just the specific cost of providing that transaction, but the cost of providing the banking service that the client has.

MR BODIBE: So the additional cost will be 85c here?

MR NTOMBELA: Sorry?

MR BODIBE: The additional convenience cost will be 85c?

MR NTOMBELA: I am not sure … .

MR BODIBE: I look at the difference between what the customer would have paid if they used your ATM and when they are using a different ATM, the difference there is about 84c, sorry.

MR NTOMBELA: It is difficult, Mr. Bodibe, to split the cost in the way that you are trying to, which is what I am trying to explain with the fact that if our client draws cash at a foreign bank's ATM, we still incur the costs of the branch service that the client uses as part of having a banking account with us. If the client phones and wants to change their residential address and they provide us with proof of residence, our back office has to retain that document.

MR BODIBE: And you are recovering that through that incident of the client going to another bank's ATM?

MR NTOMBELA: No, what I am saying is, the specific example, the transaction that we … , built into that is a recovery of the overall cost that we incur in having this relationship with the clients.

MR BODIBE: So would I be right then to say the opportunity cost for me as a Nedbank client, of using another, I know this is not the actual cost you incur, but the opportunity cost for me of using a foreign bank is that difference of 84c plus the carriage? So which means that, if I want to save on that amount I should rather use your ATM?

MR NTOMBELA: Yes, so the way we try to communicate this to our clients is that you say there is a fee that you pay as for a cash withdrawal on our ATM's. If you happen to withdraw from a foreign bank's ATM, there is that fee, … .

MR BODIBE: So in this case, if I just draw from, R500 from Nedbank, I will only be paying R4,45?

MR NTOMBELA: That is correct, Sir.

MR BODIBE: Okay, thanks.

MR SHUTER: If I could just raise, in that light, it is a point that I hope we got through clearly enough, one of the challenges of the direct charging model is that it does create the potential for large players, we can regard ourselves as a small bank in this context, to set very high fees for off us transactions. Now the direct effect of that, to the point a little bit earlier, is an incentive for clients to use their own bank. But if it is a small bank or a new entrant the indirect effect over time is that clients generally move towards the larger bank.

It is a paradoxical result, that the higher a big bank sets its fees for off us transaction, over the long term the more clients it attracts, because of the potential dissaving for clients of smaller banks in that scenario. And it does remain again a potential anti-competitive result of the direct charges model. We have got some interesting research that we can provide to you, that, some work that was done in that regard.

ADV PETERSEN: Yes, look, I think we take a note of that and I myself have read some research from the United States in that respect, which we will have to evaluate very carefully. But I am sorry to have to do it, but to take you back to, Mr. Ntombela, back to page 5, just to go through those figures again, maybe with slightly different emphasis. Let me just start with your table at the top of the page, which is assuming a R500 cash withdrawal off us. Well, it is assuming on us and then assuming off us, okay. Let me go to the end of that table, where you have total Saswitch fee, you have explained what you mean by a Saswitch fee and that is R11,95. And am I right in thinking that that will vary with the amount of the withdrawal?

MR NTOMBELA: Correct.

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ADV PETERSEN: So the R11,95 is specifically for a R500 withdrawal?

MR NTOMBELA: That is correct, Sir.

ADV PETERSEN: … component which she has to pay away.

MR NTOMBELA: Correct, Sir.

ADV PETERSEN: And the … what you call …what immediately strikes me is the comparison between the carriage fee paid away of R6,66, which is, you have explained, is something agreed with other banks, whether bilaterally or multilaterally, probably multilaterally, but it is agreed?

MR NTOMBELA: Correct.

ADV PETERSEN: So R6,66 is being paid to the other bank for the mere provision of the ATM service?

MR NTOMBELA: Correct and enables you to draw cash.

ADV PETERSEN: Yes, yes, yes. Whereas, if it was an on us withdrawal your title fee would be R4,45.

MR NTOMBELA: It is correct.

ADV PETERSEN: So you have agreed with other banks to give them an extra R2,21 for doing less than you do?

MR NTOMBELA: Can I also refer you to the table at the bottom of that page?

ADV PETERSEN: Yes.

MR NTOMBELA: For a similar withdrawal of R500, okay, in an ordinary current account, on a Nedbank ATM you pay R7,35, can you see that, the last two rows on page 5?

ADV PETERSEN: Yes.

MR NTOMBELA: And at a Saswitch ATM you have paid R13,30, bottom of page 5.

ADV PETERSEN: Yes.

MR NTOMBELA: So those are the fees for withdrawing a R500 cash amount at our ATM and a Saswitch ATM on ordinary current account.

ADV PETERSEN: But carriage would be, as I understand it, the same in both cases?

MR NTOMBELA: That is correct, yes.

ADV PETERSEN: Okay.

MR NTOMBELA: In the numbers that you are referring to, those fees referred to are what we call our Nedbank Transactor account, that account is our entry level, transactional banking accounts. It compares to the E-plan or Smart Flexi Save from our competitors. So this particular account has lower functionality than a normal, ordinary current account. So you do not get a chequebook on this account and you do not get an overdraft with it. So a client of ours, who uses the top account, has less functionality available to them, hence the difference in the fee that they pay in drawing cash commerce.

MR SHUTER: And I think, if I could just ask you for a second, in our submission last year November, there was a submission by Mr. Mahlangu from COSATU, you remember that and he raised the cost of his particular banking on a basket of transactions. And we provided you there on the screen with applying the basket of transactions of Mr. Mahlangu, who had applied that against a different bank and using the Nedbank pricing. And there in particular shaded in the green is the Saswitch fee. So that gives you a comparison in this entry level account of the off us fees of the four major banks, which I think is an interesting analysis and you see again there how competitive Nedbank has built the Transactor product as our entry level transactional product in comparison to the PA group.

MS NYASULU: We note that.

ADV PETERSEN: So then, am I to take it then that I am distorting the picture somewhat in taking the fee of R4,45 and comparing it with the carriage?

MR NTOMBELA: It is a pricing … . So for the entry-level transactional accounts we have elected to price a cash withdrawal at our ATM at that point.

ADV PETERSEN: But, sorry, no, no, please. Okay. Okay. But even if we were to go with the default fees on the ordinary current account, where the Nedbank ATM withdrawal of R500 would cost R7,35 and carriage would be R6,66 …

MR NTOMBELA: That is correct.

ADV PETERSEN: And just do the arithmetic quickly, what is the additional that you would be charging? 68c? So you have even there, taking it at the high end …

MR NTOMBELA: Sorry, can you explain to me the 68c?

ADV PETERSEN: No sorry, that was given to me, let me just see here. 69c? The only exercise that I am trying to do with you at the moment is to compare, to get a feel for the level and appropriateness of the carriage that you have agreed to pay away. There the service that is being provided by the other bank is only the cash dispensing service. You have got the account, all the costs attaching to that and maintaining the banker/customer relationship on the issuing side.

MR NTOMBELA: Correct, Sir.

ADV PETERSEN: And you are prepared to price your high-end transaction at R7,35?

MR NTOMBELA: That is correct.

ADV PETERSEN: And in other words, if the cost, if the true cost, with a profit component, of the mere ATM service provision and cash dispensing was in fact

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R6,66, you would only be allowing another 69c for your other, the other aspects of your service, that is on the high end. On the low end you are prepared to price it R4,45, which is R2,21 less than you would need to pay away to an ATM service provider on the other side. But what I am asking you to address is whether this should not be taken as indicative of the carriage fee, reached by agreement between the banks, being priced at above a competitive level?

MR SHUTER: I do not think we would necessarily reach the same conclusion. I think what we can say though is that it is for that very reason that Nedbank is suggesting that the interchange fee be determined by an independent party and regularly reviewed. We have a fee that has been the same for eight years, everybody seems pretty hazy on how it was arrived and on what basis it was arrived, it plays a very important role, as we have described and our recommendation, to respond to the issue you are raising, is in fact that we independently determine the carriage fee going forward, Sir.

ADV PETERSEN: With what criteria, what would it be designed to achieve, the level of carriage, set by that independent process of determination? What would the

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subjective be to determine, having regard to what factors to arrive at in appropriate amount?

MR SHUTER: It is not something I have personally considered in a great level of detail. Carmen, you want to respond?

MS WHATELEY: Thank you. I think that the, and again sorry, as you have indicated earlier, these issues are theoretical that we are discussing today and that the reason why we felt it necessary in the background information to describe the critical success factors, the dynamics of offering this joint service, is because it talks to what it would take to be able to offer a service successfully around a shared ATM network. And I refer to our diagram on slide 6, if I may, to respond to the question directly. And that, at a theoretical level, we believe that the appropriate considerations would be that the level of the……. that in setting and determining a carriage fee, it should be at an appropriate level to encourage a balancing of the requirements, to encourage the placements of ATM devices, which means that there is an economic consideration for the costs incurred by those who need to roll those devices out.

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And then also the necessary economic incentive on the issuing bank's side, to be able to enable that service and also to participate in a shared network, which as it is indicated here, as an issuing bank and as any issuing bank, in participating in a shared network, there are also tangible and intangible costs associated with participating in that. So in our view, looking at the carriage fee we would need to take into consideration an optimal level, such that all those parties' requirements are met to get to the point of meeting the critical success factors.

MR JALI: I just want to go back to this particular account, this Transactor account, I raised an issue about the fact that in addition there will be all the other fees, your monthly fees and all of that and Mr. Ntombela indicated that there were no such fees. I have looked at the schedule, there are no such fees, right, for that particular account, it is an entry level.

However, what surprises me is, you, whoever has invested in that account still does not earn any interest, yet he is being charged for all the other services on the other hand. Because according to your schedule, when I asked you about why is there a difference, you said the difference in fees caters for all the other services which are

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being provided. Then I raised about the fact that it is, there is money in the account, from which you are earning interest, I suppose, maybe you have borrowed it to myself at 25%, yet that is the amount of money you are earning, but you do not pay me any interest.

Yet when he transacts he gets charged more. You follow my concern? It is just a concern I want to express, because we are going to get to that particular exercise later in our hearings, deal with the actual costing, but it is just a concern I am raising with this particular account. You remember that your answer to the question was that it takes care of all the other services which are being provided.

MR NTOMBELA: Yes. That one point I did not understand in your last statement is when you say he pays more. I am not sure what you are referring to there.

MR JALI: You remember when we were talking about that figure at page 5?

MR NTOMBELA: Yes.

MR JALI: To say, when he withdraws from an ATM, a Nedbank ATM, he pays R4,45.

MR NTOMBELA: Correct.

MR JALI: But when he uses a foreign ATM it is R5,29.

MR NTOMBELA: Correct.

MR JALI: And then I said, why is it slightly more. Your answer was, it also, he is paying a convenience fee for all the other services which you are providing. And then you listed the whole list of services.

MR NTOMBELA: Yes, the differentiation in the price that I made was between Nedbank Transactor account and ordinary current account. So I am saying, in the Nedbank Transactor account, which is our entry level transaction account we charge our clients less to withdraw cash than we do on an ordinary current account.

MR JALI: But I thought you said this example was from a Transactor account.

MR BODIBE: Yes.

MR NTOMBELA: So there is two, there are two transactions here, there is the Nedbank ATM transaction and there is a Saswitch ATM transaction, for the Nedbank

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Transactor account. And then at the bottom of the page there is equivalent fees for a R500 withdrawal on an ordinary current account.

MR JALI: I am looking at the top column, I do not know where you are looking at, the top column at page 5.

MR NTOMBELA: Yes.

MR JALI: I thought the example, it is a withdrawal of R500 from a Nedbank Transactor account.

MR NTOMBELA: That is correct.

MR JALI: Nedbank ATM R4,45, Saswitch ATM R11,95 and then you give a breakdown below as to how that is made up.

MR NTOMBELA: Correct, Sir.

MR JALI: So basically what I am saying is, if I look at the R5,25, which is the convenience fee and the R4,45, which is on top, which is what you will pay if you had withdrawn from a Nedbank account, there is a difference, the other one is slightly higher.

MR NTOMBELA: Correct, Sir.

MR JALI: And then your answer was, it is slightly higher, because I was saying, what have you done and then you said it is slightly higher because of all the other services you are providing.

MR NTOMBELA: Okay.

MR JALI: So, now I am just raising a concern, it is not actually a question, it is just a concern to say, I am actually surprised because in this Transactor account he is actually not earning any interest. He has put in his money with Nedbank, you have lend it to me, because I do not have money to do whatever at 25% and then in addition this is what is happening.

MR NTOMBELA: You see, for this specific value transaction this is the way the … . So there is a difference, if you withdraw lower amounts or withdraw high amounts,

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there is a difference in what that convenience fee works out to. Because the carriage fee varies. So saying on average it evens out for our clients …

MR JALI: I am not looking at all the other clients, I am looking at this one. He is withdrawing R500 …

MR NTOMBELA: In this, for this …

MR JALI: He is withdrawing R500, he has got R100 000 with you, for argument sake, which you have lent to me, because I need it, then he gets, that is the only concern I am raising.

MR SHUTER: We register your concern and we will come back with a submission on responding to it.

MR JALI: Well, we will deal with the issue of charges later in this inquiry, it is just a point I thought maybe we need to raise at this stage, because it has got to be addressed at some stage.

MR BODIBE: Thanks. If you could provide the same breakdown for the Saswitch ATM, for this current account, what will be the carriage fee paid and what will be the convenience fee?

MR NTOMBELA: … carriage fee paid will be the same, R6,66.

MR BODIBE: R6,66? Okay, the convenience?

MR SHUTER: Sir, can we just clarify, is this also for the R500 transaction?

MR BODIBE: Yes.

MR SHUTER: That you are referring to, that is there at the bottom of page 5?

MR BODIBE: Yes, that is the current account, yes, I just want to work out, for you to clarify what would be the convenience.

MR SHUTER: The convenience fee will be R5,95.

MR BODIBE: R5,95?

MR SHUTER: Yes.

MR BODIBE: Okay. On a different point, on the same table, on page 4, I am looking at the fees for denied transactions. First, can you confirm that if it was on us and it was, and if there is a difference between if the transaction was on us and when it was off us.

MR NTOMBELA: That is correct.

MR BODIBE: Okay. Can you also confirm that the off us transaction is higher than the on us fee?

MR NTOMBELA: That is correct.

MR BODIBE: Can you explain the difference?

MR NTOMBELA: So again the difference is in, so there is a charge that we incur, paying over, that we pay over to the client for that transaction.

MR BODIBE: Can you repeat that?

MR NTOMBELA: For that particular transaction there is a charge that we, as an issuing bank we pay over to the acquirer a … transaction for the transaction.

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MR BODIBE: How much is that?

MR SHUTER: It is marked confidential in our submission.

MR BODIBE: It is not here.

MR SHUTER: It is in one of the annexures.

MR BODIBE: Annexures?

MR NTOMBELA: Yes.

MR BODIBE: So that we will also hold for the current account example?

MR NTOMBELA: That is correct.

MR BODIBE: Okay. Now with ATM … ATM, I am getting to that page. Okay. Yes, page 6, you actually marked the number of ATM's confidential, so I am not asking about that. Can a consumer distinguish between an outsourced ATM and a Nedbank ATM?

MR NTOMBELA: That is now …

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MR BODIBE: Your card.

MR NTOMBELA: It will have Nedbank branding.

MR BODIBE: Okay. And if this is not confidential, please can you respond, what is the revenue sharing model between yourself and the contractor?

MR NTOMBELA: I think that will be confidential or we have to respond *in camera*.

MR BODIBE: Okay. Now, with respect to your concern about multiple, let me just find the correct slide, it is multiple fees, from a direct, one of your cons in direct charging model. Yes, that is bullet number three from below. This question is, in terms of your examples, it seems to me that the preference for the bank is for when, is that customers should use your own ATM's rather than foreign ATM's?

MR SHUTER: I think that is correct.

MR BODIBE: That is correct? Okay. Now what is wrong per sé with multiple fees?

MR SHUTER: I think it goes to the earlier discussion around complexity.

MR BODIBE: Explain that to me, I do not follow.

MR SHUTER: Simply put in the existing model a client of any bank will have one fee for an off us transaction in the direct charge model, they could have different fees from different banks in different geographies and that adds complexity.

MR BODIBE: But you still have, so you will have, the result will be multiple fees, so the complexity is what, is that you can have different fees for location and different fees for what else?

MR SHUTER: For different banks.

MR BODIBE: For different banks? Now, would that not work to your disadvantage if your charges are much cheaper than the rest, no, advantage. If in the event that there are multiple fees and it works out that your fees for off us transactions, which means foreign customers are cheaper, would that not work in your advantage, first?

MR SHUTER: I think generally it would work to the advantage of a competitor with a large established ATM network, very difficult to see how that could work to the advantage of a small player with a small network.

MR BODIBE: Okay. So if it ends up discouraging your customers from using other people's ATM's and solely rely on your ATM, would that not work in your advantage?

MR SHUTER: The perspective we had earlier was that that might be the case in the shorter term, but the indirect affect of a situation like that is generally the clients migrate to the large players. So the remedy for a large off us fee in the short terms is to do an on us transaction, in the longer term it is to bank with the entity, the large entity with the large off us fees. It is another way of avoiding the off us fee and that is a potential anti-competitive outcome.

MR BODIBE: I am not sure I follow.

MR SHUTER: Some of it count intuitive and maybe if I could illustrate it by way of an example. If you had a market with one large bank, with a well-established ATM network and one small bank and we adopted the direct charging model, if on day one the large bank decides to charge R50 for off us transactions, the customers of the small bank would in a short term be very discouraged from using the large bank and would prefer to use the small bank. The reality though is that the small bank has a much smaller network and over time a better substitute for new customers actually to bank with the large bank, thereby similarly avoiding the large off us fees.

MR BODIBE: Okay.

MR SHUTER: And that is the moral hazard.

MR BODIBE: Okay. Now, let us take an existing example, you have a bank that charges you R2 per transaction and you have a bank that charges ad velorum, on why are those results not playing themselves out in the current situation, in this example that I am giving you, which is the existing model?

MR SHUTER: In the existing model you have a range of charges for off us and on us that include flat fees, tiered fees, ad valorem fees, there is many alternatives as there are options. Bank this morning has a flat fee, a bank yesterday has tiered fees, our bank has ad valoremfees.

MR BODIBE: So a direct charge model will get rid of all of that?

MR SHUTER: A direct charge model could adopt all of those options.

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MR BODIBE: So it is not a foregone conclusion that the results you are fearing may actually transpire, it is …

MR SHUTER: No, in the current model the fee for an off us transaction is determined by the issuing bank and there is no capacity for a large bank with a large acquiring market share to have prejudicial pricing for a smaller bank's clients. It is not competent, it cannot happen in the current framework, because the acquiring bank is not setting the pricing.

MR BODIBE: How would it happen in a direct charge model?

MR SHUTER: Because that is exactly what the change in the model necessitates, is that the acquiring bank sets the pricing for other banks' clients transacting on the infrastructure.

MR BODIBE: But it will not distinguish between banks, would it, between issuing banks.

MR SHUTER: It could not, it might be regulated, there might be guidelines, none of us know. In the absence of intervention or regulatory restrictions the acquiring bank could charge any fee to any client in any location on any formula they chose.

MR BODIBE: And they are not doing …

MR SHUTER: Set in the competitive domain.

MR BODIBE: And it is not happening at present, even with the interchange being set?

MR SHUTER: No, because the fees that are set currently in the competitive domain are between issuing bank and their clients. And the interchange serves to compensate for non-bank transactions on a different bank's ATM.

MR BODIBE: But you have just shown us a slide with Mr. Mahlangu comparing across banks, that even with the interchange being agreed among banks, the actual banks will compete on the other end, so which, in my humble opinion, means that there is different charging as we speak at the moment.

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MR SHUTER: Sir, the banks charge their clients different fees for off us transactions between the banks and that is healthy and it shows that there are competitive forces on off us transaction pricing, despite the common interchange. A direct charge model is a very different construct. Because in the direct charging model the acquiring bank, who is, and this is not their client, they are going to set the fee for that client. And it is a completely different arrangement.

MR BODIBE: But would the force of competition not also play itself out, that one with the highest fees will loose out?

MR SHUTER: We do not know and we are raising that there is a potential anti-competitive outcome, that would negatively affect smaller banks, raised by a peer bank this morning as well.

MR BODIBE: I am not sure I am convinced, but anyway, since these are very theoretical discussions, we can pursue later, but I am not sure I am convinced.

MR SHUTER: And we are happy to have that discussion offline as well.

MR BODIBE: Thank you.

MR JALI: Just lastly, just one last question, what will be your views to non-banks acquiring for purposes of ATM transactions?

MR SHUTER: Sir, if we understand, the question is, what is your perspective on non-banks having direct access to Bankserv?

MR JALI: Yes.

MR SHUTER: We would support that, we think competition is healthy. Same caveat I think has been raised earlier, that they need to be appropriately regulated, they need to have their systems in place, their infrastructure, their disaster recovery, etc, etc. But we have got no conceptual problem with them coming directly and …

MR JALI: Okay, thank you. Okay.

ADV PETERSEN: Just following up on that, a very important clarification, I understood Mr. Stassen this morning to conclude from the experience of a relatively new entrant and smaller player that provided that that, that he had no problem with that possession and further that provided in a direct charging model there was the requirement that there be no discrimination as between the customers of the cardholders of other banks, so that all strangers would be treated equally. He did not regard the obstacle to effective competition in the provision of the ATM services as being significant.

MR SHUTER: I was here for the exchange and I do not think I need to speak for Mr. Stassen, I think he is behind me somewhere.

MS NYASULU: He is gone.

MR SHUTER: Has he left, okay. We were asked to consider that direct charge model and we have expressed the concern, a couple of hours ago the suggestion you raised was that one of the ways that concerns could be mitigated is if there were some kind of regulation that banks could not distinguish between different off us clients, it is a very helpful suggestion, but we have not had time to consider it. It is not clear whether that would mean that different banks could have different off us pricing, they just could not distinguish individually. And it does not necessarily get around the concern that large banks could still set that pricing very high and over time customers of small banks would migrate.

ADV PETERSEN: In other words, with non-discrimination, in respect of customers in different other banks. Nevertheless, the fundamental price differentiation between own customers and others could be substantial, is that what you are now pointing out?

MR SHUTER: Yes.

ADV PETERSEN: But would that not itself be constrained by the development of cash-back at the point of sale and competition with ATM cash dispensing with increased use of debit cards and things like that? These are points that have already been made to us. So I would ask for your, if you want to give an evaluation of those points, please do so.

MR SHUTER: Yes, I think they need to be considered, I think the answer is we do not know, it is a risk of a new model, I think we would like to apply our minds to the suggestion you made this morning, because that is a new thing for us and I think we are happy to come back to you with a perspective on that in writing.

ADV PETERSEN: Now your readiness to accept appropriately qualified independent ATM service providers, thinking to the network, thinking to the switch. It is not something, as I understand it, that is addressed or contemplated in your submission, in your written submission. Would I be right in that regard or could you point me to …?

MR SHUTER: Yes, the question was not asked, so it is not dealt with.

ADV PETERSEN: Fair enough, fair enough, I am just observing and checking and if my observation is correct.

MR SHUTER: Yes.

ADV PETERSEN: Because it did strike me, having the idea of non-bank acquiring in the ATM space in mind, when reading your submissions, with constant theme is acquiring banks in relation to ATM's. And then third party ATM service providers having to be sponsored by acquiring banks. Sponsorship falls away in the new scenario that we have just talked about, does it not … ?

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MR SHUTER: Sir, we were describing the current scenario and currently because the third party has to be sponsored, they come under the guise of an acquiring bank.

ADV PETERSEN: Is that anti-competitive?

MR SHUTER: I do not think I can respond to that.

ADV PETERSEN: In, also in your submission and you have explained that you were thinking it through without non-bank acquiring being on your radar, again your entire written presentation seems for me to be based on the notion of joint supply by banks, that the ATM, the interoperability that has been created with the ATM network, arrangements for off us transactions and carriage, you develop around the idea of a joint supply by the banks. In the case of an independent ATM service provider, able to connect directly to the switch, would you still regard that as a joint supply?

MR SHUTER: I am going to ask Carmen to tackle that for us.

MS WHATELEY: Just to confirm that I have understood the question correctly. In the situation where, say in the current situation you have an issuing bank, an acquiring bank and the acquiring bank would sponsor the third party ATM device owner. In the new scenario, which I understand is what that…. to which your question is related, would be that the acquiring bank and the third party ATM provider essentially become one and the same, it may not be called an acquiring bank but the functions are the same. And that the one is acquiring ATM transactions and the other one is providing access to that facility.

ADV PETERSEN: I think we would say the non-bank acquirer.

MS WHATELEY: Okay, that is great, that is great.

ADV PETERSEN: Yes, okay.

MS WHATELEY: I think perhaps I will refer again to slide four, we would certainly see that as joint supply, because as we have described, the ability to offer a service of access to cash withdrawal on an ATM device, requires a device, it requires access to the accounts, from which the cash needs to be withdrawn. And in fact, there is a permutation of this diagram, which indicates that, so this is an acquiring function,

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who performs it is determined today by a specific set of circumstances and in a changing model would include additional players to those there today.

ADV PETERSEN: I want to indicate to you that I have difficulty with that, so that you can address it if you wish to. I was using my card to buy shoes, I do not believe you would saying that it is a joint supply of shoes. Certainly a joint … it is a cooperation and in that sense a joint function in supplying the payment card network, which enables me to pay for the shoes, but because cash is being dispensed at an ATM you seem to think of it entirely differently, because it is money and not shoes or money, not baked beans. You seem to think that every aspect of it is jointly supplied.

MS WHATELEY: Sorry, I am not sure, would you like ….. is there a question?

ADV PETERSEN: I am expressing to you my difficulty, so that if you wish to comment on that you have an opportunity to do so.

MS WHATELEY: Okay, we will come back to you on that point.

ADV PETERSEN: In the presentation that Dr Hawkins gave yesterday, I do not have a printout of it in front of me, but I believe it was on slide 15, she had a table which she aggregated the available information of all the banks.

She showed that the off us transactions, the issuer ended up getting approximately two thirds of the revenue. Do you, as you sit there, have any comment to make on that or any reason why we should not accept that as a reliable analysis?

MR SHUTER: In fact I was not present for that part of Dr Hawkins' submission, so we will have to come back to you on that.

ADV PETERSEN: Please. Can you see any reason why the FSC objectives should not also be compatible with the direct charging model?

MR SHUTER: I think our perspective is that they can be accommodated in that model, but it is going to require agreements between the banks. Because the Mzansi account, as I have said, allows those account holders to withdraw cash for the same fee in an on us or off us transaction and to enable that you would need to have interbank arrangements.

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ADV PETERSEN: But to the extent that it may be appropriate and permissible for special arrangements to be made in connection with the FSC objectives, they are going on anyway, so I understand your answer to be that direct charging does not remove that from the table.

MR SHUTER: Well …

ADV PETERSEN: It could be accommodated?

MR SHUTER: It could be accommodated in the direct charging model, but it is going to require interbank arrangements.

ADV PETERSEN: Yes, but you happily listed that on the pros side of the existing arrangements and other arrangements as far as I know, but you left it off the pros side on the direct charging model.

MR SHUTER: Because it is in place and working fine in the current model and in the independent interchange model and it is unclear how it would be accommodated in the direct charging model.

ADV PETERSEN: Just to tidy up one thing, if I may, just to shutter an answer to a question about the convenience component in the current account transaction at the foot of page 5. I think I heard you say that the convenience component would be R5, 95. May I just ask you whether that is not an error I make the difference between the Nedbank ATM fee of R7,35 and the Saswitch ATM fee R13,30, it would be R5,95. On my own calculation, using carriage of R6,66, I would make the convenience fee R6,64. I just want to tidy that up if in fact that does need correction.

MR SHUTER: I did hear some muttering when I was saying that, from my colleagues, so I may well have got it wrong. Saks, have you got an answer for us there?

MR NTOMBELA: Can I explain it?

ADV PETERSEN: Please.

MR NTOMBELA: So we have the carriage fee that the issuing bank pays over to the acquiring bank, as it increases with the value of the transaction.

ADV PETERSEN: Yes, but we are dealing with R500 here.

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MR NTOMBELA: Yes. So it goes back to the issue that these numbers are for these specific examples.

ADV PETERSEN: Yes, I understand, but is the carriage not R6,66 in this example?

MR NTOMBELA: Yes, it would be.

ADV PETERSEN: Yes. So R13,30 minus R6,66 is R6,64.

MR NTOMBELA: R6,64, yes.

ADV PETERSEN: Yes, just so that we do not have trouble with the record later, that is the only reason I am asking. Thank you.

MS NYASULU: It is, Chairman, more a comment, rather than a question, but just understanding also, on the cards that are issued for ATM withdrawals, is there a fee, annual fee that the consumer would have paid for that card? For an ATM card they have not paid a fee?

MR NTOMBELA: Yes.

MS NYASULU: Okay.

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MR JALI: Right then, Mr. Shuter, Ntombela, everybody else, thank you very much for coming. If we have got any other questions we will forward them to you through the technical team. And I know you made a number of undertakings about things on which you are going to come back to us, the technical team will follow up on that on our behalf. Can we also receive the presentation in electronic form, so that it would be easy for us to use it in our report? The inquiry will adjourn to Wednesday, 11 April 2007. We will commence on 09h30; we will be having ATM solutions, Standard Bank and ABSA on that day. Thank you for coming.

MR SHUTER: Thank you.

MR JALI: Enjoy your Easter.

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