MR JALI: Well, we really appreciate the fact that you came and I'll let you then go ahead with your presentation. I see Mr. Pelser is here as well. Welcome. You may proceed then.

MR KARK: Good morning Mr. Chairman. Thank you for having us.

MR JALI: Oh, just for the record, are we still carrying on with the hearings into the ATM's and related issue.

MR KARK: I suppose as a point of departure, I've been reading some of the notes that Hendrik took over the last couple of presentations about how the current fees etc arrived at, I'd like to just state that we got into the business long after the fees were already set, so we plead innocence on anything regarding to that.

Fact of the matter is I'd just like to start of with the one guiding principle which will be common throughout our presentation and that is the core principle in our business, and that is that participants should be compensated in relation to their underlying costs risk and service offering. So basically what it cost for us to be in business, less our costs plus some kind of appropriate risk adjusted return. So, we are not I suppose

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bogged down in additional detail, which pays who, how they pay it, where etc. We know that when we put out a machine it costs us X to run it, we know what the requirements are for the merchants, we know what the market can bear and that is the fact in which we trade in our business. So, I suppose it is almost a sterile view of the world but we only look at it through perhaps in a two dimensional basis that says, “this is how much it cost for us to run our business and this is what’s left at the end of the day for our shareholders”.

If in fact, our banking partners, merchant clients and their cardholders derive benefit from our service offering which in fact they do, that is a very welcome by-product. But a guiding principle is that participants should in fact be remunerated and rewarded for their underlying risk costs and service offering without any of the ambivalent outside noise that invariable forms part of the discussion.

I have kept the topics, my presentation is short. It seems though as for the last few days most of the topics have already been covered and I have no doubt that it will be covered in addition when Standard and ABSA present, but I have kept it to the topics that you have suggested and required and that we have broken up into the current

ATM model, the fee, the interchange, customer pricing, the so-called Saswitch mark-up or penalty fee, so many words for the same thing, not sure, I even confuse myself. The impact of that off us fee, i.e. the underlying interchange mark-up and we also requested to speak about two possible alternative models and that is the interchange or carriage fee without a mark-up, without the off us or Saswitch mark-up as well as the possibility for direct charging obviously without a carriage fee not appropriate.

So, how does it look today? As I had said this is really the case well before our time, but the fees at the moment now, the higher cardholder fees in fact do not result, or not as a result of interchange – interchange is what we live off – that in fact is the cost of doing business. We provide the ATM, we are the at risk party, we are deploying the hardware, we are servicing, cashing, settling, balance, reconciling, fulfilling query resolution, loading the ATM's, securing the ATM's, providing connectivity, switching, settlement balancing and reconciliation which I just mentioned, dodging the dynamites, try to find insurance for our cash, so we are in fact the at-risk-party. Our revenue comes from the interchange which is, it is worth the mention, that the current interchange levels have in fact remained unchanged for eight years, I dare say the costs in fact over the last eight years haven’t remained unchanged.

So, again this is history. From my point of view the interchange levels that we are working with were set long before our entry into this business, but that in fact is the revenue of which we eat, sleep, live and breathe.

The customer pricing at the moment, I suppose and this has been flagged in both presentations from FNB and Nedbank, and that is this issue acquire disconnect. The additional charges, say for example a client that goes to a Standard Bank machine, a Nedbank client that goes to a Standard Bank machine, he just sees, the Nedbank client just sees the fee that he pays his bank. There is a perception I suppose that the Standard Bank machine that’s there, that’s the one doing the charging.

As a matter of fact very few cardholders realise that the additional charges are in fact arising out of the mark up that his own bank makes when paying a way to the deployer of the ATM. So they just see on their statement R10-00, they in fact don’t know that the guy, the at-risk party, and we will constantly refer to the at-risk party, the at-risk party being the deployer who put the piece of hardware there, runs the cash deals with the merchants and puts his life on the line almost literally every single day to deploy an ATM. The at-risk party as a matter of fact, receives a much smaller percentage of the total fee that the cardholder pays. None of this is new, merely just recapping for the benefit of the Commission, as well as that being one of your requirements.

I took an arbitrary and our average revenue's today or average withdrawal is R300 odd rand. I took a bundle basket of fees of the four different issuers at the moment now, the R3,25 and 65c per R100 thereafter on a R300 withdrawal. The total customer charge would be R10,88. As a matter of fact, we receive outside the banks obviously the smallest percentage of that notwithstanding the fact that we are the at-risk party. So again, nothing we can really do about it nor do we have any comments on it, merely just stating facts of what's available in the market today but it is worth a note that we in fact keep the smallest share of the revenues notwithstanding the fact that we are the guys putting out the devices and all associated services with it.

The so-called off us fee and I'll use it interchangeably with Saswitch fee, penalty fee, mark-up fee, I'm not sure what it is, but we decided to use it as you guys said and

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that's the off us fee which really is the issuer marking up the underlying charge to their customers. That's factually what it is. They paid away R4,55 to the deployer or to the acquirer and that additional fee as per the previous slide whether it was R5, I think R5 what is it, R6-20 on additional, that being the penalty effectively, so that's the off us fee.

What is the impact today? And this is not my view. This is a widely accepted view in the market. Firstly the customers believe that the high off us charge as a result of the interchange. People often say, "well interchange is so much, interchange". The fact of the matter is that interchange, when looked at the total client charge represents the smallest of the charges, notwithstanding that the interchange is what the at-risk party lives off every single day.

Agreed, the fees could be more transparent to customers. So I suppose that's the basis for this discussion that notwithstanding the fact that fees are perceived to be relatively high, transparency is an issue. What is the guy that is using the machine? What does he actually pay and how is that communicated to him either prior to the transaction, on the transaction or at least in some kind of easy to understand workable

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manner. Could the fees be more transparent and in fact be lower? That in turn leads to a couple of suggestions, again talking to your requirements for this presentation. What would the carriage fee or interchange be without this off us mark-up? What would in fact happen?

So, the deployer is remunerated. He gets his interchange and the issuer then, doesn’t in fact put anything on top of it, the off us percentage mark-up, Saswitch fee, penalty, call it what you will, but what would the impact on that in fact be today?

Number one, there will be uniformity of charges. So, no surprises. The prices will be widely accepted. Yes, of course there will be efficiencies, to what FNB’s commenting on, and that there would be probably more efficient use of ATM’s. Why? Because on a Saturday morning if there’s a queue of 20 deep at your bank’s ATM, if you know that there is no pricing or very small pricing prejudice to go down the road where there’s no queue in fact, that would lead to uniformity, more efficient utilization of the ATM infrastructure, factually it would, it is a welcome by-product and that really comes into place. Whoever has the best locations will in fact do the volume, not some kind of superfluous brand on the machine or perception of pricing.

There will be uniformity of charges and customers would know full well what the charges were before they transacted because there would be no surprises depending on which bank’s brand is on the ATM or an independent branch as ourselves.

The only way in which this model would succeed in our view is that the interchange is carried, the interchange represents a reasonable return on deployment. Factually, if the deployers can’t make a return on deploying the ATM’s, supply of the ATM’s would dry. What then is the incentive, when you want to roll out ATM’s if they in fact can’t cover their costs and make a return?

So that would be the law of unintended consequences that if interchange is adjusted downwards or the tractedness of new market entrance or more machine wouldn’t be there, who would do it if they know that they couldn’t recoup there costs, and I can tell you, we have never seen so many three letter acronyms as we have seen in the last two years. So if it’s from triple DES to PCR to EMV etc, tens of millions of rands are being spent from the acquirers’ side. I mean, so much so in the past, prior to EMV, the liability for a fraudulent transaction sat with the issuer, now it sits with the acquirer, the liability issues etcetera. If they, there are machines being blown up

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every other week, that is very difficult to keep insurance. I mean, factually, these are not only our problem, it's the problem of all the participants in the market. The fact of the matter is, if deployers cant' in fact make a return on their investments for putting machines in the ground and running those ATM's, there is no incentive for any one to actually roll out machines.

We'll be back into the early 1980's where people put machines outside their branches just to get people out their banking halls. But retail ATM's at your convenient store, at your supermarkets, at the movie theatre, what we've grown to know and love but in the US the second most used appliance outside the phone and PC is an ATM. So, we think that this is not a bad option. We are sitting on the fence I suppose, between a potential direct charge and an interchange without the off us fee.

Quite frankly we don't have a view on either, either would be workable provided that the fee is set by a knowledgeable independent third party that involves all the stakeholders because the minute I suppose that you get into the quagmire of between issuing and acquiring etcetera, then dependent could come in, look at what the costs of running an ATM or what the potential pitfalls are, a reasonable return and then set the fees. The truth of the matter is that if the fees are set too low there is no incentive to roll out more machines and customers will be the one to suffer. You will see a culling of the number of machines put out.

The next one is direct charging which is getting a lot of airtime, direct charging, and interchangeable surcharging whereby the acquirer in fact levies the charge directly on the issuer's client's bank account. Also a good model, and also fully supportive of it. As I had said, our principle number one is that the at-risk party is compensated for their cost, underlying risk and service offering. So whether we recoup the costs through our bank by interchange or we recoup it directly from the bank's customers, either of which are fine. I suppose the discussion here is to which is better for the customer, which would enhance competition etc.

The direct charging would lead to transparency of pricing. Our systems are available, ready and workable. You would be able to flag the transaction costs before the transaction took place, so a screen would pop up and say, *"Dear Mr. Cardholder, your transaction will cost you R1, R2, R5, X rand. Do you wish to proceed, yes/no"*, and they would be given an opt out, they would be given an opt out choice. So, they are not logged into the transaction. They will then have the ability to continue with the transaction, knowing full well what the costs that appears on their statement is in fact the cost that they see on the screen at that time. I suppose this is a personal view of ours. We do need to be cautious of cross subsidisation. If everyone is in the same boat of the direct charge cross subsidisation between issuing and acquiring bank access cardholder suffers a R5 surcharge, pays the R5 surcharge but then gets it back, in other way through a bundled fee, etc.

That would certainly be to the prejudice of any kind of competition, most certainly to our business because we are in fact not issuers, we are purely acquirers. So, there should be a note of caution in that regard, not to say that it won't happen or it will happen rather, but it is something that we need to keep in mind that the acquirer lives squarely off the revenue that he collects either from the bank or from the cardholder. We don't have any luxury of collecting fees anywhere else. So, what we see is what we get quite frankly.

There were some concerns about exploitation in inaccessible areas, really two views on that I suppose. Market forces will prevail. Let's say you are at the Competition

Commission building here and Liz is the FNB machine, that was the only one in the courtyard at R25,00 a transaction on a direct charge, I can assure you, we would be all over it like a rash as would every other deployer and fees would come down. That's fact. The minute there is super profits then the market is efficient that way.

The value portion of the transaction will be eroded through competition if super profits are being made. You say for us to deploy an ATM 20 kilometres from nowhere and we are making big fat margins, I can assure you, there'll be ten other deployers in that exact neighbourhood and prices will plummet, number one, and number two there are alternative sales, cash channels today, be it cash back, a PRS or just debit card. So, there is client choice.

Clients vote with their feet. If fees are too high, they are not going to use the machine factually, and if fees are just right they will use the machine. No one wants as a deployer, to have a device there, a depreciating device, sitting there not being used and I can assure you wake up very quickly if your transactions are too high. And that is the sweet part.

So, that unfortunately is just our presentation. I know some of it was repetition of what's already been said perhaps maybe just to give our view on either of the two models that were being suggested, be it direct charging, without a carriage fee or an interchange model without the carriage fee hopefully we've articulated our view. Thank you so much.

MR JALI: Thank you Mr. Kark. Just two questions before I let the others ask some more questions. You said the fees which was set, you came after they were set ..

MR KARK A long time ago.

MR JALI: I'm trying to understand that particular statement. Was that a reference to the carriage fee?

MR KARK: Yes, the interchange fee. That's where we get our revenues from.

MR JALI: Right. So, it was set, set by whom?

MR KARK: We got into the business initially working through our sponsor bank which was Saambou at that time and those were the fees that were available at that time. How they were set and when they were set I'm not a 100% sure, that happened a number of years before our arrival. We only started deploying ATM's in the middle of 2000. So, I'm unaware as to how those interchange fees at that time arose.

MR JALI: Well, I was hoping you are going to help us because we were not there, because it looks like it never would have seems to have amnesia when it comes to that.

MR KARK: You know, the thing about amnesia, you see, I forget. The truth of the matter is that the fees were, we can really plead ignorance. Why? Because the fees were there predating us. The big bang was already there before the fifth day. So, we got into this business a number of years. The interchange was widely held R3,25 and 65 cents etcetera was there when we arrived on the scene. Where it was set, how it was set, keeping in mind that we had no control over the interchange. We don't sit on forums at which interchange are ...

MR JALI: Okay. The other question I've got. You're one of the small players in this industry. What I wanted to find out, there was a presentation here last week by one of the banks, one of the small players. They made a big issue about training of customers. Do you have any views on that, if the model were to change?

MR KARK: No problem. We have about three and a half thousand ATM's which is probably about 40 odd percent of all retail ATM's and we've never had a problem whatsoever. I think if the screen is clear, explaining how much the charges would be, I don't believe that there will be any issue with that. I mean, if the client couldn't understand what's happening at the time of transaction how are they meant to understand things that happen outside the background without any of their involvement. So, I would say that the exact proverse would be true. I think it would be easier for them to understand if the cost of the transaction took place at the point of transaction. Just a view.

MR JALI: You made a statement that clients usually vote with their feet. Obviously in relation to the to the point you just made, that would be the situation. People, if it's too expensive, they just will do a cheaper one.

MR KARK: That's right. I can tell you, an ATM today isn't the only show in town, and number 2, more important, it's usually not the only ATM in town. So, if the transaction on a direct charging model are too expensive, people won't use it and then in fact the deployer will revise his pricing, or go out of business or pull the machine out of the ground and redeploy it into an area in which he can make money. I mean, the fact of the matter is that clients are smart, especially now that they have additional choice where to withdraw cash be it cash back of POS or other banks ATM's. The fact of the matter is they are not spoilt for choice number one, and number two the market place is efficient in the way that if there are super profits being made in any one area within a very short space of time that sector of the market will be inundated with cheaper alternatives. Fact that's fact. I mean we hit the sweet spot in the market place where there was an under-serviced area in the market, where retailers were requesting ATM's and there was a gap. So that is what entrepreneurship actually does.

MS NYASULU: Mr. Kark, thank you very much for a very interesting presentation. I just have a few questions more to try and understand your model. Now who actually decides and what criteria are used in deciding where ATM's should be located.

MR KARK: We do, we do.

MS NYASULU: And what sort of criteria would you use?

MR KARK: Well, firstly you would look at the merchant's requirements at first in that particular instance, the retailer so, if you are a petrol station and you want it as an additional service offering to your clients, of course we need, we are only in the retail ATM placement business so there needs to be a suitable site, suitable site in that there is enough foot traffic, all the retailers requirements will provide additional services to his customers we will then look at the cardholder base, we would then look at other number of ATM's in the neighbourhood and take a view, you know, the truth of the matter is, is that people are becoming increasingly more convenience orientated.

Now it is almost a given, an expectation rather that in your retail store there will be some kind of cash withdraw facilities. You either get it back from the till or there is an ATM there. We in fact fulfil that need, so we look at retailer requirements and cardholder requirements in a particular neighbourhood. There may very well be a bank ATM three or four hundred metres up the road but that may be in a banking hall or in a hardware store and if our ATM is proposed to be located in a petrol station at the other end of the street, that is client convenience. That, those are the two overriding considerations.

MS NYASULU: Thank you. Is there any reason why you restrict yourselves to retail placement of ATM's, I mean what stops you putting an ATM in the middle of the street in Pofadder?

MR KARK: Well, good point. Two things, firstly, number one is viability. Usually, usually where there is a retail store there is usually foot traffic, number one. Number two security is a big issue from our point of view, merely putting a machine in the middle of the street in some town is a sure fire way to getting the machine pulled up the ground or blown up. So, there are additional requirements and more importantly we found that the cardholders that utilise our machines prefer to withdraw cash in a well and secure manned environment. So that is our niche.

MS NYASULU: So, it's basically business related reasons that …

MR KARK: Why we put in the ATM's?

MS NYASULU: Yes, absolutely.

MR KARK: We put in machines if there is a business requirement, either the merchant or the cardholder or his clients, meaning the merchant's clients, the retailer's clients, if there is a requirement from their point of view to have an ATM from a convenience. Only business, we are not too ….

MS NYASULU: Thank you. I was only trying to establish if there are any barriers other than business relate reasons..

MR KARK: Nothing, I can tell you another model of ours would be, we will put an ATM at a place of business, in a big office park, purely for convenience, at lunch time it will stop people from going out, they could then withdraw cash on the premises much the same as an HR service rather than anything else.

MS NYASULU: Could you explain to me your understanding of on and off us transaction what the banks have said basically, is the reason that they still charge a cash withdrawal fee even if it wasn't their machine that's been used and they didn't have to put the money in, is this a so-called processing fee? What is your understanding of how and what a bank has to process?

MR KARK: I wouldn't have a view. I am not in that business.

<u>MS NYASULU:</u> You have no understanding?

<u>MR KARK:</u> We only know what it costs for us to put the machine there. What the bank adds on top of that, I am not sure.

<u>MS NYASULU:</u> Just explain to me specifically your process then and in your model apart from rolling out an ATM, putting the equipment there, what are the other steps that are involved, what are the services?

<u>MR KARK:</u> Everything.

<u>MS NYASULU</u>: Which is?

<u>MR KARK:</u> We find the site, we install the machine, we secure the machine, we monitor that machine, we maintain the machine, we fill it with cash, we settle, we balance, we reconcile, we resolve client queries, and we do everything. Factually. There is nothing that we don't do.

<u>MS NYASULU:</u> Okay. I will come back later.

MR JALI: And everything is achievable on your cost, on your charging and costing model. As you put it….

MR KARK: We would always like a little more but at the moment now we ….

MR JALI: We all like a little more. Can you go back to that slide before?

MR KARK: Which one?

MR JALI: There was a slide where you put up the figures.

MS NYASULU: The allocation of the fees charged to a customer. The charge would settle what you get and what the bank gets and the split. Those costs. That one.

MR KARK: Well, you know I took an arbitrary, I took a R300 withdrawal. I think our average withdrawal is R300 and change so, our revenue, yes, at the moment now it is fine, keeping in mind that the problem at the moment is one of increased costs, just factually, static revenue and increased costs. Today, just given the security situation and compliance issues, the costs are huge and growing. I mean to get cash insurance today, if you can find it, is pretty expensive.

If you are an underwriter in London, if you were Lloyds would you insure cash in transit or cash in ATM's today in South Africa? The costs are huge, factually, you know as I have articulated before compliance issues for deployers from triple … to PCR to EMV to EPP's, it is a never ending, I sometimes think it is a conspiracy from the manufacturers to make us buy more stuff, buy more card readers and buy more pin pads and buy more switches and buy everything more for actually, from our point of view you can't charge the cardholder anything more because you have just spent R20 million on an EMV upgrade. How do you recoup that?

MR JALI: But if I, if I hear what you are saying, then that 58% and 41% should be the other way around. If the costs are huge, because it is the ATM provider who carries all those costs. It's your insurance, your everything else you are talking about. The person, who should be recouping more is the ATM provider.

MR KARK: We couldn't agree more, but we don't have control over that today, that's fair.

MR JALI: Okay.

MS NYASULU: Can I just ask a follow-up question please and I am going to restrict myself to the R4,55 because that is the amount you have control only, you have no control….

MR KARK: We don't.

MS NYASULU: You don't...

MR KARK: We don't have control over that. That's said today, we don't have control over that. I mean that is the fee. That is the fee that is paid. I don't have control over that. We weren't a party to that discussion, we've…., that is the fee. I don't say, why may I say that that thing should be R5,05 or R4,65 why more than …

MS NYASULU: Well, that was going to be my question. So you are saying, you don't have any control on how that fee is set.

MR KARK: No.

MS NYASULU: Okay.

MR KARK: No, we are a service provider.

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MS NYASULU: That takes away my question.

MR JALI: That is the fee which is a promoted fee?

MR KARK: Well that's the fee. That is why, that's why we had said that a fairer way of doing interchange if that be a model, is that interchange is set by an unbiased independent third party with input from all stakeholders and then interchange is more representative and then you wouldn't in fact, your requirements, you have a discussion on carriage fee without this mark up, the penalty would result probably in the ATM provider keeping more and the issuing bank probably keeping less. That is probably how it would fan out in my view.

ADV PETERSEN: If I may follow-up on that, I was going to say the change might well involve the issue of getting less probably without the ATM provider necessarily getting more, because that would be a direct and absolute saving to the consumer, it is for sure. Now coming to that slide my arithmetic is not the best, but working on the bases that carriage is a uniform R3.25 for the first hundred and an additional 65c per R100 after that and you have taken R300 as the example, the R4.55 is precisely put to carriage, is that correct?

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MR KARK: Yes.

ADV PETERSEN: Does that mean that in your own business you can rely on the full carriage as your revenue?

MR KARK: More than likely.

ADV PETERSEN: Yes. I appreciate that you are in a variety of arrangements with banks ...

MR KARK: Yes

ADV PETERSEN: ...to provide ATM services where there brand is involved and where there must be some service provided by that bank to give you access to the switch.

MR KARK: Yes.

ADV PETERSEN: Okay. So, it would seem then to follow that the banks in those arrangements are not making a deduction from carriage before passing it on to you.

MR KARK: They keep a portion of the carriage fee.

ADV PETERSEN: They do keep a portion of the carriage fee.

MR KARK: Yes.

ADV PETERSEN: Are you aware of any bank charging additionally despite its own brand being involved on your machine, charging the customer additionally where an ATM solutions machine is used?

MR KARK: Yes.

ADV PETERSEN: You are.

MR KARK: Yes.

ADV PETERSEN: Is that wide spread?

MR KARK: ABSA has a common …. where it is an ABSA sponsored machine, an ABSA cardholder would pay a slight premium over and above using an ABSA machine, however would pay significantly less, would pay significantly less than using a Standard Bank machine or a Nedbank machine. That sits somewhere if you like between, excuse me, that sits somewhere between I suppose an on us and a full

Saswitch Off us, so it will still be more cost effective for a card, for an ABSA cardholder to use one of our cash express machines than perhaps using a Standard Bank or a Nedbank machine. Keeping in mind MADV PETERSEN, that in other arrangements that we have there in fact is no additional fee there.

ADV PETERSEN: Well, is it correct that a significant proportion of the machines provided and serviced by ATM Solutions are in rural and otherwise underserved areas.

MR KARK: Yes.

ADV PETERSEN: So, that additional fee where it is charged would fall upon customers, I'm assuming particularly in those areas.

MR KARK: No everywhere.

ADV PETERSEN: Yes but to the extent that the use of the machine would tend to be local ...,

MR KARK: Yes

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ADV PETERSEN: ... would tend to follow, wouldn't it, that, that additional fee would fall upon those local people.

MR KARK: They would be in the same boat as anybody else using the machines is it downtown, Sandton, or 120km from Springbok, people would pay the same fee, yes. MADV PETERSEN, our model of deploying in the under serviced areas, really came as a basis to and our offering to the clients in that particular area want to stop or promote the phenomenon of capital flight.

What we were finding there were enough small villages where there would be a General Dealer and there wouldn't be cash withdrawal facilities so invariably his local populist would jump in a taxi or on a bus they would then go to their next largest town where there was an ATM there and all the money would then be spent in that next largest town rather than in the small town. So what we have seen was capital flight out of the local community.

What we've managed to achieve through our business model, not because we are clever people, just because there was a demand that the local retailer becomes the locale for the ATM and we have managed to hit the sweet spot as it were in those particular markets to keep the money in the community. The General Dealer becomes the guy that's selling them the merchandise and has the ability to withdraw cash in the store. So, it was the chance, I mean that was the market force.

ADV PETERSEN: Indeed, I do understand that it's not you that are charging the customer under the present model, it's the bank.

MR KARK: Yes.

ADV PETERSEN: Okay. Now if one envisages a change to a direct charging model, it would seem that you see no difficulty in maintaining your operations in that case.

MR KARK: Yes.

ADV PETERSEN: Is that correct?

MR KARK: Yes.

ADV PETERSEN: You would now be depending upon, instead of carriage or the line share of carriage, you would be depending upon the fee directly charged or the line share of that fee?

MR KARK: Yes.

ADV PETERSEN: And how would you envisage that would be determined, assuming that you still had to go through a bank to get to the switch, how would that direct charge be determined. Do you think that could be worked out by agreement with your present sponsors or your present principles?

MR KARK: Sponsors.

ADV PETERSEN: Sponsors?

MR KARK: I believe so.

ADV PETERSEN: So irrespective of whether there was a change in the access at a switch position you could operate.

MR KARK: Access in fees is mutually exclusive. The issue of access becomes an issue if in fact our sponsor then decides that they don't in fact want to sponsor us anymore. That's when it will become an issue. But as far as the recoupment of fees is concerned I have no doubt that some commercial arrangement is to sharing of either mutually independently reviewed interchange or alternatively the direct charge.

You will charge to what the market can bear or what your costs are in a particular instance.

MS NYASULU: Just before Adv Petersen changes tapes, just on the very issue of what you charge and your entrepreneurship, I am still a little bit confused because you make the statement that interchange or the high cost of fees has nothing to do with interchange, and in fact your statement was that the interchange fee is equal to the underlying cost of providing ATM services. Now as an entrepreneur and one who actually basis the decision on whether they want to roll out more ATM's or whether they are making money from rolling out ATM …,I am a bit confused then if that 425 is not what you said, and it is something that has been charged by someone else. How do you decide if you're recouping your costs and that you are making money?

MR KARK: Two things firstly, we do make money. We are not the Red Cross, we do make money on the interchange or our portion of the interchange today. But, this is a penny's business. In so far as acquiring interchange is concerned less the direct costs that you have to support the network then in fact is, this is pennies, you rely on volume and roll out. There are no fat margins, there is no R4.55 and 55c of costs

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and you are sitting with R4.00 you are in fact on a treadmill to eak efficiencies out of your network, or my point of the matter is, is that the fee that the cardholder ultimately pays keeping in mind that the least portion of that goes to the deployer and the deployer, it seems, has the bulk of the costs. That was really my point, that the deployer has the costs of deploying equipment and managing equipment and maintaining equipment. That was really my point.

MR BODIBE: Can I just make a follow-up on that. You said you're able to make a return based on volume, why are you not responding to Ms Nyasulu's question about how you make your money. You said you're dependent on volume and what?

MR KARK: And roll out.

MR BODIBE: And roll out.

MR KARK: Yes.

MR BODIBE: And do you face the same cost as a bank will face for deploying an ATM.

MR KARK: Much the same.

ADV PETERSEN: In relation to that issue of cost, and taking your present revenue stream where you gave the figure of R4.55 on a R300 transaction, roughly how many transactions would be needed to break even on an ATM?

MR KARK: It depends on the locale. It depends on the locale. It's how long is a piece of string. Indoor, outdoor, Metropol, non-Metropol, convenience merchant, bank at work site.

ADV PETERSEN: Could you give us a rough range.

W ABRAHAMSON: It's still dependent on the type of device that you use, it's depended on how much you give back to the particular retailer which would depend on their specific circumstances, so it would vary domestically.

MR JALI: We don't have your name on our record.

W ABRAHAMSON: Wayne Abrahamson.

MR JALI: Mr. Wayne Abrahamson. We just want to make sure that it is on the record. So you can't even give us a range, I mean a range starting from a minimum of so many transactions to a maximum of so many transactions.

MR KARK: I wouldn't be able to. It ranges dramatically.

ADV PETERSEN: Would it also follow that your costs or the costs of a rival independent ATM provider could be significantly lower than the cost of a bank when they are also concerned to recoup historical costs?

MR KARK: Your question, could we possibly be cheaper than the banks.

ADV PETERSEN: Yes, that is a very good way of putting it.

MR KARK: Yes, I would say the cost of our operation is probably less expensive than the bank's current operation. That would probably be ...(indistinct).

ADV PETERSEN: And with the ongoing development of new technology and the cheapening of equipment that could continue to be a factor. Would that be correct?

MR KARK: The cost of equipment is but one mere component of providing an ATM service. For example in a very low traffic site the cost of equipment will be at a fixed cost, the depreciation, the maintenance etc. represents the major cost, but in a very high traffic location the cash in transit process thing and consumables maintenance may be a little more significant cost and to merely looking at the cost of equipment is to only taking a one sided view of the equation. Volumes, this is a volume game. You need to put machines where they do volume and then hopefully you'll make a return.

ADV PETERSEN: I hear you. What I am also wanting to come to here is the question of to what extent the existence from a uniform interchange or precisely carriage as it is described in the ATM environment, to what extent a uniform carriage, however said, may operate to chill that element of competition which is concerned with the reduction of competitive reduction of costs.

MR KARK: It may chill it.

ADV PETERSEN: Whereas the direct charging model would expose, would encourage competition over the reduction of costs.

MR KARK: More than likely, because as in the interchange model we don't then have the luxury of additional recoupment on the issuing side, factually.

ADV PETERSEN: What would you say to the suggestion that the mode of charging which involves the setting of carriage, which is based on carriage, is one where the incentive of the players is to raise it rather than lower it? Is that suggestion sound?

MR KARK: That suggestion is sound if the interchange or carriage is raised and the off us mark up, Saswitch penalty is reduced, you would have the benefit of increased device rollouts and still achieve reduced client costs, because in the volume business, even a marginal increase in the interchange rate would lead to a greater proliferation of ATM's just given the volume nature of deployment. So in the previous example if there is a R10 fee and the deployer had to keep instead of R4,55 had to keep R5 for example and the issue in mark up went down from the R6,20 to a lower amount, you could achieve both. You would achieve more machines, greater coverage and still achieve card savings to the market, I think which is basically what FNB are saying. It's effectively what FNB are saying.

ADV PETERSEN: Yes, Sir I hear you, but I also understood you to be saying and you gave with respect a very balanced presentation of your alternatives, that similar incentivisation could be achieved by direct charging.

MR KARK: Yes, provided that there is no issue across subsidisation on the direct charge.

ADV PETERSEN: I am going to come to that in a second because it does trouble me. But if we just try to isolate the variables in considering the pros and cons of the different models. The incentivisation can be achieved with both models. If we just take the level of the carriage charge would you agree, I think you said yes, but you went on and I just want to make sure that you didn't change your answer, would you agree that the existence of that mode of charging is one where the incentive of the players is to have it raised?

MR KARK: Your question is if the ability for the player is to just raise it, is there an incentive if costs come down to actually reduce it. Is that really the question?

ADV PETERSEN: Let me try to rephrase it. Clearly where it is bank's who are not only the issuers but also the acquirers, as in the present situation, there are different proportionalities in each case between the issuing base and the acquiring base and so that may affect their bottom line when it comes to how much carriage is paid away, how much carriage is received?

MR KARK: Whether there are nett or a gross acquirer.

ADV PETERSEN: But let me then simplify the question. To the extent that we examined the players as acquirers, they must surely have an interest in any set level of carriage going upwards and down.

MR KARK: Yes, I think they would.

ADV PETERSEN: It can't be otherwise, can it?

MR KARK: I don't believe. If you negate the issuing side of the business, if your question is, would the current market place or acquirers recommend a slight increase in the interchange fee, if that's your question, I believe they would.

ADV PETERSEN: In contrast with that with the direct charging model, we wouldn't have to worry about that correspondence of interest, or potential correspondence of interest, because competition would apply the discipline. That's how you see it as well.

MR KARK: People vote with their feet.

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ADV PETERSEN: Yes. Whereas they cannot vote with their feet over carriage.

MR KARK: No, they could not. But, however, if the carriage was fairly set and it actually represents the at risk cost of acquiring plus on the appropriate margin then you could ....(indistinct) additional profit out of efficiencies, then in fact that may be a happy in between, if in fact the direct charging model was found to be not appropriate for whatever reason.

MR JALI: I'm just seeking clarity on this particular aspect. Do you believe that there needs to be competition on carriage?

MR KARK: Do I need competition in the market place.

MR JALI: No, on carriage, on the carriage fee.

MR KARK: Well, competition on the carriage is not, what we are saying is that the level of carriage, or the level of fees that the deployer receives by whatever mechanism, be it directly from the cardholder or from the bank whose cardholder it is, that needs to represent the value for the service that he is providing out of the device, the management and the service offering. That's all I'm saying.

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Competition is to what the ultimate cardholder pays the market forces will look after that. We don't really mind, with respect, as to how the fees, we are not superstitious or sentimental how we get paid, the fact of the matter is that we deploy the device, we have costs and we would like to make a return on our assets, whether those come from the bank, whether they come directly from the cardholder, either of which will be appropriate.

ADV PETERSEN: And if I have understood you correctly you agreed that carriage by its nature cannot be directly competed over. It's something that is set by, has to be set either by agreement or by some process which result in it being imposed.

MR KARK: I think so. I just don't know how, unless every bank says well, you know, Nedbank this is how much I'm going to charge your guys, and when my guy uses your machine, this is how much I'm going to charge him, and then it's bilateral. I do not know what, I do not know whether it is in competition law, but that is another way of doing it, everyone pays each other something different. That is another way of doing it, by negotiation.

ADV PETERSEN: To the extent, it seems to me if this is the case, that if you are going to have carriage, it is sensible to have it uniformly set, then by its nature it is sheltered from direct competition.

MR KARK: Not if additional competition would have some say, if you like, I am just thinking as some say in the process by which interchange is arrived at then they could have some input some guy will say, well actually you know what I can do it for slightly less.

ADV PETERSEN: Yes, but you did agree with me that it was sensible to conclude that the players in the ATM service provision would all have an interest in that fee being higher rather than lower.

MR KARK: You cannot conclude that, we are not in a vacuum. The fact of the matter is those players together with ourselves make up probably 95% of the market place and they in fact are issuers, so there is a acquirer issue disconnect, so you cannot really look at it in isolation. The fact of the matter is the issuer has a pay away and the acquirer sitting on the other side of the building has a revenue.

ADV PETERSEN: But up till now the issuers have not had difficulty extracting additional revenue from their cardholders for every situation in which they have to pay away carriage.

MR KARK: That is up to them.

ADV PETERSEN: But you agree with me that is the situation.

MR KARK: That’s fact.

ADV PETERSEN: Now, in the change to , if we envisage change to a direct charging model….

MR KARK: We supposing it happens.

ADV PETERSEN: Yes, supposing it happens. Have you in any way built into your reasoning about that and your support for that as one of the two alternatives in which you say you are on the fence of. What would happen to the off us fee currently charged by issuers. It is expressed in various ways, some people call it the Saswitch fee, some people call it a loyalty fee, a disloyalty fee, and I call it a penalty. Are you

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factoring into your evaluation of that, the disappearance of that, say for what was dealt with earlier some processing cost recovery on the issuing side?

MR KARK: Well, fact of the matter is, if there is a direct charge with additional carriage fee, disloyalty, penalty fee, you are basically back to where you are today. There is the acquirer being paid or be it from the cardholder and then his own bank marking it up, so whether it could happen there is no reason why it could not, whether in fact it would happen in the market I am not sure.

Our support for a direct charging model is we are not unique in this business, this independent deployment has a lot of international precedence where the deployer sets the fee and in fact the issuer recoups very little additional from his cardholder if anything at all. Just going off precedence I think that card holders would be pretty peeved if they knew full well that the guy that put the machine there only made R4,55 and he saw R10 on his statements, the power of deduction would be very quickly worked out that his bank has just made an additional, you know, double up on his original fee, so I think that it may be competitive pressure may prevail, possibly, but I think that of course you need to be concerned about interchange being replaced by a direct charge and an issuer still just marking it up as they are today, I think that is a concern, depending if the issuer is a nett acquirer or nett issuer. The bigger the network the better they will do I suppose.

ADV PETERSEN: You have raised another side of potential problems with direct charging which as I said troubles me and that is the possibility of cross subsidisation by organisations which are both issuers and acquirers. Can you help us by suggesting any way of confronting that potential difficulty?

MR KARK: Unfortunately, we do not have a silver bullet merely just to flag that given the fact that deployers, such as ourselves are independent deployers or smaller deployers relative to the issuing side. Our livelihoods depend on the money that we get in fees that we charge for deployment we should just be cognance and be careful of the fact that an issuer are sitting on the other side of the fence, which we have no control over, may in fact steer usage away from machines given their ability to cross subsidise, that's all. We do not have a silver bullet, maybe perhaps something just to keep in mind. Whether in fact they will do it or not I am not sure because they themselves also do have real underlying costs of running their own equipment whether in fact they would take that chunk out of their margin, I am not sure. It is just something that we certainly need to be aware of keeping in mind that that would be applicable in both models direct charging and interchange, both. It applies to both.

ADV PETERSEN: Although you indicated that the costs of providing ATM's vary, according to a number of different circumstances, would I be right in thinking that it would be, that one could make a reasonable step at quantifying the cost which the bank was incurring in providing an ATM service and be able to identify if pricing was going on at a predatory low level below cost?

MR KARK: Would we be able to do that?

ADV PETERSEN: No, as a general exercise, is that feasible?

MR KARK: I suppose you would be able to expose predatory pricing, I do not know whether the man in the street would, but,…

ADV PETERSEN: No, I am talking for example the competition authorities.

MR KARK: If there was predatory, making, effectively, what you are saying is if an issuer made it prohibitively cheap to stifle competition, yes I think you would be able to see it without to much of a sweat.

ADV PETERSEN: Just finally on cash back at the point of sale, could you give us an indication of how wide spread this is at the present time and what its prospects of development are.

MR KARK: It is getting wider and its prospects of success are reasonable. We think that it has its place, cash back at POS or mini ATM or anything like that has its own drawbacks, but…..

ADV PETERSEN: Is it becoming available through quite a variety of merchants, or is it essentially only a few major merchants?

MR KARK: A couple of merchants yes. I mean more and more the POS deployers themselves are realising that this is a business rather than perhaps even the ATM deployers putting out on ATM devices money is becoming more wide spread. I think the POS space generally, both debit and credit acquiring as well as cash back also has some way to go.

ADV PETERSEN: Thank you very much.

MR BODIBE: Can you elaborate a little bit on the nature of your business? Do you build to deploy ATM's or do you acquire ATM's more or less like the bank deploys them.

MR KARK: We don't build, we import completed units which we knock down and we tailor make them if you like to local conditions, we increase the category rating of the vaults, the surrounds etc, but we purchase ATM's like anybody else would.

MR BODIBE: Can you pull up that slide with the division of revenue please, thanks. You've constantly referred to a mark up and I am just trying to understand of all these fees, where will the mark up lie, what you call a mark up?

MR KARK; Well, two things, obviously as I have mentioned, we are not the Red Cross, so there is some margin in our portion of interchange which I have mentioned and I am really not aware today what the underlying costs of the account holding

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bank's portion of the revenue are, I genuinely, we are not in that business I do not know. It may very well be the entire R6,20 it may very well be that, I suppose there is a possibility of a mark up being included there.

MR BODIBE: So, if we were to investigate if there is a mark up we will have to look at that fee.

MR KARK: As I said, it is really not our business…

MR BODIBE: So it will not be on the carriage fee.

MR KARK: Well, you can, the carriage through the costs, as far as the carriage fee is concerned the costs are visible. I would imagine there is a mark up in the 6,20 (six twenty) as well. I would imagine.

MR BODIBE: Okay. My last question on the technology? If tomorrow you had to move to direct charging or at some other time, what would be involved to make ATM's display the prices?

MR KARK: Sir, I would not be able to comment for the rest of the market but on our network it would be relatively simple.

MR BODIBE: So it is not that complicated process.

MR KARK: As I said we fortunately are the importers and distributors for a particular brand name of ATM's where we have greater control over what the machine can do and say, whereas our colleagues in the banking space are reliant on third parties, they really are, be it the manufacturers or software developers. I would imagine it would factually be more difficult for them, you know, it would be. Whereas on our side it would be relatively easy because we have the actual direct link to the manufacturer.

MR BODIBE: So what actually has to change is the software not the equipment.

MR KARK: Only speaking from our side. You know, I am not sure how the other guy's machines work, but it would be a software change to our equipment, depending on the memory requirements, there may be some additional memory expansion and some other bits and pieces. I mean I will have to investigate it more fully but, what the other guys would actually be exposed to, their challenges I am not aware.

MR BODIBE: Would you be able to provide at least a simulation for your business in case there had to be this kind of shift and you have to adjust your ATM's to display costs.

MR KARK: I think so. I can tell you a direct charging screen exists. In dozens of countries they will swear where a screen is called up and says this is how much it is going to cost you, do you want to proceed Yes or No. Keeping in mind that it is a little bit more complicated then of course because bankserv is involved today, you connect through and the way in which it is set up, it is not a trivial matter but it is achievable.

MR BODIBE: Yes. I would like a demonstration of what steps will be involved to move from the current system to that type of system.

MR KARK: From our point of view.

MR BODIBE: Yes, please.

MR KARK: I can't ....

MR BODIBE: Not now.

MR KARK: Yes, we would be able to.

ADV PETERSEN: Just one matter of detail which may be very important. In the case of ATM withdrawals by holders of Mzansi accounts where there is as I understand it an agreement or a practice not to charge an advelorum price but a flat price, do you accommodate that within your revenue model?

MR KARK: Our current revenue model. Yes but it is so small. It's really ……let's.

ADV PETERSEN: And would you envisage continuing to accommodate that within a direct charging model if that change were made? Whatever special deal there might be that has been put in place may continue in place or be put in place in future for Mzansi account holders.

MR KARK: For a very small percentage on the card holding base.

ADV PETERSEN: Yes. On the present assumptions would you have any difficulty accommodating that in a direct charging environment?

MR KARK: No.

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ADV PETERSEN: Thank you.

MS NYASULU: Sorry, if I may. Maybe Mr. Kark just really just need to clarify some things. There seems in your model to be three scenarios, if I am correct, there are instances where you are a supplier of ATM machines to banks as I understand it. There are instances where you have, an ATM has been branded with a brand of another bank but you might own it, and then there are instances where you own the machines, did I understand your model correctly?

MR KARK: Madam, there is only one model. We never supply machines, and the machine always belongs to us. The bank brand that sits on our machine is the bank that sponsors us into this network in that particular instance. We only have one model, we never supply equipment.

MS NYASULU: Thank you. That clarifies my thinking. Now in that single model that we are talking about, is your sponsoring bank always the acquiring bank or do you, can you have other banks acquiring transactions through your machines?

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MR KARK: We do deploy for nine banks today where, but in the instance of a particular bank's brand appearing on that machine the acquiring bank is always that bank.

MS NYASULU: Okay. Is there a difference in the fee that you would get paid that carriage fee depending on which bank is acquiring at which particular machine?

MR KARK: Yes. The carriage fee does not change. Carriage fee does not change.

MS NYASULU: What changes?

MR KARK: The numerator does not change. It is the denominator that changes, the split between ourselves and our sponsor bank changes, depending on what that particular sponsor does for us.

MS NYASULU: I see. And the range in that split would be from that 41% (forty one percent) to …

MR KARK: That would be confidential, as far as my revenue split with the banks are concerned.

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MR JALI: Just two questions before we adjourn. Firstly, who is your sponsor?

MR KARK: We have sponsorship arrangements with ABSA, with Standard Bank, with Nedbank with Rennies, Mercantile, Ithala, Teba, arranged, everybody.

MR JALI: Nine banks we are talking about. You said the nine in total …(indistinct) expired. If I may ask is that confidential information?

MR KARK: No it ranges.

MR JALI: Are you in all nine provinces?

MR KARK: Yes, for sure.

MR JALI: And in the rural any indication as to what …(intervenes)

MR KARK: It is a mixture but, if I can just by far and away our, historically I do not have a figure to give to you now. I can say with certainty that by far and away the bulk of what we are installing today is in fact peri-urban and rural locations, we are moving very much more into that side of… There are a lot of machines downtown but not enough out there.

MR JALI: So the rural and peri-urban can be the majority of your machines.

MR KARK: Going forward. I am saying from today, at the moment now our roll out is consisting the bulk.

MR JALI: Right, lastly your presentation, we would, the slide you put up, if we could have copies thereof and also if they could be sent through to us electronically, so we could use them for our report. Your presentation will for purpose of the record will be exhibit as FF.

MR KARK: FF. Okay. Fantastic. Thank you very much.

MR JALI: Okay. Thank you very much, thank you for coming once again. In the absence of any other questions we will then adjourn until 11:30 to hear Standard Bank.

(Adjourned)

STANDARD BANK

MR JALI: You may go ahead.

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MR SINTON: Thank you, Mr. Chairman. May I please at the outset apologise for giving you a confusing seating plan beforehand. I think Nico Corbit and Rabi swopped round. And secondly, Mr. Chairman, I have been asked by Sim Tshabalala to apologise. He was the last presentation to you he is away on leave this week. So I have got the Deputy Chief Executive of our retail bank, Mr. Pieter Schlebusch here to do the main presentation. Thank you.

MR SCHLEBUSCH: Good morning Mr. Chairperson and fellow panel members. Thank you for the opportunity to engage in the discussion regarding ATM's. Good morning Ladies and Gentlemen and thank you for your valuable time in being here this morning. We thought we would start by way of an overview, providing an overview of the areas that we will be covering this morning. We will have a glimpse of Standard Bank's existing ATM's infrastructure, we will look at selective South African ATM history, in chronological order.

We believe that this is insightful regarding the developments in ATM's and clarifies uncertainties and certain inaccuracies regarding submissions already made by other participants. We will then go to look at the cash withdrawals at ATM's, give an explanation of the terminology and fees, we will look at what we understand to be the competitive issues raised with regard to the existing ATM fees.

Then we will consider what Standard Bank believes to be two viable alternatives to existing ATM carriage fees, namely direct charging to cardholders for off us ATM withdrawals and multilaterally agreed ATM carriage fees with regulated oversight. We will then turn to emerging competing cash withdrawal mechanisms, our merchant assistant namely cash back and POS and money ATM's. If I can go then to our existing ATM infrastructure.

You will see from this table at 31 December 2006 we had a total of 3863 (three thousand eight hundred and sixty three) cash dispensing ATM devices employed in the field. We currently now have over 4000 (four thousand) cash dispensing devices employed. In addition to this we also have more than 500 (five hundred) Autoplus devices although these devices cannot dispense cash, they can do numerous financial transactions such as balance enquiries, payment transfers, fixed deposits, increasing overdraft limits and cell phone top-ups. We believe that our footprint is very different to that of our competitors and if you look at the ABSA submission which will be following this afternoon, ABSA includes in their footprint, there is some 3000 (three thousand) ATM's which are provided by ATM Solutions, and FNB in their numbers. FNB will include approximately 1500 (one thousand five hundred) mini ATM's in total in their ATM numbers. We at Standard Bank believe that we have the largest Network of our own full functioning ATM's in South Africa.

If we go into the history in March 1985 Multilink was started which had a direct link to all the participants. This was done by Standard Bank, the United Building Society, Volkskas and Post Office. The problem with the direct link to all the participants is every time you had a new participant joining all the existing participants had to then create a direct link to that new participant which is quite cumbersome. In October 1985 Saswitch was started as a central ATM switch, they were supported by the Perm Building Society, Boland Bank, Trust Bank and Barclays Bank. In about 1998 – 1989 which is the best we have been able to come up with research we have been doing, Saswitch became the only ATM switch. There all the participants saw the benefits and economies of scale, associated with a single switch and we are happy to support this model because it facilitate the entrance of new participants because every

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time a new participant came in, the existing players did not have to build a new switch to that new participant, the new participant merely had to build a link to the new central switch being Saswitch. At this stage the carriage fee was already payable and as it is today was paid from the issuer to the acquirer. We think it is very important to note whether the South African banks had voluntarily insured intra operability for enhanced customer convenience which we believe to be an immense procompetitive benefit. This is not forcing the banks and the banks voluntarily undertook that in the interest of customers simplicity.

An important thing happened in June 1989. In June 1989 Standard Bank introduced Saswitch fee or the inter bank fee or the other bank fee for its customers. Prior to this Standard Bank charged the same charge for customers that did a cash withdrawal on an on us transaction or an off us transaction. So the question will validly be asked, why did Standard Bank introduced this Saswitch fee. At that stage Standard Bank's customers accounted for more than 42% (forty two per cent) of all the Saswitch transactions that were being done. We suspect that the other banks were already charging a Saswitch type fee or penalty type fee which will be the reason why

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Standard Bank's customers had a disproportionate share of the off us transaction. The purpose for introducing this Saswitch fee is really to incentivise our own customers to use our own ATM's. Customers could avoid the payment of the Saswitch fee by using Standard Banks ATM's which was the leading ATM network at that time and if customers accepted the charge it was for the added convenience of intra operability and was a charge which customers were prepared to pay as they saw additional customer value given to the convenience of another bank's machine at that point in time.

Further reasons as to why we introduced the Saswitch fee is that despite the extensive fixed cost ATM network we were absorbing an ever increasing cost in terms of carriage fees paid away to other banks. We wanted to encourage our customers to transact on our own ATM's so that we could build a relationship with our customers and this is in line with our strategy to provide the Standard Bank ATM service to our customers. We wanted to raise the volumes in our machines to reduce the average cost on what is a costly, fixed cost network for the benefit of our customers, because it’s a volume business and the more volume you put through this existing fixed cost structure the lower your average cost becomes and that benefits your own customers.

We also wanted to provide greater certainty on transaction volumes because the more you are certain that you are going to be in the transactions volumes from your own customers it then facilitates a more aggressive roll out of ATM’s because you have the confidence that the volumes will be there to justify the investment that you are putting down. We also want to proliferate the use of lower cost self service channels by customers in our quest to make banking more affordable and lower cost for customers, we are trying to promote customers doing more self service banking rather than expensive cost of human intervention and human assisted services. We believe we also provide a strong incentive to invest in ATM’s and that that promote a pro competitive infrastructure competition.

Standard Bank has since the introduction of Saswitch interbank fee move from having less than a thousand ATM’s to having over 4000 (four thousand) ATM’s today. In our view if there was not an incentive for our own customers to use our network through this Saswitch fee we do not believe that we would have the

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excellent ATM infrastructure that we have today especially in small towns and rural areas and we believe that that is the case for the other banks as well. We still believe that there is lots of growth in the ATM footprint to come as banks and ATM operators compete vigorously and fiercely to make their ATM's the most convenient and accessible contributing to greater customer appeal for their particular brand.

Continuing then with the history, in March 1993, BankServ was established and Saswitch network was incorporated into Bankserv. Then again on the 16th January 1997 another important development happened is that Standard Bank unilaterally increased its carriage fee to other banks and did this again on 18th December 1998, Standard Bank once again unilaterally increased its carriage fee to other banks. I heard in my position the copies of the letters that were sent, where Standard Bank unilaterally increased the carriage fees on its ATM's for other banks and we can make copies of these letters available to the panel and we believe that would shed some light on how we got to the level of charging that we did get to.

The increase on the 18th December we increased the cash withdrawal carriage fee on our own ATM's for other bank customers to R3.25 (three rand twenty five) for the

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firsts R100 (hundred rand) or less plus .65c (sixty five cents) for each additional R100 (hundred rand) or part thereof. You could validly ask why we increased the carriage fee, we were experiencing increased costs associated with the handling of cash, increased cost for the servicing and maintaining of machines and that was in part due to soaring vandalism. This is still an industry phenomenon that bedevils the country as we speak today.

By way of example in September month alone on the Standard Bank ATM infrastructure in Gauteng Province alone we had more than a thousand recorded cases of ATM vandalism, we needed to send technicians out there to go and repair the machine and bring the machine back up . We also thought, it was our view that banks with a small ATM footprint primarily at that stage Nedbank and Investec were riding off Standard Bank's and Saswitch low cost extensive ATM infrastructure. We believe the fact that they were not rolling out their own ATM's at that stage in an aggressive way was a powerful indication that those banks considered the ATM carriage fee to be too low and to be cost effective to get their customers to transact at other banks ATM's.

Furthermore we believe that the value of the Standard Bank ATM network to other banks had increased as a result of our increased ATM footprint. This has also had the desired effect in that Nedbank have subsequently changed behaviour and have looked to roll out more machines, more aggressively and Investec are still enjoying the convenience and service associated with the Saswitch and Standard Bank Network.

In summary we believe that the ATM carriage fee was set at a level that provided intra operability yet still provided incentive for acquirers to invest in new ATM infrastructure. Continuing on 18th September 2000 the payment clearing house agreement was entered into for ATM's as voluntarily entrenched into intra operability of ATM's. In 2000 and 2001 Standard Bank tried unsuccessfully for a period of more than six months to negotiate bilaterally with each of ABSA and FNB a new carriage fee but we were unsuccessfully able to do that.

The difficulties associated with bilaterals is still an issue facing the industry today as we see in the instance of Nado where we have still been unable to reach agreement with another bank. Its important to point out that carriage fee is not changed for over eight years while the cost of running ATM's have increased significantly given

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annual inflation and ATM bombings. In this regard I point out that Standard Bank have had more than a hundred ATM's bombed over the last nine months and this is at a cost more than R20 (twenty) million to Standard Bank, and also the increased cost associated with cash transportation and the security thereof. In October 2004 the Mzansi carriage fee on all ATM's were set multi laterally at a flat fee of R3.25 (three rand twenty five) as a cooperative initiative to provide a basic affordable banking account consistent with the financial sector charger. I stress that only the carriage fee was set multi laterally and that the end user prices were not set by the banks. The banks were absolutely free to determine their own end user pricing. The only multi lateral setting here was the carriage fee in respect of Mzansi.

MR JALI: Mr. Schlebusch, I do not mean to curtail your presentation. I just want to double check how long are you going to go on, roughly?

MR SCHLEBUSCH: I will be another fifteen or twenty minute's maximum.

MR JALI: Well, if you could just curtail it a bit but I do not want to cut you short just touch on the important points because if you recall, we had the first hearing to give you an opportunity to do your entire presentation. The purpose of these hearings are for us to be able to get clarifications on your submissions. So we just allowed all the banks just about ten minutes, I think we have covered about ten minutes now just to lay foundation then you can ask the questions. Just touch on the important aspects then we can move on because I think we've got quite a number of …

MR SCHLEBUSCH: Then moving on swiftly, the cash withdrawal fees on us model is quite self explaining to you and I am sure the panel are very familiar with this and the confusing terminology that goes with it and those are associated charges, and then those are the charges for an off us transaction and just to point out that we at Standard Bank decided not to pass on the inter bank fee or the carriage fee to the customer's in Mzansi space but we absorb this as a real cost and interest of the financial sector charter objectives.

Then looking at a fine tune to the salient points competitive issues raised. This is not an exhaustive list but it is really a summary of major concerns that the ATM carriage fee is still to be in the cooperative space and therefore potentially shielded. For legal and practical reasons the ATM carriage fee is difficult to change because we are not sure if we can change it bilaterally or multi laterally. There are concerns around the level of the Off us cash withdrawal and Saswitch fees .(indistinct) quality of revenue allocation favour of issuers rather than acquirers an Off us transaction and concerns around transparency and customer understanding.

Possible alternatives on the existing ATM carriage fee, if we go into that, two viable alternatives direct charging and then second one multi lateral agreed ATM carriage fees ….. (indistinct) to ….. (indistinct) by independent experts with regulated oversight. Dealing with each one we think it is very important that we have a consistent and clear understanding of what is meant by the direct charging model and this is Standard Bank's understanding.

For example another banks cardholder who wishes to draw R500 from a Standard Bank ATM he will key in the request for R500 withdrawal, Standard Bank will display in real time the following illustrative ATM screen message, Standard Bank will charge you X-rand for the convenience of using our ATM network, please press Yes to proceed or No to cancel this transaction immediately, your own bank will still charge you an additional fee for processing this transaction. If the customer proceeds with the withdrawal then SBSA ATM will dispense R500 in cash, the Standard Bank will charge the customer X-rand directly which the other bank will collect and pay across to Standard Bank. We anticipate that the other bank will charge his own customer a fee for the transaction for off us transactions. We at Standard Bank will still charge the customer a cash withdrawal for our own customers the other bank will still pay the Saswitch the switching cost to BankServ and the Standard Bank direct charge to other banks customers may vary, based on the location of the machine whether it is attached to a Metro branch or deep rural, the amount of cash withdrawn, the time of day, the type and the functionality of the ATM device because there is very different types of ATM device. An ATM is not just an ATM and we believe it is important to have some degree of variability in the customer direct charge to ensure appropriate returns given the different risks associated with the different sights.

Turning then to the pros and cons which the panel have seen quite extensively, the transparency of the customer charge will be explicitly communicated prior to transacting so there will be no more carriage fee or Saswitch fee. The direct charge may introduce additional competition, the acquiring banks and third party ATM providers will still be incentivised to place ATM's. The transitional cost and customer communication necessary to effect the change in pricing and customer behaviour will be substantial, preliminary estimates where we have done indicative work is that cost to Standard Bank alone will be in the order of about R20 000 000 - 00 (twenty million rand) so from that we would reduce the cost of going the direct charging basis will cost the industry in order of about a hundred million rand.

We believe there will be longer transaction time at queues initially increase customer queries and hence operating costs cause customers will be phoning us to ask us why we have allowed this other charge and also the screen, a lot of our customers memorises the screen flow, they cannot actually read the text and now you are going to be introducing new screen flow and they wont necessarily be able to operate it as efficiently and as quickly as they use to. It could raise the cost to small banks as it has been evidenced by the Capitec and Nedbank presentation, could lead to abuse by dominant players in under serviced areas but if it is the only machine that is questionable how long will it will take for other acquirers to put a machine in that

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place. A pricing complexity could result to the end user and banks will still have to agree the consequence for Mzansi carriage fee to achieve the financial sector charge objectives.

Moving then to the second viable alternative namely the multi lateral agent carriage fee with independent expert and regulate to oversight, we believe it is important to get a consistent understanding what is meant so we set up some high level principles. The regulator will meet with ATM acquiring banks and operators and independent expert to agree the principles to be applied to determining an appropriate level of agent carriage fees.

We believe that there is an element of competition in that because that panel will be represented by both acquirers and issuers and will also include the lowest cost providers, and the lowest cost providers may well have an incentive in competition to drive the cost down to take other players out of the market, so there will be a review of competition even in the multi lateral setting of the fee. And it would not be done in a vacuum. These principles may include cost recovery, adequate return for risk, the acceptable service availability levels and accommodate differences in ATM foot

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prints and locations of existing players. The independent expert will use these principles and submissions by the ATM acquirers and operators to set a default setting for ATM carriage fees, we anticipate that this will be reviewed every three years and as an alternative to the carriage fee set for banks, we believe they should have the option to implement direct charging in the whole or in part the model which works successfully for link in the U.K.

Turning to the pros and cons. These pros are ready if the fee set in appropriate level there will be uniform national pricing irrespective of the issue at the time the geography and the functionality of the ATM. It will be favourable to small banks as they receive the same price as large issuers and acquirers.. It will be favourable to new issuing banks as they will receive access to entire ATM infrastructure up front at the same price. If appropriate is set and provides sufficient incentive for ATM acquirers to run existing infrastructure and invest in new infrastructure even third party ATM providers, its got limited cost and relatively high speed of implementation as the ATM system already works on this basis. There could be a potential con in terms of fuelling and carriage fee from competition, there will be an

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ongoing regulatory oversight required and the cost associated with that. If it is inappropriately set or an average charge it may discourage investment generally or in under serviced areas as a con.

Then we turn to deal with some of the emerging cash withdrawal mechanisms. I think these are quite familiar to the panel, so we will skip through the illusitive diagrams of cash back at POS and mini ATM transactions and focus our comments really on the fact that cash back and POS and mini ATM are both merchant assisted that two sided markets and the merchant will want to offer that service and the customer want to have to buy that service before it becomes viable. We believe that the merchant will only offer that service if it makes business sense.

The merchant currently makes no margin on cash where as they current make margin on the goods that they sell. The benefits of the merchant are indirect benefits namely savings on cash deposit costs that they would have incurred had they deposited the cash, they should get more feet in the store and some of that money will be spent in the store resulting greater turnover. There are, however, direct and indirect cost to the merchants. We believe that the acquiring bank incurs costs in offering its service

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but that the merchant will not pay for these costs and that the carriage fee is merely the means of compensating the acquiring bank as .. from the issuer to the acquirer.

The real point we want to make in these as emerging mechanisms which are merchant facilitated is that we do not believe that the direct charging model would be appropriate for cash back at POS at mini ATM. There is a potential for wide spread abuse scheme in the difficulty of monitoring and regulating more than a hundred thousand merchants, the regulatory implicates the unregulated merchants effect in the repayment leg of the business of deposit taking and these are relatively new services and we treading with great caution given an inadequate understanding of the risk, an example is that a customer puts in the mini ATM his card ask for R500 withdrawal, gets a till strip that says here is your R500 withdrawal, presents it to the merchant, the merchant might, could do one of two things, the merchant could with hold say R30 as a fee for the withdrawal which is affected, the customer has no ability to dispute the fee at that time as the transaction has already taken place, his account has already been debited and he is generally at the mercy of the merchant to accept the R470 that is left or alternatively the merchant might not have sufficient cash in the till and only issues R200 out and issues an IOU for R300 and in some instances they may well persuade the customer to take goods to the value of R300 rather than to give them the cash. So there are those potential consequences and problems with the mini ATM's. Mr. Chairman that concludes our presentation and we are more than happy to take any questions that you may have. I apologise if it has gone more than the average time.

MR JALI: Thank you Mr. Schlebusch. I will just ask a couple of questions, let the others ask and then I will come back to you at a later stage, depending on what has not been asked. I just want to get clarification on a couple of things. Most of our questions are to get clarification. What is your position on the direct charging model. I am trying to understand, I am sort of getting confused when I look at your various presentations as to where do you really see it on this part of the aspect.

MR SCHLEBUSCH: As Standard Bank we are supportive of the direct charging model and we are equally as supportive of the multi lateral setting of the carriage fee. We are ambivalent between the two, we think as an industry we need to do much more work and extensive discussions. We are concerned about the unattended consequences of some of the direct charging models, we are not sure all the unattended consequences has been thought through. But we are supportive and if the panel wishes to go that way we will be more than happy to support it.

MR JALI: And what do you mean by multi lateral agreement of setting of the carriage fee?

MR SCHLEBUSCH: That will be if I go back to our slide here how we explain it work. The regulator say in this instance probably the SARB and possibly with the help of the Competition Commission will meet with the ATM acquiring banks and operators and an independent expert to agree the principles to be applied to determine the appropriate level of ATM carriage fees.

So these parties agree with the principles. We would then give input into an independent expert and based on those inputs, the independent expert would come up with what they believe would be a valid ceiling that we could charge as a carriage fee, so you could not charge more than that as a carriage fee, you could still has the …charge less than that as a carriage fee but the agreed carriage fee would be a ceiling and that we would have input from the SARB as well as an expert in this space.

MR JALI: In other words basically your position is that the carriage fee should remain.

MR SCHLEBUSCH: We are quite happy for the carriage fee to remain and we do think its got a lot of pro competitive benefits for entry of new banks and for small banks because the pricing they give is the pricing that's agreed with all participants and if they are not prejudiced necessarily by large acquiring or issuing base negotiating more advantageous deals for themselves.

MR JALI: So that will be your position. You equally support the two alternatives.

MR SCHLEBUSCH: We equally support the two alternatives and we ambivalent as to our preference between the two, we are doing a good sitting on the fence act on this one, we ambivalent, we equally support both.

MR JALI: Be careful you don't fall… from the fence. Going back to your presentation I want to go back to the issue of the carriage fees. The setting there of. Who set the carriage fee, the current carriage fee?

MR SCHLEBUSCH: We believe that Standard Bank set the current carriage fee. The last carriage fee was determined in a letter dated 18th December 1998 which was sent by Standard Bank to Bankserv at the time and to all the other banks at that time. I can read you the letter if you want me to, it is only a paragraph.

MR JALI: You may if you so wish.

MR SCHLEBUSCH: Charges for transactions through Saswitch. The existing charges for transactions through Saswitch have been in place since March last and a recent review of cost associated with transactions via ATM's indicate that an upward adjustment in prices is warranted. We understand that the price increase could be superceded through bilateral inter bank negotiations but in the event that negotiations are delayed or protracted feel it is necessary to implement an increase from March 1999.

We accordingly advise that with effect from 1 March 1999 the Standard Bank South Africa Limited will be increasing its charge for transactions on our machines by customers of other banks processed through Saswitch as follows: Withdrawals R3,25 (three rand twenty five) for the first R100 (hundred rand) or less plus 0.65c (sixty

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five cents) for each additional R100 (hundred rand) or part thereof. And then it goes on with the client transactions and balance enquiries. My understanding is that the other banks accepted those charges and then those were made effective from 1st April 1999.

MR JALI: But my understanding of the latter, you have some copies by the way, just for purpose of the record your presentation will take it as exhibit GG and then that letter will be GG1.

MR SCHLEBUSCH: The letter is dated 18th December 1998.

MR JALI: 18th December 1998. That's the one you referred to in paragraph 1.7 of your supplementary submission.

MR SCHLEBUSCH: Yes.

MS CORBETT: Can I add to the history that has been painted just to clarify Peter's point. What was done was that Standard Bank sent a letter to Bankserv which set the carriage fee that we required from other banks for the service that we had to offer. The other banks then followed forward and set their carriage fees we know to this fact that they set it at the same rate as that we set so it was not that we set the carriage fee, we set our own carriage fee. Just to clarify.

MR JALI: So that is a clarification on that. So you set your own carriage fee and then the others followed.

MR SCHLEBUSCH: We set our own carriage fee, we did not set the industry carriage fee. It so happened that the other banks followed and set it at the same level.

MR JALI: Besides the letter, were there any other discussions either with other banks or Bankserv relating to the carriage fee?

MR SCHLEBUSCH: In the research that we have done and people we have spoken to at the time we cannot get any further correspondence or understanding. This letter is really the clearest understanding that we get.

MR JALI: I am not talking about correspondence, I am asking whether there were any other discussions with the other banks relating to the carriage fee.

MR SCHLEBUSCH: There is no evidence that we’ve got of any other discussion that happened.

MS NYASULU: Mr. Schlebusch, just to follow up on the current questioning, clearly the letter shows that you took the initiative to unilaterally as you say set the fees. In a subsequent slide, and I am not sure where it is, you make the point that its been very difficult and the fee has not changed in eight years because you had problems on bilateral discussions. Why do you have to wait for bilaterals now if you could do it unilaterally in 1998?

MR SCHLEBUSCH: Subsequent to that we did have ATM PCH agreements which governs how the ATM participants conduct their activities between themselves and in that we voluntarily entrenched intra operatibility we said we would only negotiate bilaterally, we eliminated the option to do it multi laterally and I guess that was also on advice by our advisors at that point from the legal difficulty associated with the completion law of going a multi lateral approach, and so the banks we sort of tied in a corner now because we are not sure how we can change it because we cannot do it multi laterally, we are not sure we can do it bilaterally particularly given MR Petersen’s concerns about whether bilateral is just as objectionable as multilateral and so we are not sure how we can change it, I mean eight years down the track and we still not sure how we are going to change it.

MR JALI: Well I have not seen the agreements but I would not be surprised if they do not have a solution if there is no agreement. Normally agreements will say if we cannot agree this is what we are going to do. Now which, I have not seen them we don't seem to be getting them, but we will get them eventually, we hope. They normally provide for a solution it there is no agreement. Now, what I want to find out, in your submission you indicated that there has been a number of bilateral negotiations. However there has been no success in renegotiating the carriage fee, is that the position?

MR SCHLEBUSCH: Yes, I think if I can hand over to my colleague Mr. Ravi Shunmugan, but I think one of the things we did do in the PCH we sacrificed the ability to do it unilaterally. I mean given the history of where we were when we negotiated the PCH agreements, it is understandable that the other parties insisted that no one party could change the carriage fee unilaterally, so that is why we haven't done it unilaterally.

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MR JALI: No, the point I was making usually these agreements provide for a solution. You cannot expect that there will always be an agreement. So, I would really appreciate it if you can enlighten me as to what the position is because I haven't seen the agreement.

MR SHUNMUGAN: With the introduction of PCH agreements around 2000 especially the ATM PCH agreement, Standard Bank took the lead in the industry in terms of trying to, because the PCH agreement makes provision for bilateral agreements, and no longer multi laterals. So what we did, we took the lead in terms of trying to agree by bilateral fees, but the premises on which you need to agree bilateral fees, is obviously in the PCH agreement in terms of schedule 5(a) It sets up the principles along which bilateral agreements would be met. On one of the fundamental principles was volume and we took the industry lead in terms of actually going out to the industry and actually trying to facilitate a common set of principles, but just to achieve agreement on the principles was a feat in itself.

Obviously the PCH agreements do make provision. If banks get your point of where they reach a stale mate on bilateral agreements you can go through the process of arbitration to get an independent arbitrator to come in and decide the fee. Now, in other bilateral agreements that we have agreed to date namely cash back at point of sale we have managed, although it has taken us a protracted number of years, for cash back point of sale it was approximately three and a half years, we finally managed to reach agreement bilaterally on these fees. As a bank we would not necessarily want to go for arbitration because it is a protracted length of time, we will try and reach agreement with each other. So, yes the agreement does make provision for arbitration.

MR JALI: We all agree, it is better to agree. But as I said earlier on agreements are usually providers for, what will happen if there is no agreement. So, you say for the last how many years, you have not reached agreement but nothing has been done to try and deal with the stale mate

MR SHUNMUGAN: Chair, we have not actually reached a stale mate, we actually tried on the ATM side to actually get to a point where we agree on a common set of principles in terms of how we are going to go about doing the fee bilaterally and we have not even managed to get to that common set of principles per bank. Depending on which bank you would sit with you would have a different set of principles and obviously it was not a common set of principles from a bilateral perspective. We have modeled a lot of numbers but we could not get to that set of principles per bank.

MR JALI: I do not understand if you say you have not reached a stale mate. Did you ever start the negotiations on the carriage fee.

MR SHUNMUGAN: We have had individual bilateral discussions with ABSA and with FNB where we tabled certain fees but unfortunately over a period of time we could not reach agreement.

MR JALI: But is that not a stale mate?

MR SCHLEBUSCH: Yes, it probably is and we decided not. Sorry, Mr. Chairman, I have just been reminded by my colleague Mr. Bob Tucker, who is the Managing Director of the Banking Council at the time, the association at the time, and we did brief Mr. Michael Kats to give us competition law advice on this and in the agreements it catered for the fact that if you reach a stale mate there will be resolution to arbitration and Michael Kats's advice to us was that even going the arbitration route would be in contravention of the competition law. So, that is why I guess we sort of put our hands up and said where to from here.

MR JALI: So is that the position?

MR SHUNMUGAN: Yes, that is the position.

MR JALI: The statement which says, however no party has succeeded in ….(indistinct) rates will be still the position now according to you.

MR SCHLEBUSCH: Yes.

MR JALI But based on the advice you got that going for arbitration would be in contravention of the competition act, is that the opinion that you got from your legal council?

MR SCHLEBUSCH: Yes, that is the opinion from Michael Kats who was advising the Banking Association at the time in the interest of the banks because it was a common issue and that was the clear advice that we got from Michael Kats.

MR JALI: But I thought the Banking Council did not deal with competition issues. It only dealt with issues that was non competitive. That was my understanding from the presentation before us. This should be a competitive issue, the issue of what fees are to be charged. I always understood that … onto what is to be charged.

MR SCHLEBUSCH: I guess we were not trying to determine what the level of fee would be we were just trying to see clarity on the legal position, so rather than four banks go for independent legal opinions we thought we would go with a recognised legal expert at the time and get the Banking Association just to give us the lie of a legal landscape.

MS NYASULU: Mr. Schlebusch, if I may just follow up on the same you know there has been a common trend in all of the presentations that we have had from the banks about costs and in fact by your own admission, the reason you went unilaterally a couple of years ago was because you felt you just could not carry on absorbing these costs. Now early this morning we have had a very common refrain of we are not the Red Cross, and I know banks are not the Red Cross and clearly having established initially that you did feel that you could not continue to carry these costs

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eight years and I would imagine, just doing my own arithmetic the costs would have changed. Why have you been so patient this time round? My feeling is you are big enough to do what you want to do which you demonstrated in 1998 in fact is why have you been reticent.

MR SINTON: Mrs Nyasulu, may I on behalf of the bank mention that its quite clearly, my understanding, and I am sure that Peter will agree with me, my understanding is that, when we entered into the PCH agreement for ATM it was agreed amongst all the participants in that PCH that none of them would henceforth have the right to unilaterally change their price because it entrenched intra-operability. We are obliged to accept in payments from all other banks and they must take ours and visa versa.

So the participants agreed that they would forgo the right unilateral change and as I understand the base of device that time, Peter had an agreement provided for only bilateral negotiation of prices going forward and again our understanding is that we attempted that through a process which is first agreed, the principles would be and then try and be what the price will be and that flounded in both attempts with ABSA

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and FNB. I do not think any of us at this table have full knowledge of how it came to be that the Banking Association took advice on how this impasse could be resolved and I would prefer, if you do not, mind if we do a proper investigation with the people who might have been involved in that process and give you a later written answer. For us to even answer will be guess work as to how that came about.

As to why we have been patient, it is correct that the competition concerns have been very much certainly for Standard Bank for some time and there have been conflicting advice in the sense that even the setting of these fees bilaterally amounts to competitors setting prices in the market etc and I think there is almost a sense from some of the banks, and we might be included that we rather hoping that the Solomon's wisdom will emanate from your panel and you tell us how we can resolve this issue. We believe carriage fees are necessary. Whether the Commission will condone the continued multi lateral setting or not is a matter that we are very interested in. But I think we would like to come back to you if we can with a written answer to those queries.

MR JALI: Wisdom of Solomon is a bit difficult if you don't know what is going on. We would like to know what is going on before there is Wisdom of Solomon. That is why we are having all sorts of difficulties. But anyway, I will let Mr. Petersen ask questions.

ADV PETERSEN: To be fair this is a legal mine field and Act itself is not terribly clear, and as we know in the history of the interpretation of section 4.1(b) different views have been taken by different courts. As I have indicated before and as you have picked up on I do not see the critical question to be the distinction between bilateral and multi lateral setting.

The critical question is whether the setting is necessary at all, or whether it can be left to the market and it is in that area that I would hope to explore the issue with you, because you do say in paragraph 2.1.4 of your submission dated the 5th April 2007, that your Bank believes, and I quote that "The ATM infrastructure in South Africa may be sufficiently developed to eliminate the carriage fee and replace it with a model of direct charging, provided that appropriate steps can be taken to deal with

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the issues highlighted in paragraph 2.17.3 below. Is that your position as you sit here today?

MR SCHLEBUSCH: Yes that is our position as we sit here today. We believe that provided that those issues which you dealt with in paragraph 2.17.3 are dealt with that we could go the direct charging route given the level of maturity of our ATM infrastructure foot print in this country.

ADV PETERSEN: That suggests to me that whatever may have been the necessity of carriage in the past is at the very least very much open to question as to whether it is necessary today. Is that fair?

MR SCHLEBUSCH: We could achieve the same end outcome with direct charging yes.

ADV PETERSEN: Again entirely speaking for myself, I have no difficulty understanding that in the past I do not know how far back in the past, but in the initial roll out of ATM's and in the period when one bank was necessarily arranging with another bank to make its ATM's available to their own customers, that inter bank agreements on this particular aspect, of how it would be charged were unavoidable but as you have indicated in your answer now, it is a question what stage one is at and has the market become mature enough in this situation to dispense with the inter bank arrangement in regard to pricing. I don't know whether we are on the same wave length here.

Of course many other things may have to be agreed between the banks to make it work and we focussing here just on this aspect of pricing. I just need to add that is not left hanging in the air that my own understanding of the Competition Act as it presently stands is that there is no power to exempt from section 4.1(b) in this particular situation, perhaps there should be but there is not.

So I am just indicating to you, I am not asking you to give a legal or other response to that, I am just indicating to you in response to what was said, I think by Mr. Sinton, that a problem is not necessarily solvable by the route of exemption. If it is shown to be overwhelming preferable in the public interest that a multilaterally set carriage fee should continue, it may require some other regulatory or statutory intervention to achieve that so just so that you don't unrealistic expectations of what this enquiry can achieve. You are indicating again I think that we understand each other.

MR SCHLEBUSCH: Yes I think that is consistent with the advice that we have received to date. It is a mine field but what you are telling us now is not entirely in consistent with the advice we have received to date.

MR SINTON: If I may just add. I think that a recommendation for the regulator intervention you mentioned from your panel might hold more weight than from an interested industry like ourselves.

ADV PETERSEN: But now coming back to the history of carriage, let me emphasize I am not seeking to trap anybody into proof of a contravention of something or other in the past. I want to understand the market dynamics, which go on here. And here I would take you to paragraph 1.15 of that same submission of the 5th April. Now you have read out to us and also paragraph 1.16, you've read out to us I think the second of the two letters is that right? But let us just go back to the first letter. You have not got that with you by any chance.

MR SCHLEBUSCH: I do have the first letter with me and if you want me to read it, I will be happy to read it.

ADV PETERSEN: Yes again if it is short, if you would. Draw attention to anything that is significantly different from the second letter.

MR SCHLEBUSCH: The only difference really between this and the second letter is that it says that the key drivers are the increased costs associated with the handling of cash and the servicing and maintenance of ATM's which had been adversely affected through soaring vandalism.

ADV PETERSEN: Do you have a similar sentence concerning your intention, the banks intention to implement the charge as from a certain date.

MR SCHLEBUSCH: Yes, it does say, we accordingly advise that with effect from 1st March 1997 the Standard Bank's will increase its charges for transactions on our machines by customers of other banks processed by Saswitch as follows: withdrawals R2, 00 (two rand) for the first R100 (hundred rand) or less plus 0.50c (fifty cents) for each additional R100 (hundred rand) or part thereof.

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ADV PETERSEN: Thank you Chairman, could that be Exhibit II.

MR JALI: No that will be GG2.

ADV PETERSEN: Now let us look at paragraph 1.16. I quote, " the other banks accepted these increases and each independently increased their charges to the same level shortly after SBSA's announcement. At that stage Bankserv did not have the technical ability to charge different amounts for different banks and this must in part have been responsible for the uniform response of the other banks. It is SBSA's understanding that Bankserv has fairly recently acquired the technical ability to price differentially." Again that is the position as you understand it today. I believe that in fact was so at the time but if it was so that Bankserv had no technical ability to process carriage at different levels, what enables Standard Bank to say that it would unilaterally charge that from a particular date?

MR SCHLEBUSCH: In our research that we have done with people who were involved at the time our understanding is that they were not necessary aware that Bankserv did not have the ability to charge differentially for different carriage levels. So that was not a factor that necessary went into a decision making that in unilaterally changing Standard Bank's charging that it may necessary by default follow, that if all the other participants in the industry accepted that charge, that it would become the defacto carriage fee for the whole industry.

ADV PETERSEN: Just allow me to understand this clearly. When that letter of the 18th December 1998, that is GG1, the later letter was written, was it at that time believed by the Standard Bank that Bankserv had the capacity to differentiate?

MR SCHLEBUSCH: In the research we have done and trying to get the people who are the authors of these letters, we have not been able to understand from them conclusively whether they in fact knew or whether they did not know. We simply do not know whether they knew that banks did not have the ability to charge differentially.

ADV PETERSEN: I would assume that whatever ignorance there may have been, Standard Bank would not have been alone in its ignorance about the capacities of Bankserv, would I be right? The other banks would've had the same state of knowledge or ignorance concerning Bankserv at that time.

MR SCHLEBUSCH: I cannot say. It could depend who was the Chairperson at Bankserv at the time and how intimately involved their relevant Board Members were in the affairs of Bankserv could determine a differential level of understanding of what Bankserv could and could not do in terms of their capabilities. I cannot say as I sit here.

ADV PETERSEN: But you see what I am grappling with and I would appreciate it if you can clear it up for me, is that nearly two years having passed from your first letter 16th January 1997 to your second letter 18th December 1998. You are proceeding with exactly the same method of informing Bankserv that you are going to unilaterally increase. It seems to me that only two logical possibilities exist. One is that you were ignorant of the fact that Bankserv was unable to differentiate and that that ignorance persisted from the time of the first letter up to the time of the second letter at least or you knew that there was no capacity to differentiate but you were confident that what you lay down would become the law. I am talking about the law within Bankserv.

MR SCHLEBUSCH: We are happy to find out the details and come back an alternative to come back with an answer. I think there is also an alternative possibility that maybe at 1997 we were told by Bankserv that they will implement a system to charge differentially and when we wrote this letter it may have transpired that they were not able to charge differentially given that most of their ITV's sources could have been directed to the Y2K problem which was a pressing issue at that time and given the critical roll that banks have paid in payments maybe all the energy were focussed on getting the Y2K problem resolved and they did not have IT sources to do it as they may have represented in 1997, I simply do not know, but we will do research and come back to you.

ADV PETERSEN: But you do appreciate Mr. Schlebusch that I am grappling with the difficulty that is created by two parallel events here, which occurred twice. One is Standard Bank initiates and indicates, does not just propose, it indicates this is what it will be doing and very rapidly the other banks fall in line twice. Now at some stage of that process either it was known or it was not known concerning Bankserv's capacity to differentiate. If it was known that Bankserv could not differentiate, say

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by your bank, then I must draw conclusions about that from the way your bank has felt confident to behave in lying down price, must be then with the knowledge that the other banks would follow, or if any of the banks were aware that there was no capacity to differentiate I would want to know why they did not say to you, hold on a minute you cannot do this unilaterally, there is no capacity to differentiate. Either we must create that capacity or you must hold off on you unilaterism. Instead they all went along and I am trying to draw fair conclusions about the behaviour of the banks in the market place in relation to leading and relation to following when it comes to pricing matters.

MR SCHLEBUSCH: Mr. Petersen we understand your concern and frustration. We will endeavour to do much more detailed work and be able to revert to you on this matter.

ADV PETERSEN: I just wanted to deal with this one particular topic so I'll stop there and yield to my colleagues and perhaps come back with other questions in due course.

MR JALI: Whilst we are still dealing with the issue of the carriage fee. I just want to double check my facts with you. In paragraph 1.19 of the latest submission you talk about that in 2000 you tried to negotiate with ABSA, negotiations failed after six months, you tried to renegotiate carriage fee with FNB but again you did not succeed. I just want to double check my facts here. We had FNB, they said there were new agreements with effect from 2002 if I am not mistaken, so if there were agreements I can't remember the exact year but there were some agreements bilaterally negotiated, so those will not include you, you don't have any agreements with FNB?

MR SHUNMUGAN: Chair, we do have bilateral agreements with FNB but on other payment …….

MR JALI: No, we are talking about ATM's. I am not talking about all the other PCH's. I am just talking about ATM's.

MR SHUNMUGAN: Well that will exclude us yes.

MR JALI: That excludes you. Capitec were clear, no agreements and similarly the other smaller providers said they found the carriage fee like this, Nedbank originally said there were multilateral negotiations subsequent there were bilateral negotiations in their submission, which I put to them, but then they said no, they have got no knowledge, they are still going to investigate the matter further. So you also do not have any agreements with them because you do not make any reference to them in your submission.

MR SHUNMUGAN: No, not in the ATM. Not with Nedcor.

MR JALI: Did you have any negotiations with them? Because here you only make reference to ABSA and FNB.

MR SHUNMUGAN: Yes that was the discussion we had with ABSA and FNB not with any of the other banks.

MR JALI: Not with any of the other banks?

MR SHUNMUGAN: No not on ATM.

MR JALI: Why not with the other banks? Why did you not negotiate with Nedbank?

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MR SHUNMUGAN: Well given the difficulties that we experienced with the bilateral process in terms of the discussions that were taking place at that stage we obviously as a tactical approach we tried to reach agreement with ABSA then proceed down the line in terms of volume size, given that that was one of the key principles of the PCH and given those discussions failed after FNB we did not try any further with any of the other banks.

MR JALI: But my understanding I thought the bilateral negotiations according to you would have meant you will try to have negotiations with everybody on a one to one until such time that you either agree or disagree. Why did you stop if you do not reach an agreement with bank A and bank B, why not negotiate with the rest of them?

MR SHUNMUGAN: I think based once again on the PCH agreement we were going with the key principle of volume and at that stage the big volume players again was ABSA and in that order was FNB and Nedcor. Given the difficulties around the discussions taking place we did not think we would have any success with any further banks by going down that route and hence that is why we stopped the bilateral discussion process after FNB.

MR JALI: But why not? I mean if I am expected to negotiate with eight people the fact that I cannot reach agreement with number one and number two does not mean that I should not negotiate with the others. If bilateral negotiations were meant to be bilateral negotiations?

MR SHUNMUGAN: Chair, based on the volume issue you cannot obviously by agreeing a bilateral fee it has got to be in place in terms of the volumes that are pushed through the system and if we did not reach an agreement with ABSA and going down to the smallest volume player the fees would have been differentiated on that basis bilaterally and that's how we thought would be a fair way of doing bilaterals in terms of volumes going through the ATM system at that stage, and given that we did not reach agreement in that key principle with those two biggest players we did not think we would reach agreement with anyone else. And hence that is why did not go down the track because we could have reached an agreement with a smallest player at a fee that was predominantly higher or lower with ABSA in terms

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of the spread of fees, so there had to be an equal spread, non equal but a spread of fees based on volume and that is why we did not proceed any further.

MR JALI: Was the advice that the issue of volume should be taken into consideration as well in your negotiations?

MR SHUNMUGAN: Yes that is the key principle that is documented in the PCH agreement.

MR BODIBE: You were saying in your earlier slide that the principle is to try to incentivise your customer to use your own ATM network as far as possible. How do you incentivise your customers to do that?

MR SCHLEBUSCH: We incentivise our customers to use our own network by levying a charge on them and Standard Bank and the other bank fee or inter bank fee or otherwise the Saswitch fee for using the other banks network. So when a customer does a cash withdrawal on our network they will get charged a cash withdrawal fee. When our customer does a cash withdrawal on another banks network they will be charged the same cash withdrawal fee and over and above that they will be charged this other bank fee or Saswitch fee, which is a fee of R6,70 (six rand seventy). So that we believe is an incentive for our own customers to use our infrastructure.

MR BODIBE: Now would you kindly reconcile this seemingly contradictory statements which on the one hand you say you are providing the convenience of inter operatability but at the same time you discourage it through this inter bank fee.

MR SCHLEBUSCH: I will endeavour to reconcile that. I think it is important to know that at Standard Bank we have gone to great lengths and costs to invest in what we believe is a very pervasive ATM infra structure. We currently have more than 4000 (four thousand) cash dispensing ATM's, so in today's money that is an investment approaching a billion rand in today's money, and we build our ATM infra structure to service our own existing customers and we want to incentivise our customers to use our ATM's because if we do that we raise the volumes on our machines, it's a fixed cost ATM network so that reduces the average cost and that will benefit our own customers directly. It also provides greater certainty re the transaction volumes that we have through our network which enables us to provide a much more aggressive roll out on machines and is consistent with proliferating low cost self service banking that we want to have an electronic banking or that our customers use the ATM as a full function ATM's as electronic banking or to reduce the cost of banking.

Our product has always been ATM cash withdrawal we charge the cash withdrawal fee for both On us transactions and Off us transactions and our customers can easily avoid this other bank fee and if they choose to use it then we have given them additional convenience because they chose it, they know full well they are going to pay for it.

They have chosen to use another banks machine and then they should pay an additional charge for that added convenience and it is also costing us more because at Standard Bank we then have to pay the other bank the associated carriage fee, and I guess we ask ourselves why would we voluntarily want to direct and expose our customers to other banks machines because if we never had this charge our customers would no price penalty of using another banks ATM, so they would be ambivalent as to whose machines they would use, they will use the other banks machines just as freely as they use our own. Then we say why would we volunteering want to direct and expose our customers to other banks machines, to other banks marketing messages to other banks customer experiences to other banks product offerings, we fought very hard to get these customers and to get the full transactional account, we have incurred great cost to market to attract these customers into our branches to open these accounts to the FICA and other compliances associated with it. We want to hang on to these customers desperately, so we want to preserve the customer relationship and therefore we feel it is perfectly valid to incentivise the customers to use our extensive ATM foot print.

There are also extensive substitute products so if our customers don't like the fact that paying more for using other banks ATM's, they could use an On us withdrawal they can use Mini ATM's they can use cash back at point of sale or they could use debit and credit card to purchase. So our customers have a choice we are not bending them into a corner. We are also not an essential service, it really about, it is a competitive issue which we feel strongly about and absent this charge we do not

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believe that we would have such a good ATM foot print and we believe that is what is given ……a significant pro competitive benefits and we also believe absent this charge the other that the other banks would have not have such an extensive ATM foot print.

MR BODIBE: Now would a Standard Bank client know that it will cost them marginally higher if they use foreign ATM's, and how will they know?

MR SCHLEBUSCH: Our customers will know because we send them pricing letters each year and on that we are very explicit, we proud ourselves on our prices being transparent and understandable. In there we explicitly state that the use of another banks ATM will incur an inter bank fee of R6,70 (six rand seventy) and also on their statement it displays, the line item displays that there is an inter bank fee of R6.70, so customers can see from their past behaviour exactly where they have incurred this additional cost. It is not something we are trying to hide and I must point out that this is not a material source of revenue for Standard Bank.

We do not actively go and roll out ATM's to try to get inter bank fees from other banks and the fee or Saswitch fee that we collect, once we have paid away the

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Saswitch charge, once we have paid away the carriage fee and once we have paid away the charge to Bankserv that the absolute amount of money that we keep is very small and it is not a material source of profit for Standard Bank.

MR BODIBE: So a client would not get a statement that have lump sums, he'll get a statement with clearly defined sums for what they get charged for or Off us transactions.

MR SCHLEBUSCH: Yes if I can just go to Off us model here you will see, in this charge here, if you are a basic current account customer you will get a statement which would say cash withdrawal fee R7.60 (seven rand sixty) and our terminology is not a Saswitch fee, our terminology is inter bank fee or other bank fee, R6.70 (six rand seventy) and you would see those is two separate line items very clearly and explicitly on your statement. We are not trying to offusicate and roll it into one charge.

MR BODIBE: Okay. I am not sure whether that tells me that I have been charged for using another banks ATM. I can see there is two fees that says R7.60 (seven rand

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sixty) advelorum and R6.70 (six rand seventy) but will the statement explicitly state that is the charge for using another bank.

MR SCHLEBUSCH: Yes, our statement, I think the precise narrative is other bank fee or inter bank fee.

MR BODIBE: Okay. Thanks. In your discussion of the history of the carriage fee it strikes me if as if you are suggesting that the current level is inadequate to cover your cost. Will that be a fair conclusion? The current level of the carriage fee?

MR SCHLEBUSCH: Mr. Bodibe, I think the answer may surprise you but at Standard Bank we don’t manage cost on a particularly granular level. So as we sit here today we are not absolutely convinced whether the carriage fee is sufficient to cover.

Okay we will wait for that before I make comment on that. Now, suppose you go to this model with an independent oversight, why does it then follow that all the fees, why should the carriage or inter change be uniform, judging by your own history where you made your own calculation about how much this is costing you as a bank

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and you made a decision as a bank that for you to remain in business, and remain profitable, this is the level of interchange that will be suitable, but now why in this model would you have a uniform interchange even with a third party oversight? Do you understand my question?

MR SCHLEBUSCH: Your question is in multilateral agreement, why would we have a single charge for all customers and I guess to answer there is that it is really a compromise to satisfy all parties and so it is basically an average cost across the various participants and we believe that it has a pro competitive benefits because involved in discussions in establishing that we will have the representations from issuers, we will also for example have lowest cost ATM supplier there who would have an incentive to bring that carriage fee down because in so doing they might take other competitors out of the market and then that would help them to enjoy a greater market share.

MR BODIBE: But would you accept that however, even with that model it is not open to direct competition. The carriage fee.

MR SCHLEBUSCH: It's not as in the competitive space as a direct charging model would be, but we don't think that is subject to no competition what so ever. We think there is a degree of competition involved in negotiations between the parties and even the oversight of the Reserve Bank as an expert and the independent experts that is involved in the process and the fact that they issue a banks representer they would have to carry that fee. So for example Capitec who don't have a big acquiring base but have a big issuing base they will want their voice heard in that forum.

MR BODIBE: Now, the balance of power as it is at the moment seems to sit with the four big banks. How will Capitec's voice be heard in that environment.

MR SCHLEBUSCH: I think our understanding is that the regulator would insist in order to have a free and fair economy that the voice of the small player and the new entrant is heard.

MR BODIBE: So in this model the regulator will be a proxy for the competitive force of the market.

MR SCHLEBUSCH: I would suggest that they have a role to play. Whether they are the proxy, I am not sure that it goes that far but they certainly will have a role to play and ultimately they have to sign off what the default ceiling is set at. So although the big four banks might want to push it higher, I think once the regulator signs it off we have no alternative but to accept it unless we are prepared to go direct charging model which is the output you've got in the link model that if you do not like what the link charges are you can go a direct charging model with other participants.

MR BODIBE: Okay. Thanks. Now one of the cons for a direct charging model is this price complexity to customers. That is also assuming that the current model is fairly comprehensible to customers which I have questions about, but can you really explain to me what is the concern with price complexity for customers in a direct charge model?

MR SCHLEBUSCH: We would charge differentially based on the location of the machine whether it is attached to a Metro branch or whether it is in a deep rural area and there is significant cost differential associated when it is attached to a Metro branch because we could be replenishing that machine from the cash we have got ready in the branch whereas in the deep rural area we will have to move that cash and we have a high risk of these vans been taken in heist and we cannot get insurance for the cash so there is much more cost associated with the remote sites. We would want to charge differentially based on the amount of the cash withdrawn because there is a definite impact on cost, the more you withdraw the more costs it incurs and the time of day and we would not be alone in that, and if you look there is peak charging agreements which Telkom and Eskom have because we want to try to manage queues and smooth capacity over the time and then also the type and the function at the ATM device.

There are some ATM's which are just simply cash and dash and you can do nothing else on them, the other ATM's which offer of a lot of functionality that you can do a million of transactions on and all of that plus then you introduce that there is a whole lot of different acquirers and gives many permutations that customers would not actually know what they are going to be charged when they come up to a machine.

Hopefully with the ATM screen showing in real time what they will be charged as a direct charge that will go some way to alleviating it. But there are costs associated

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with going to the different computer systems of the different banks and Bankservs and switching it and pulling the appropriate cost at the right time for the right machine in the right geography for the right cash amount, and that will give rise to a lot of development costs, programming costs, testing between the financial services players and it wont have to be tested only on our primary system but also have to be tested on our back-up systems in case our primary systems fall over.

MR BODIBE: Now these concerns about pricing, to what extent are they factored in the current modelling. The very issues you have raised, the location, the amount of cash the time of day the functionality, to what extent are they taken into account at present?

MR SCHLEBUSCH: At present they are not factored in at all. The charge is what the charge is but in looking at how we set that charge on an annual basis we try to forecast what the level of average cash withdrawal is going to be so that we can try to recover the cost that we are incurring as a result of that carriage fee so we can at least cover the cost that we incurring. The current model, the customer does not see it because the customer gets one price wherever they transact which ever ATM they use whichever geography, whichever time.

But we would anticipate that in the direct charging model we as Standard Bank would get countless number of calls from our customers saying I have just drawn money at ABC bank ATM they charging me a direct charge, why have you at Standard Bank allowed them to charge that charge, and we would have to deal with those customer queries. In the transitional phase we will get thousands upon thousands of these calls and that we will have costs as well in terms of the customer education piece.

MR BODIBE: Thank you. That is all.

MS NYASULU: If I could just follow up with a couple of questions which really just for clarification. On starting with your representation, your latest 1.15.2 you refer to declined transactions where if a card is ejected, there is a certain amount charged and if a card is captured another amount. Is the reason for that card been ejected or captured a factor in deciding what you charge the customer.

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MR SCHLEBUSCH: I think, the real reason why the card is ejected is primarily if the card is not working so it is not functional, the mag stripe has been damaged or alternatively if there is insufficient funds. A lot of the time, we try to keep customer charges as simple as possible because there is a platter of bank charges and we are striving to make it as simple and understandable to customers as possible so we often group these things into one charge.

So we do charge for the ejection and then also for when a machine is captured, when a card is captured that can be if the card is on a hot card list, that it is reported stolen or if the card has expired. Now we have a lot of manual work to make sure we take that card out of the machine and that we house it in a safe place and that fraud is not perpetrated on that card subsequent to it coming into our possession. So we are merely trying to recover our costs associated with those services.

MS NYASULU: I think the reason I am asking whether the reason for why the card is captured or ejected is factored into the decision whether to charge or not, is because as we sit here and I am sure people in the audience all of us know in some point we have had a card ejected or captured which was not hot, which was not damaged and you went into the bank if it was open and you got your card back. Would you be charging a customer in an instance where for no reason whatsoever their card was captured by your machine.

MR SCHLEBUSCH: We do reverse the fees. We have many customers who come into our branches and tell us that it was not their fault and for example if you decided coming to the branch to get a cash withdrawal at the branch those fees are reversed but that is on a case-by-case basis.

MS NYASULU: That comes to my next concern because in doing the December hearings the consumer groups, their biggest complaint was it only gets reversed when someone has picked it up and has gone in to complain, so my question is, is there an instance where a lot of customers did not go in to complain, just came in and said, "Can I have my card back", where that charge was not reversed.

MR SCHLEBUSCH: I would have to do detailed research and come back to you on that, but I know as a bank, for example if our ATM infrastructure is down, we will allow the customers to use the branch and to do an over the counter cash withdrawal at that particular branch and we will charge them the ATM fee. We will not charge

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them the branch fees, so we do try to be empathetic and compassionate and understand where it is not the customers fault we will look to refund those customers but I will have to get the details and the regularity of these incidences factually before I could answer that question.

MS NYASULU: Just as a follow-up then with a similar example where your branch was closed and the ATM was down for whatever reason and the ATM of the other bank next door was operational and therefore the customer through no fault of theirs had to do an Off us transaction, do they get charged for that transaction?

MR SCHLEBUSCH: The very example that you sighted happened on Friday, I think it was the 26th January this year. We had an ATM downtown for about two hours and it was a month end Friday so it was obviously problematic for our customers. We refunded, we wrote to all those customers and we refunded those transactions, those customers who did an off us withdrawal, for the entire day on Friday in spite of the fact that we were only down for two hours. We don't pride ourselves and we would not want to be unjustly enriched for work that we have not done.

MS NYASULU: Thank you. Can I just refer you also to 2.2.3 and again it is something all the banks have told us by virtue of some multi lateral discussions which had to do with the providing access to banking services to be embanked, Mzansi's customers only pay a cash withdrawal fee and they are not charged an inter bank fee. In other words there is no flowing of fees from one bank to another. I imagine the reason that the banks can do that quite apart from the fact that they were required to do so by the FSC is a fact that it would in some way even out at some point because the Mzansi card are branded differently so one bank will have issued more than another bank. If that model could be followed why could it not be followed for ordinary ATM cards?

MR SCHLEBUSCH: The agreement of the carriage fee for Mzansi was done with Competition Commission approval. We as Standard Bank, we don't charge the, we enclose that carriage fee so if our Mzansi card holder goes and does a withdrawal at another bank' ATM that other bank will charge us the carriage fee, we do not pass it on to our customers, we are happy to absorb that for now and we are incurring a loss.

I guess the commercial view we have taken is that we are happy to incur a loss in terms of it is in consistent with the financial sector charge objectives which I remind you is entirely voluntary process which we undertook and the banks place these obligations upon themselves and, so have not incurred a loss in formative years because we always have to build a sustainable business, so we are confident that over time that we will be able to, these customers, previously unbanked will enter the main stream of banking and become profitable banking customers over time.

So if one looks at a lifetime perspective we are confident that the cost that we, the losses that have been incurring today we could view as an investment in the growth of the banking sector and in our business in the years to come.

MS NYASULU: If I could follow up with a question on that, clearly you make a loss on the movements of carriage fees from one bank to another and from you to other banks but some of the transactions beyond a certain point start to attract a fee. Are you absolutely certain that in the account of one particular individual that the nett effect is a loss?

MR SCHLEBUSCH: It is fair to say that you know once we got a number of transactions, I will get the exact number, but for Mzansi we got one free deposit and one free balance enquiry a month and the you get up to five transactions at this R4.20.(four rand twenty). When you go beyond those five transactions we charge R8.40 (eight rand forty) and the reason that we do that is that we would not want all our customers then migrating.

If we did not have that cap, a lot of our customers would migrate into a much lower cost banking product which would not necessarily suit the returns that we require to deliver to shareholders, so whilst they displaying in consistence with Mzansi account holder behaviour we are fairly sure that we are not making money on those accounts, if at all, but it would be fair to say that if any customers goes beyond that behaviour and did twenty transactions we would definitely make money at the punitive charge of R8.40 (eight rand forty).

MS NYASULU: Okay. I'm going to move away from that and just take you to 2.3.6 of your presentation where you are basically arguing for the difficulty in allocating costs across product and across services and in fact the point you make is that the

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implication of that is that the costing of individual services is practically impossible and in many cases arbitrary. The question I would ask is therefore the charging of those services in any way arbitrary?

MR SCHLEBUSCH: Mr. Chairman I am happy you talk about the cost and pricing if you allow me the indulgence to go to some appendix we prepared on this in anticipation of the question. If I may just talk to this relationship between cost ….

MS NYASULU: Just bear in mind I am not asking the level of the cost, I am asking the principle again of it being very difficult to allocate the costs, the ease of allocating the charge to the customer, and if the allocation of cost is an arbitrary exercise by your admission, is it a fair summation to come to the conclusion that the allocation of charges is bound to be arbitrary as well.

MR SCHLEBUSCH: Well, if I do not deal with the cost I deal with the pricing and how we set our pricing. Cost certainly is an input but it is one input and we don't have a great degree of confidence around the way we are able to allocate cost because virtually 80% of our costs are fixed costs and they incur across multiple different channels, multiple different products multiple different customers and we cannot allocate them on an inaccurate basis.

So it is merely an input but what we do is, we try to make sure that our customers do see value for money, we look at it based on the customers segment and their demands we try to make sure that our pricing is simple and transparent and easy to understand, that it is affordable and that we can do it in a sustainable basis and I think most important if we look at it from a competitiveness point of view and the banks do compete fiercely for the primary transaction account, the natural bundle, and we look at the competiveness, ourselves visa vix the other banks and many non banks are playing in this space as well, and we make sure that our pricing is pitched at a level that is appropriate to appeal to customers that we can procure new customers because the last blow of this business is continued growth and continue to get new customers.

So, it is not an arbitrary thing, it is a lot of science that goes into it, we have an extensive pricing process which runs for ten months throughout the year and I guess we also have to, we try to derive sufficient total revenue that covers the total cost that satisfies the shareholder returns as well, so we delicately try to balance the demands of our customers the demands of share holders and the demands of employees and indeed the regulator and society at large.

MS NYASULU: Thank you for that and in fact the last comment was just the queue I was waiting for to get into my next point which is really the motivation around that penalty fee as Mr. Petersen would call it or disincentive fee. One of the points you made in your presentation was that you have a very big foot print and by implication you are saying there really is no reason for your customers to go anywhere else and therefore you add that little incentive to bring them home.

Now, if the reason that you have that fee is to make sure that your customers are using your foot print and I think as you said to grow the volumes surely the mere fact that you have a big foot print means that you have a captive market because you have, if you like, visibility and so it should not be necessary to do that if by virtue of the fact that you have the largest foot print guess what the first ATM they would see in the large average should be yours. So what is actually behind the disincentive fee.

MR SCHLEBUSCH: Whilst we have a large foot print of over 4000 (four thousand) owned full function ATM's it still only accounts for less than just about 25% of the

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entire ATM foot print. So one in four machines are ours. So it will be arrogant of us to think that we were always perfectly positioned, so we accept that customers can have the convenience of other machines and we are under tremendous pressure from our customers where they have incurred this other bank fee and there isn't a Standard Bank nearby, we are under tremendous pressure to install a machine and that drives a pro competitive behaviour and we do in deciding where to deploy our next machine, we definitely do take cognisance of customer pressures that had emanated from this so called other bank fee.

MS NYASULU: Just my final question Chairman, that is if I can find the point I wanted to make or be able to refer you to a particular one but in talking about the cons of going the direct charging model you talk about, and it might not be that point, but where does your problem with point of sale cash-back at point of sale, the point you are making is you feel that, that would be allowing merchants who are not regulated the flexibility to charge whatever they want and you argue that banks are regulated and therefore someone watches what customers are being charged. Would you say that is a fair comment. I mean does the fact that the banks are regulated mean that there is someone watching what customers are being charged?

MR SCHLEBUSCH: Yes I think that is a fair comment bearing in mind that the SARB takes a very active interest in what the banks are doing and also our reputational risk that there is an independent banking ombudsman which deals with customer charges and they do publish a report to say which banks has been singled out for problems for example with pricing charges. So we do definitely feel as Management I can assure you that we definitely feel the involvement and scrutiny of the SARB in this space.

And that we force in terms of the National Payments Systems Act which governs all payment streams as to what we can and cannot do, whereas if we allowed more than hundred thousand plus merchants to do this there is the potential that customers could be abused in the way that I sighted where they will then be subsequently charged a cash withdrawal fee the customer never knew at the time of the withdrawal or they are only given partial cash and then encouraged to take out an IOU or to take the goods from the store rather than the cash.

MS NYASULU: Despite the fact that banks are regulated the very reason we are sitting here is because there is a consumer perception that there is an abuse by banks of the level to which they are charging them. So I am not sure how we can argue that a regulated environment of necessity has been able to protect consumers not at this enquiry sitting?

MR SINTON: It is fair to say that if you look into the Reserve Banks website the supervisory component of the Reserve Bank that manages the national payment system, they make the point that they don't concern themselves with competition. Their concern is the safeguarding of the banking system and the payment system, and they leave competition issues to someone else that's I think their attitude. I am not sure if they have conveyed that to you.

So it would be correct if there is a perception of abuse etc. I do not think we could rely on the Reserve Bank per se to monitor and prevent it but we certainly believe we would have no objection to the Reserve Bank taking on responsibility for insuring that abuse does not occur. It would be a national extension of what they do.

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MR SCHLEBUSCH: Can I just add to that. As Standard Bank we are supportive of cash back at point of sale. We believe it is a very efficient mechanism of dispersing cash, the cash is in the merchants till. A lot of them are open for extended hours so it is a lot of convenience. So we are supportive of that and we do think over time it will become a very common and pervasive of dispensing cash.

ADV PETERSEN: Mr. Sinton, I would suggest that you also have a look at Reserve Banks document vision 20.10 where at least on paper competition concerns have been identified as priorities Of course it is still a question to what extend and how that will be translated into practice, but to be fair to them I thought I should just mention vision 20.10.

MR SINTON: Thank you.

ADV PETERSEN: Mr. Schlebusch, does your bank have any objection to this enquiry having sight of the payment clearing house agreement?

MR SCHLEBUSCH: Mr. Petersen we have no objections to this enquiry in sight of the payment clearing and we will be happy to forward them to you.

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ADV PETERSEN: Now, could you call out the slide where you deal very helpfully with the process that you envisage for the alternative model of multilaterally set carriage. Although a lot of the questioning inevitably focuses on direct charging we will be giving very serious attention to this alternative run. It is helpful that you have exploded some what conceptually and I just want to look at one aspect of it.

This is slide 21. In the second bullet point where you deal with the principles that would be applied to determining an appropriate level of carriage for ATM's, these principles may include cost recovery adequate return for risk acceptable service availability levels and accommodate differences in the ATM foot prints, and locations and existing players. I just want to stick on cost recovery, because to make this work, if I am understanding properly the methodology which you are putting up for discussion, there would have to be an objective process whereby the costs of delivering ATM services will reliably ascertained, is that correct.

MR SCHLEBUSCH: Yes, that is correct.

ADV PETERSEN: Would your bank be able reliably to inform that process of the cost of delivering your ATM services.

MR SCHLEBUSCH: We would endeavour to do so, we think we would be able to do the reliably based on assumptions, but what is critical is the assumptions that apply to it because depending on the assumptions you apply you get very different answers.

So we will be guided by the independent experts who may have done this in other jurisdictions around the word for example on the link, a switch in the UK and as to what assumptions are applied and what costs are determined in coming up with an objective measure, but we will be very willing participants in that process and I guess we have done it before in the card environment, where we have agreed interchange in the card space and in that process we were happy to have Edgar Dunn scrutinise our costs and we are also happy to have them audited if wanted by our audit partners, audit firms if that was deemed necessary.

ADV PETERSEN: Would I be right then in thinking that in the ATM space as well in relation to payment cards, it is possible to make a rational allocation of costs to a particular product or service.

MR SCHLEBUSCH: It is possible to take certain assumptions and on those assumptions allocate costs. It is not the basis that we run the business as management, we don’t run the business on that basis but if requested by the panel or independent expert we could well do that, take those assumptions and allocate …the biggest difficulty is to allocate the shared and common costs which make up the bulk of the costs and are fixed in nature. We could use those assumptions and come up with sensible answers at a sort of high level, which could be used as valid input into this process.

ADV PETERSEN: Thank you for that. Now turning to the direct charging model and at the same time turning to the question of the inter bank or Saswitch fee, the add on for the off us withdrawal. In your presentation of the direct charging alternative I understood you to be recognising obviously that the ATM service provider would make a direct charge and would be able to draw that down from the issuing bank together with the amount of money dispensed and that would, both those amounts would be passed through directly to the customer, transparently as such. You are nodding. That is correct.

MR SCHLEBUSCH: Yes, we agree.

ADV PETERSEN: So the charge made by the ATM service provider would be truly direct and could not be manipulated on the issuing end.

MR SCHLEBUSCH: We would see it that way yes. For example, in this, how we articulated it here, Standard Bank would charge you Rx for the convenience of using our ATM network and then subsequently we say Standard Bank will charge Rx which the other bank will pay to Standard Bank, we are not seeking to add a margin or any additional charge onto the direct charge that the acquiring banks ATM infrastructure will charge.

ADV PETERSEN: Just help me, was it on the same slide that you referred, I think my memory serves me correctly, to the charge that would still be made or could still be made on the issuing side for the processing of the transaction. Did you use the phrase processing charge?

MR SCHLEBUSCH: No we use the expression, because that is the expression that our customers understand is a cash withdrawal fee so we say that we anticipate that the other bank will charge his own customer a fee for the transaction. I cannot speak for the other banks but I am saying that for Standard Bank for off us transactions Standard Bank intends as we sit here now, to still a cash withdrawal fee in that environment, even although the customers include a direct charge at the acquiring banks ATM.

ADV PETERSEN: And as you sit here now would it be Standard Bank's intention to also charge a so called Saswitch or inter bank or Off us fee in that case on top of the cash withdrawal fee?

MR SCHLEBUSCH: No as we sit here now we have no intention of charging a penalty fee because it will already be, the customer is already getting the penalty effectively in the direct charge they incurring on the acquirer's infrastructure.

ADV PETERSEN: So you will be shifting the penalty or disincentive to the margin contained within the cash withdrawal fee, is that correct?

MR SCHLEBUSCH: We were charging the cash withdrawal fee to start with, so all we are effectively doing in this model is rather than us recover an other bank or

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Saswitch fee, the ATM acquirer will cover a direct charge and I guess that was some of the comments made I think it was in the Nedbank submission, where Mr. Shutter … (indistinct) mentioned that the pro competitive advantages remain to be seen because if the direct charge that the acquiring bank levied was ……. (indistinct) to the carriage fee we have not really gained anything anyway.

ADV PETERSEN: Yes, thank you it is really that, that I am wanting to pursue because we obviously have to consider possible unattended consequences of the change. Let me then step back to the current situation and the, if I talk about a Saswitch fee I just want to make sure we are talking about the same thing, I am talking about the additional fee charged, in addition to the normal cash withdrawal fee that the bank charges to its own customers, an additional fee that is charged for the Off us ATM withdrawal.

Now, on the example you gave of a five hundred rand withdrawal which I understand to be reasonably typical , this is now a withdrawal from another banks ATM by a Standard Bank cardholder, the cash withdrawal fee would be R7.60 (seven rand

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sixty) and added to that would be what I am calling a Saswitch fee of R6.70 (six rand seventy) which is flat, which gives a total of R14.30.

Now by my arithmetic carriage on that transaction which your bank would have to pay away is R5.85 (five rand eighty five), . in other words R8.45 (eight rand forty five), your fee to your customer in that transaction is R8.45 (eight rand forty five) more than the carriage that you're having to pay away. Again I want to pursue the market power aspect of this behaviour. When was the Saswitch or add on fee introduced as far as you are aware?

MR SCHLEBUSCH: In terms of our earlier slides in the beginning I think it was 1989. In June 1989 we introduced that Saswitch fee and it is my understanding that the other banks already had a some sort of Saswitch or a penalty fee there because we were counting for 42% (forty two percent) of the Off us transactions and Saswitch at that time.

ADV PETERSEN: Well, I think you have just disclosed a piece of your confidential information but I will refrain from disclosing the figure you gave about the very

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reduced percentage of Off us transactions after you introduced this, but it was a very substantial drop, it was a very effective deterrent.

MR SCHLEBUSCH: Yes.

ADV PETERSEN: By the way, would you be able to give us reliable facts concerning the practices at that time, who first introduced the Saswitch, what was the responsive behaviour by other banks and so forth. Would you be in a position to do that?

MR SCHLEBUSCH: We have tried to do that, we have endeavoured to do that and these are the sort of facts that we got that we are confident that they are accurate and correct and we can do further work if the panel desires so but I am not convinced that we are necessarily going to come up with further answers.

ADV PETERSEN: Whatever help you can give us would be appreciated. But my understanding is again without disclosing information given to us in confidence, my understanding is that in that period that you are talking about when you described the introduction of your own fee there was a very dramatic fall off in the total number of off us ATM transactions across the country and that occurred in the context of a significant penalty or deterrent being imposed by all the banks in a time period pretty close to each other. I cannot say who was first who followed and so forth.

<u>MR SCHLEBUSCH:</u> But within a month that is consistent with our research, it dropped significantly.

<u>ADV PETERSEN:</u> Within a month? A surprise to you?

<u>MR SCHLEBUSCH:</u> If you look at it by segment I think in the upper end of the segment it would be a surprise because most affluent customers do not really care to much for paying an extra R6 because convenience is more important to them, but certainly in the middle to low income segment, not a surprise, because that could mean the next sort of bit of food or sustenance so R6.70 (six rand seventy) is real money and it is not a surprise that they would then change their behaviour.

<u>ADV PETERSEN:</u> Because what I am trying to get a sense of is how hard a bank can squeeze a lemon before the customer says I am finished with you I am going elsewhere. Now that question cannot be rationally answered without also answering

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the question of what are the alternatives open to that customer and if you can all rely on each other following suit upwards when you squeeze the lemon harder, my mind tends in the direction of drawing a conclusion that this is a significant captivity of the customer which is capable of being exploited by banks. Do you have anything to say on that?

MR SCHLEBUSCH: I think customers have a lot of choice. What we are referring to is only one aspect of cash withdrawals and that is off us transactions. The bulk of our transactions to a point take place on us and there are also alternatives. They can use their payment card to buy goods and services, they can use their credit card to buy goods and services, they can withdraw cash at the point of sale, they can with draw cash at the mini ATM. So customers willingly with full cognisance of the cost associated with drawing off us do so.

ADV PETERSEN: Now you see if we come again to the direct charging scenario you have indicated that on the issuing side, well in your case, as issuer you would still be charging cash withdrawal fee and that there will be a component of that which would be operating as the disincentive or penalty towards the off us transaction.

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MR SCHLEBUSCH: No, there would not be a component of that, the direct charge levied by the acquirer would be the disincentive because if they went to another bank they will pay the direct charge, lets say for argument sake it was R5 (five rand) and we were charging the customer R7.60 (seven rand sixty) cash withdrawal, they would rather come directly to our machine and pay only R7.60 (seven rand sixty) and not R12.60 (twelve rand sixty).

ADV PETERSEN: Yes, but that fee charged by you cannot be simply reflection of your cost plus margin on those costs, because your own ATM would not be utilised. So there is also a disincentive being applied on your side then, surely.

MR SCHLEBUSCH: No, the cash withdrawal fee is what the cash withdrawal fee. Customers understand it and that is the way we charge. So we would say that the disincentive is the R5 charge you incur on using another banks ATM. I think what is not given appropriate airtime necessarily is the cost of acquiring, or the cost of getting a customer. The cost associated with running a branch infrastructure recruiting customers, taking on customers, we are opening two hundred and twenty five thousand accounts a month at massive costs, we turning, closing over fifty

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thousand accounts a month at massive costs. There are tremendous costs associated with an issuer and particularly in the previous submission and in some the comments previously. Then we have really only focussed on the cost of the ATM acquirer but we would submit that there are substantial and really substantial costs in the billions of actually getting customers, keeping customers and processing customers which have not been factored into this debate at all. So, we are looking to recover those costs from our customers.

The fact is that more that 98% of our personal customers will do a cash withdrawal at an ATM, so that from running and a business point of view is a very good place to start to recover your costs because you are not getting any degree of cross subsidization because all customers are basically doing that service.

ADV PETERSEN: Now, if one now looks at your position as acquirer or ATM service provider in the direct charging model, we have just been looking at the issuing side now we must look at it from the acquiring side. The concern was raised with us earlier in this hearing, that a non-bank service provider and assuming here we have not asked you about this, but assuming that a suitably qualified non-bank ATM service providers could be allowed to have direct access to the switch they would be vulnerable to the possibility of cross subsidization by institutions which were both issuers and acquirers, so the issuing side could be used to subsidise the acquiring side which would not be open to the non-bank service provider. Is that a serious danger?

MR SCHLEBUSCH: No, I do not believe that is a serious danger because I am not sure why we would want to cross subsidise our acquiring infrastructure. Now, we like to make sure that each of our businesses stand on their own two feet and are profitable in their own right because the moment that you cross subsidise you have a group of customers enjoying the benefit dragging down your profitability which you inevitably have to get from some other customers, so why prejudice those other customers, so cross subsidization is a concept which we by enlarge, definitely are opposed to, so I cannot see as speaking for Standard Bank that we would necessarily adopt that practice.

ADV PETERSEN: But you must know that I am not saying that your bank would do this, but you must know that it is a recognised tactic that is available to a powerful institution to engage in predatory low pricing until it is driven out the competitor, and then of course put the price back up again. What could we rely on in the market in South Africa in the envisaged direct charging situation that would prevent that?

MR SCHLEBUSCH: Well, I think you certainly have independent ATM operators or acquirers and they of no doubt would be very quick to blow the whistle on that sort of predatory type behaviour and then I think there are the appropriate remedies in competition law to deal with it, and I think it will be very clear and easy for people to see because I would imagine it will have to be concentrating in a particular geography or something because we certainly could not afford to do that across the country.

ADV PETERSEN: If one could pin down your cost of production of course. Because the problem of predatory pricing only comes into play when one is charging less than marginal cost. But nevertheless your indication is that, that is not something that should frighten us in relation to the direct charging model.

MR SCHLEBUSCH: Certainly I would think that is more an academic possibility than the practical reality going forward.

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ADV PETERSEN: What about the other potential danger that was raised with us earlier which is the possibility that the acquiring bank providing the ATM service could as between different other banks and their customers price-discriminate so that, in other words by imposing a discriminatory high price in order to, against customers of a particular bank in order to win them over to become its own account-holders.

MR SCHLEBUSCH: In theory that is possible.

ADV PETERSEN: Is that something that could be dealt with by greed or regulated prohibition?

MR SCHLEBUSCH: I think it could but one must be very careful because if you going a direct charging model my understanding is the point of departure of the direct charging model is that market competitive forces will determine an appropriate level. So to the extent that you overlay on top of that a whole lot of regulation you sort of end up with a sort of hybrid model and I am not sure that is necessarily what the panel wants, but it could certainly be dealt with that you could have a one charge for all issuers that could be a panel recommendation, but as Standard Bank we would, it could be, the logic could be open to scrutiny.

So, for example if we did a deal with a large acquirer and large issuer, there is a large quid quo pro for Standard bank because we have a lot of transactions from their issuing base and their large acquiring base will service our issuing base quite well. Now, why we should extend that same deal to a bank that's got virtually nothing to offer does jar in terms of the quality of it.

ADV PETERSEN: I read that answer to tell me that it is a significant danger and that the merits and demerits of addressing that are way of either collective agreement or regulation will have to be considered.

MR SCHLEBUSCH: That's correct.

ADV PETERSEN: Then just finally on the question of the agreements which have or are in the process of being reached to fulfill the targets of the Financial Services Charter in relation to the Mzansi account to price capping which is being considered as I understand it in for a limited basket of services, could that be reconciled or re-adjusted to fit with the direct charging model?

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MR SCHLEBUSCH: We think we are having a direct charging model and that we will still be able to achieve the objectives as set out in the financial sector charter.

MR JALI: I have a number of questions, but looking at the time I think they can wait and be dealt with at our next round of hearings because they are all interlinked with the next round. I will just shelve those for now. Just for housekeeping purposes, just to remind the Standard Bank team that we must have the presentation both electronically and hard copies. That will be exhibit GG and also the latters GG1 and GG2 and lastly you undertook to let us have the PCH agreements.

MR JALI: We will adjourn until 14:15 and then we will have ABSA.

ABSA

MR ZEUNER: Thank you. We have distributed the slides that I will briefly touch on. I think if I refer to slide 2 of our presentation I will briefly touch on issues of terminology, our strategy, our view on some of the alternative pricing models and then the non-bank ATM environment. I think it is important if I refer to alternative pricing models that at this point we possibly upfront make the statement that our view is that the current carriage fee model has served South African consumers well. Concerns about the level of the carriage fee can easily we believe be addressed by having the fee investigated and addressed by an independent third party.

We have considered throughout our services of ATM’s to the market some of the direct charging models that is now also been put forward and, however, we would be supportive for any change that is been put forward for consideration. We do, however caution against getting into the changes without due consideration and proper investigation into what is happening also internationally.

I quickly touch on terminology and I think Chairperson not to bore you with detail on that, we just believe that currently there is different interpretations to many of these issues and terms that has been used and again our concern that somehow the consumer can be confused in what is being meant by some of the fees and terminologies that have been used up to now.

Our approach throughout has been one that we offer full value banking to our customers and whatever we present to our customer we clearly address at the end of choice to the customer, convenience, security and stability. If we refer to choice in convenience, it is important that we take the whole journey that we have had in terms of offering access to cash to our customers and also draw the attention of the panel to the fact that we have been a leader in providing cash back at point of sale at a very early stage or be it that today that is utilised by all the other banks.

Our approach to the ATM network has been one where we offer convenience to our customer and easy access to cash. I think it is also important that I draw the attention of the panel to our approach to affordability and particularly the advelorum fees that we apply in the ATM space.

Our experience currently is that 60% (sixty percent) of the transactions that we do on our ATM's is for an amount of less than R400 (four hundred rand) and therefore we believe that it is still to the benefit of the bottom end of the market that the advelorum fee gets applied. I think it was also presented to this panel by some of the other banks, a comparative numbers and a R200 (two hundred rand) withdrawal on an ATM of ABSA would be R3,70, (three rand seventy) R5,00 (five rand) on some of the competitors. When we look at the cost, the fees of ATM's and as we work towards solutions, we think it is important that the panel again be aware of the fact of constant innovation in the area of ATM's as we improve our functionality to the benefit of our consumers.

The bar chart on the screen give you an indication of how we have expanded and grown our ATM networks to currently over 7100 (seven thousand one hundred) machines and we grow at about 23% (23 percent) per year. Important that the group took a decision that 75% (seventy five percent) of infrastructure investments will be in rural areas and previously disadvantaged areas and we have honoured that throughout. A view on the screen again, on the ABSA representation in ATM.

Can I turn now also to the non-bank ATM providers and I think questions have been raised in this hearings about the non-bank ATM providers. The slide shows the panel that nearly half of the ATM's in our network are owned by non-bank ATM providers. These arrangements show that non-bank providers already play a very important roll in the banking industry. Our arrangement with non-bank ATM providers, provide important benefits to our customers and I think what is important is also to highlight at the hand of a customer experience of withdrawing an amount on an ATM with a Flexisave account, a R100 (hundred rand) withdrawal on an ATM of ABSA will be

R2.75 (two rand seventy five), on a ATM supported by a third party it will be R5.80 (five rand eighty) and that same withdrawal on a computer bank will be R9.00 (nine rand). I think it is important that we just highlight it for reasons of confidentiality that we cannot disclose here the arrangement with the third parties, however, quite happy to engage with your panel and deal with some of that information of the third party agreements if you so wish.

I think the question that is important is that on all of these activities with third parties, if we would enter into discussion with the panel on more detail on those agreement, you will see that we actually retain a very small percentage of the fees that is collected on those ATM's. Immediately the question so why do we do it? We truly believe that the investment and involvement in that area has helped us to support our brand, Bill Trust, convenience to the customer and again access to the customer that is supported by these service providers. If I can turn to ATM withdrawal fees for Off us transaction, I think when an ABSA customer uses an ATM that is owned by another bank we refer to this as an Off us transaction and questions have arisen in earlier proceedings about the level of these fees. The issue of how fees compare with cost I think is something that the panel at our initial presentation may clear and you will be dealing with in further hearings.

Even so we are very happy to provide our perspective now on the off us ATM withdrawals. In our view the important points are the following: the ability to use other banks ATM's service that ABSA and other banks offer to their customers, customers are provided with the option of using ATM's owned by other banks as well as obviously their own. The off us withdrawal fee is the price that we charge our customers for the service. This reflects the additional convenience and wider choice that our customers receive from the ability to access non ABSA ATM's. To help attract customers we offer lower fees on transacting involving ABSA and ABSA sponsored ATM's. I think it is important also to draw the attention of the panel to the fact that 85% (eight five percent) of the cash withdrawals done by ABSA customers is done on ABSA machines. I think I want to highlight the options available to the customer and again draw your attention to one thousand seven hundred and thirty stores (1730) where cash back at point of sale is available.

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It is our view that the carriage fee have promoted nation wide access to ATM networks. As Dr. Hawkins acknowledged carriage fees has been the mechanism for achieving intra operatibility in the current system in which every bank customer can use an ATM of any bank. Carriage fees have also provided a degree of certainty to smaller banks and new market entrants and have helped encourage them to establish ATM networks of their own. Again a view via a map of the representations of ATM's.

I think we also just draw attention to some of the findings of this panel as well as communication and presentation by the technical committee on some of the carriage fees. I think the issue that is important is that we deal with a level of carriage fees and although the technical team has identified strong benefits from the current carriage fee model, they also expressed the concer with the fact that determining the level of carriage fees has required consultation amongst banks. The technical team is attracted to the direct charging model because it would not require these kind of inter bank consultation. It is our believe that there is nothing really wrong with the manner in which this was dealt with in the past We also believe there are similar

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activities taking place in many other industries where this level of engagement is taking place. But while we do not think that there has been anything wrong with the way in which the carriage fees has been determined in the past the technical team's concern we believe can easily be addressed by having an independent third party calculate the appropriate levels of carriage fee based on an analysis of ATM costs, and ABSA would support and participate in that.

Can I turn to the direct charging model. As Dr Hawkins explained direct charging is different from surcharging. For example in the US issuing banks pay a carriage fee to acquiring banks, but acquiring banks can and they frequently do also apply a surcharge. In the direct charge model the carriage fee would be eliminated altogether and the compensation of the ATM owner would come entirely from the direct charges. ABSA is not aware of any country in which ATM's are owned by multiple banks that uses the direct charging model recommended by the technical team. Even in countries that have surcharges there also a carriage fee. I am also advised that the competition authorities in other countries have specifically endorsed the carriage fee model and there are also regularly reference to activities with in Finland, but I do believe that that also is a very specific model that is applicable in that area. ABSA accept that in principle a model of direct charging could work and we are in favour of any change that benefit the consumer.

As I said at the start of these remarks ABSA has been a leader in innovation in the banking industry and we are definitely not adverse to change. At the same time, however we believe a cautious approach is necessary for a model that has worked well over the last twenty years. Those advocating the direct charging model have suggested that this model would necessarily lead to a significant reduction in total cost for consumers. We are not sure that that necessarily is the case.

The other fact that would have to be considered before the direct charging model could be adopted with confidence will be the impact on investments in the ATM industry. It is also possible that there could be different levels of direct charges applied in the rural areas compared to urban areas. I think most importantly for us is the impact of that model on Mzansi accounts. In considering a move to a direct charge model it should also be recognised that the carriage fee seem likely to remain in place for international kind sanctions by which I mean South Africans making

ATM transactions outside of South Africa and foreign visitors making ATM transactions inside South Africa. Chairperson I've got two slides there. Left can I also refer to the non-bank ATM providers and access of the non-bank ATM providers to Bankserv. This issue we believe is separate from the issue of the ATM pricing models.

The question of access exists whether we remain with the carriage fee model or change to a direct charging model. As I explained earlier in the presentation non bank ATM providers already play an important roll in the banking industry in the country. Indeed ABSA has been one of the primary users of third party service providers. The fact that they do not currently connect directly to Bankserv has not prevented their entry or blocked their growth.

That said, we have no objection in principle to allowing non-bank providers to have direct access to Bankserv, ATM switch. However, as we also said in our first presentation we believe that the South African Reserve Bank would clearly need to be involved to ensure that there is sufficient regulated oversight.

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In summary then, it is clear that the carriage fee model has served South African consumers well over twenty years. As the technical team itself acknowledges, the carriage fee model has been instrumental in creating an effective ATM system. With respect to the technical teams concerns about the levies of ATM's carriage fee we think there has been nothing wrong with the manner in which banks have determined carriage fees in the past.

However the technical team's concern can easily be addressed by an independent third-party. Because the existing model has worked well, we therefore caution against an approach merely for purposes of changing to a direct model. From a subject of access by a non-bank ATM providers I confirm that we have no problem with allowing them access under the guidance of the Reserve Bank.

Chairperson that is our view on the ATM environment and are happy to take any questions.

MR JALI: Thank you. Just a couple of questions just for clarification then I will allow the rest of the panel to ask some questions. In your charge model when people receive their statement or receive the ATM slip, does it give a breakdown of what has been charged for what?

MR ZEUNER: I would ask Keith also comment on this. Our fees and charges are clearly set out in the brochures and information that we make available within our branches. Some of that information we also communicate by means of information on the banks statements. Where there is a different model as is in the case with a third party operator on ATM's we have a clear indication as a first screen on the ATM that there is additional fees applicable. Keith.

MR JALI: Should I take that as a no. The slip does not show the numbers?

MR ZEUNER: No, we are not giving details on the slip, the slip merely contains the basic information of the amount of the transaction and balances that is, it's not on the slip.

MR JALI: The statement of account, does it show when the fees are being charged as to the break down as to how much has been charged for what?

MR ZEUNER: On a bank statement you will get the information on bank charges per transaction.

MR JALI: Without giving a break down?

MR McIVOR: It will be one figure per transaction.

MR JALI: Per transaction. Okay. And then your brochures, you made mention of your brochures, when they can come to ATM fees, do they give a break down of the fees?

MR ZEUNER: I can answer they very clearly disclose the different fees that we charge, Judge Jali, so we would highlight our on us.

Transactional charges by products we would highlight the ABSA supported charges by products and we do highlight the off us transactional charges. We take great pains to educate our customer base in insuring that they are equipped to identify or understand the types of transactions they are engaging in and the costs thereof.

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MR ZEUNER: I think what is important if the question is, is there a specific reference to the carriage fee involved in the transaction on the statement, No, it is only in one fee on the statement on the transaction.

MR JALI: That is what I am tying to find out. I am trying to find out about the brochure. Does it say that what we are charging there is a carriage fee, there is a cash withdrawal fee there is this fee of so much and so much and so much.

MR McIVOR: No it would disclose on us cash withdrawal fee, it would disclose our ATM supported fee and the fact that there is a difference in the price between the two. It would also disclose the off us transaction fee and the fact that there is a difference between them. It would not say that there is a carriage fee and a switching fee.

MR JALI: So that is just a global amount which is reflected. Not the amount which has been …(indistinct). I am asking this in the context of the statement that the current system with the carriage fee ……….(indistinct) if you say all the banks agree as to where they served the consumer well I've got my doubts because are the consumers aware of the carriage fee?

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MR ZEUNER: Chairperson, I think that in the way that we disclose the fees, that clearly indicate to the consumer the three different transactions, being a withdrawal on us at the third party and at another bank, there is a clear indication that there are different fees at play. I think it is also important that in terms of the carriage fee that is applicable where a ABSA client engages at Nedcor machines or a Nedcor customer on ABSA given the size of our Network and the investment that we make to the convenience of the customer by means of our strategy, there is a fee applicable to the convenience of using that wide range of ATM's and my comment from to the benefit of the consumer I think is born out by the map that I had on the screen and as well as the bar chart in our document, the size of our ATM network and the investments that we make within, I believe that is convenience to the customer.

If it is problematic for a customer in terms of the fees applicable to the ATM the customer has a choice to go into a branch in normal trading hours for a different fee, the customer has the choice to go to a retailer at a point of sale device likewise three different offerings of ATM's all at a price which we believe are disclosed in our brochures.

MR JALI: So the answer will be no. The statement does not reflect it. Now, the next question I was asking is, he is not aware, so the answer would be no. He is not aware that he is been charged a carriage fee?

MR ZEUNER: My view is that the brochure discloses a fee at another bank and from that perspective it is disclosed. It is not on the statement, you are right.

MR JALI: So the answer is no. All of this goes back to the answer which is no. It does not show that there is a carriage fee. The next question is, well I am raising this in the context of the statement that have served the consumer well, it cannot t serve me well if I am not aware of it. Unless you are saying it serves the banks well.

MR ZEUNER: I am definitely not saying that it serves the banks well only, I say it serves the consumer because I believe that the ATM network that is available to the consumer today is beneficial to the consumer, and from that perspective I am of the opinion that the approach to the ATM network have made it possible for customers today to have choice in convenience twenty four by seven and surely that service to the consumer is something that I think is beneficial to the consumer.

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MR JALI: Okay. A certain dispute that there is a network which is convenient to the consumer, the issue is about the fees, so let us just leave at that now. The one point that I am trying to establish is, in your position you say you are not against, you are not for the direct charging model who must retain the status quo. Now what I want to find out from you in retaining the status quo there was an issue about bilateral negotiations and multi lateral negotiations. Are you for, in retaining the status quo, are you for bilateral negotiations of the carriage fee or multi lateral negotiations of the carriage fee?

MR VOLKER: I will respond to that Chairman. I think the most efficient method of determining interchange rate would be a multi lateral arrangement. However, as we said in the presentation we think that the most objective way of determining that would be to appoint an independent third party. The result of that in our view would be a default rate which is objectively determined. However, we think it has also proven that the banks would have the option to over and above that determine bilateral interchange rates as well. So it is not ....

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MR NORTON: And Chair, sorry can I just make one additional point. There seems to be a consistent theme throughout these hearings and we seem to certainly get the view from the panel that there is a preliminary view that the arrangements between the banks which led to the current carriage fees are problematic from a price fixing or section 41(b) perspective and it seems to be the sense we getting from the panel and I think it is probably only fair that we give you the ABSA perspective on that. As Mr. Von Zeuner said at the outset, I think ABSA's legal perspective is maybe slightly different from some of the other banks.

We do not think that the current arrangements around carriage fees are in any way problematic from a section 41(b) perspective and we say that boldly for four reasons. The first reason is from an international precedence perspective, carriage fees are a well acknowledged feature of banking systems throughout the world and a vast variety of first world countries, the US the UK, with very sophisticated competition law jurisdictions. Carriage fees have been examined in all of those jurisdictions, and not one of those jurisdictions that we know about, have called in to question carriage fees as price fixing arrangements.

So I think we would like to stress the international precedence perspective. The second point, and I think advocate Petersen eluded to this at the beginning of today's proceedings, is that the Supreme Court in the Ansac …(indistinct) matter has very clearly signaled that not all the arrangements between competitors which ultimately lead to uniform pricing arrangements …(indistinct) the price fixing and in fact, maybe benign arrangements. So that is the second point.

The third point is that we think that the arrangements between the banks in the context of carriage fees are more keen to vertical relationships than horizontal ones, and therefore they again are outside of the rules of Section 41(b) arrangement, and the fourth point is that the carriage fee is only one component of the price which is ultimately charge to the consumers. So, when you talk about price fixing arrangements you generally talk in relation to the price which is ultimately charged to the consumer. In this case, the price which is ultimately charged to the consumer in an Off us transaction very considerably between the different banks.

So you cannot really talk about the price fixing arrangement in the context of off us fees. We think that explanation is important, just so that we can put our own perspective on the table around these issues because we certainly, I think, got a clear sense from the panel that you are concerned about a potential Section 41(b) violation in the context of carriage fees. And I think, certainly the ABSA perspective is a very clear one, which is that there is not a violation from a Section 41(b) perspective and we just wanted to make sure that you were aware of our perspective from that issue.

MR JALI: Yes, I understand. Everybody has got its own perspective about the interpretation of the Act. We are concerned about the Section 41(b) violation, whether it is multi lateral, bilateral negotiation, we are still concern as to whether aren't we fixing prices or not. But anyway, let us still deal with the facts for now. We will deal with that later. Have you been, right, coming back to, you have exposed your preference being the multi lateral negotiations. Right?. Have you been involved with any of the other banks in negotiating bilaterally or multi laterally?.

MR VOLKER: Chairman, yes we have. I think historically going back to the late nineties, we had been, I think the current basis of the interchange rate on ATM's, I think is a result of a bilateral arrangement. So that goes to the nineties. I think that is where it is at the moment. Subsequent to that there have been a number of attempts to engage on this on a bilateral basis, but they have not resulted in any change to the current interchange rate, as we understand it today.

MR JALI: So there are no bilateral agreements. Are there any bilateral on the ATM ...

MR VOLKER: On the ATM, the historic I think the last agreement that was, that set the current arrangement was set in 1998 and the current prevailing rate is still a consequence of that. So, I think that was the last arrangement which was on a bilateral basis. As I mentioned, subsequent to that we have had engagement with various banks on reviewing this on a bilateral basis but they have not resulted in any changes to the rate that was set in 1998.

MR JALI: You must have been here when Standard Bank was presenting.

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MR VOLKER: I was not.

MR JALI: You were not. Well, some of the people here were present. There was a point made about a latter which went off and then subsequent to that, suggesting the increase in the carriage fees, and then subsequent to that, everybody else increased the carriage fees. You are aware of that.

MR VOLKER: I am aware of that. I think I was responsible for ATM's at ABSA at that stage. This was, as I said, I think the last increase was in 1998 and as far as I can remember the letter we received from Standard Bank was towards the end of 1998, we received a letter announcing their increase and obviously at that stage we had the choice of also doing the same to them, so we sent a subsequent letter to Standard Bank as well as to the other banks, to announce our increase which was of the same quantum.

MR JALI: And also there was some evidence about subsequent negotiations between Standard Bank and yourselves which did not bear any fruit.

MR VOLKER: That is correct.

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MR JALI: You are aware of those negotiations.

MR VOLKER: Absolutely yes. I think it was a few years later. We engaged on a, it was not just confined to ATM's. It was a broad based discussion on reviewing the setting of interchange rates for all payment systems based on hopefully mutual accepted principles, but I think it was probably over a period of a year that we engaged with Standard Bank on those discussions. The end result was that it did not change any of the rates.

MR ZEUNER: And we had similar sort of engagement also with FNB in 2005, and ...

ADV PETERSEN: Mr. Volker, if I can just clarify this with you and I am particularly concerned to do so, so that when we read the record later and the transcript of this, we do not draw unfair conclusions. As I understand it, carriages uniform between all the participants.

MR VOLKER: Yes. That is correct.

ADV PETERSEN: R3,25 (three rand twenty five) for the first 100 (hundred) and 65c (sixty five cents) per hundred after that.

MR VOLKER: That is correct. That is my understanding.

ADV PETERSEN: Must I conclude from you said before that those, that down to the last cent that was in every case arrived at bilateral negotiations between the different ...(indistinct).

MR VOLKER: Yes, I mean that is a reality. I think the way that it actually took place, it was, what triggered it off was a letter from Standard Bank who were really the leaders in the industry at that stage, fair to say. The letter arrived on my desk and I ...(indistinct) that this was the increase. I had one of two options.

Obviously I could have declined the letter and said, look I am not interested in doing this, or I could have negotiated with them, but at that stage it seem like you know, an acceptable level of fees to ask and so the result was that I sent a letter back and answering it, and answering exact the same fee to

Standard Bank and at the same time I sent a letter to all the other banks that would be using my ATM's, making the same announcement. So, it was something that, that is just the way it happened.

ADV PETERSEN: And that is what you mean when you spoke of bilateral arrangements.

MR VOLKER: Yes. That was how it transpire at the time. So, there were not discussions around the table, or actually negotiating and a bargaining process. You could well may say it was unilaterally sent out, but obviously when the other party accepts it, there is effectively a bilateral agreement.

MR BODIBE: Thanks. Good afternoon. I would to believe that in arriving at a position that suggest maintenance of the status quo, you have carefully conceded all the arguments being put forth in relation to the current existing model. Now, before I infer anything I think it will be only fair to give you an opportunity to explain from your point of view, what you believe, other concerns that have been raised with the current model.

MR ZEUNER: As I have tried to point it out in our presentation, I think our view is that the concern of the panel is the quantum of carriage fees as well as the engagement that the banks had with one another in determining that price as Walter has said, how they went about that, and therefore we believe that the panel would like to have the carriage fee revisited and we believe that that can best be done by a third party and we will support that process.

MR BODIBE: So, you do not, if it is based on the idea that carriage is not a legitimate.

MR ZEUNER: No, that is not my view.

MR BODIBE: Okay. Now, if we retain the current model, how will these concerns be addressed if you have a third party, especially the concern that relate to first transparency of the charges, and secondly whether it is actually necessary for banks to sit together and set these fees in stead of

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Tape 6

MR ZEUNER: ...choice and all the other factors that we mention in terms of full service banking, the convenience, the security, all those factors are of importance. So, it is not just the cost item that is of concern.

MR BODIBE: I want to put it for the record, personally that I am still not certain about how the process of setting these fees unfolded because each bank has its own version and there does not seem to be a common industry version about how you went about it in these fees. One day one bank said they were set bilaterally in 2004. Standard Bank said it issued out letters and you say you issued out counter letters to everybody else and that also subsequent to that, there has been a collapse of bilateral negotiations. So, I am just not, I am speaking personally for myself, that even after your submission, it is quite not clear how you went about setting up these carriage fees.

MR ZEUNER: If the panel so wishes, I mean, we can make available correspondence and information in that regard, which will sort of put on record our position and that is the best that we can disclose and I am prepared to do that.

MR BODIBE: Thank you. Now, if you go to page 9 of your responses to the ATM questions and first the answer to that question 17 is that something I can peruse with you openly or are you claiming confidentiality on that.

MR ZEUNER: I am happy that we address it.

MR BODIBE: One of your concerns is that a direct charge model, as you put in that paragraph, will lead to differentiated pricing. Doesn’t ABSA already price differentiate.

MR ZEUNER: Can I ask Keith to comment on that as well as Mr. Naidoo?

MR McIVOR: Mr. Bodibe, we certainly do price on a differentiated basis but not within a network, like the ATM network. So we would price differentially for cash back at point of sale versus an ATM network versus a branch transaction, versus the Internet versus cell phone banking at channel level we price differentially not within a channel. That specific comment and I will have that after a second, that specific comment refers more to wondering about the possibility of having a different price model that may apply within a network based upon a geographic market, so could rural be more expensive than urban because it is more expensive to service a rural ATM and the volumes are lower. Could there be a difference in pricing dependent upon the time of day? Could there be a difference dependent upon the physical location from a security perspective. We are not certain on those answers, but we do raise them as points of concern.

MR VOLKER: I think just to clarify what Keith said, the difference between the direct charging model and the current model, is that we currently for a particular transaction type we charge the same on a national basis. So we do differentiate, depending upon the customer category. So a Mzansi customer certainly, the arrangement at current is that they do not pay for the first two transactions for example and in our private bank or platinum segment, we also have certain arrangements where they either pay less or they pay nothing per transaction and that is universally so, across the national footprint, irrespective of it is a deep rural area or an urban area.

What the direct charging model could bring about, is a greater uncertainty in terms of the fee that you get charged. For example, one of our customers who currently might have either two transactions or ten transactions for nothing, might then be confronted with having to pay for a transaction because their particular ATM is in a rural area or something like that. So the control of being able to offer a definite fee on a national basis, or to offer free transactions, gets taken away from us, because the ATM owner might not be ourselves. It could be another bank that can charge whatever they like. That is one of the concerns.

MR BODIBE: You also differentiate in terms of whether it is an ABSA ATM or an ABSA supported ATM. Now, these ABSA supported ATM, are they mostly in urban areas or in rural areas?

MS KLEIN: They will be wherever it is, that it would be necessary for them to be put on. We do not dictate for them exactly where they need to go. In fact, I think the interesting thing about that specific model is that the economic view for putting down those machines is that they will go into areas where, let us say, for a break even on Auto teller, you may need six thousand (6000) transactions. Very often those non bank ATM are out there operating on five, six hundred ATM's per month. So, it is wherever they spot an opportunity and they believe that it is right. So together we will decide.

MR BODIBE: Can I make a follow up. Two points there. One is that you charge more for an ABSA supported ATM compared to an ABSA ATM. Is that right.

MS KLEIN: That is correct.

MR BODIBE: No, in terms of the ATM's that are ABSA supported at the moment and are currently deployed, where are they deployed between urban and rural.

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MS KLEIN: Well, that is what he had upon the slide, which clearly indicated.

MR ZEUNER: I think, pretty much per down the middle on that, you will find that many of the third party devices we will put in store. You will find that the kiosk at gas stations etcetera and to a large extent that will be determined by the volume of transactions that we anticipate at that particular location. Can I just take you back to where ABSA became involved in the third party ATM was after the collapse of Saambou. There has been a lot of changes in that area, the machines that we currently use is not the ATM Solution devices only, so there has been a lot of development on lower volume ATM's and even in terms of ABSA development, we have that full range of ATM's now covered by our own machines, which are obviously at the inception of a contract was not available or possible.

MR BODIBE: As an ABSA client can I distinguish between these ATM's?

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MS KLEIN: Yes absolutely. You know, when you go onto these ATM's the first screen tells you that this is an ATM supported by ABSA. So it is clearly indicated. Our customers would know the difference.

MR ZEUNER: I think we also have a ruling from the advertising authorities that they were comfortable with the manner in which that is disclosed and that the fee differentiation is clearly highlighted to the consumer even prior to entering into a transaction.

MR BODIBE: Thanks. My final question is and you are free to alert me if this is confidential. Is carriage the substantial source of revenue for ABSA?

MR ZEUNER: Can I ask please that you comment on carriage before we actually see that number in anticipation on the question.

MR McIVOR: Yes. Mr. Bodibe, carriage fee revenue is not a substantial profit generated by ABSA. It is, I am happy to disclose the number to the panel but it is not a significant profit generator. I think just to answer question 22 of our submission. I think it is in section 3. In the order of hundred million rand.

MR VOLKER: I think just to put that into context, we mentioned a figure earlier, only about 17% of the transactions on our ATM's are actually on us transactions, so foreign customers are using our ATM's. So carriage fee would only apply in terms of 17% to 18% of the total transactions on our machines.

MS NYASULU: Thank you very much. If I could ask you just a few question based on your presentation. Possibly starting with one of your recommendations that you would be very comfortably with a third party doing an assessment in setting the level of the carriage fee. Now, if you could tell me what sorts of costs, and you do made reference to the fact that you would be able to guide them in terms of what the costs are. What would be the kind of costs that you would ask them to take into consideration in setting that fee?

MR ZEUNER: I would ask Walter to comment as we have done similar research in other areas of the business. Walter, you could possibly give a steer as to how we guided that.

MR VOLKER: I think what we would recommend in a process like this, obviously we wouldn’t be as an individual bank in control of such a process, but what we would recommend is that global practice be taken into consideration, because this has been done on numerous occasions in many different countries, so these precedence for this and we would use that as a guideline, but I think just at the top our head we would look at capital investment and the machines, operational costs such as the network costs, the loading of the cash.

So, there is a whole range of different costs and factors that could be taken into consideration, I think most of which we have included in our submission in terms of a bigger breakdown.

MR ZEUNER: I think we draw a distinction obviously between what is the carriage fee, and I think what is what has been referred to here as an issuing

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fee. I think the complexity of cost is possibly more relevant in terms of the issuing and I think the process of the carriage fee, I think it is pretty standard. Anthony do you want to comment on that?

MR NORTON: I think it is also important just for the panel to be aware of another fact which will come to light I think when we deal with interchange, that there is currently a third party study underway as we speak in relation to interchange, in relation to debit and credit cards with the blessing of the South African Competition Commission because we are obviously at pains to get their blessing up front before that study commence.

But that independent third party study is currently looking at current levels of interchange in relation to debit and credit cards. So, this is not something which I think is unique and we would simply think that a similar type of process would then apply to the interchange fee in the context of ATM's.

MS NYASULU: Okay, just not to be slow, but just to be sure that I understood you properly, you are saying then that it is possible to apportion the costs to a point where a third party doing an assessment would be able to hone in on the cost and be able to set the right level of ...?

MR VOLKER: I think that is absolutely true. I think in terms of determining even the profitability of a particular site it is very important for us to actually analyse the costs of locating the site, even the rental of the site, the preparation of the site, putting up the machines, maintaining it. All those cost categories are already available in our models to determine whether a particular site is actually well doing.

Obviously, other factors also come into mind in terms of FSC targets, which would soften the kind of profitability that we demand from a particular site, but the fact is that those costs have been identified and they have been quantified.

MS NYASULU: Thank you very much. That is very helpful. I think it is the closest that I have ever come to being able to put my finger on a particular set of costs. Just on your slide, my glasses are failing me here, I think it is slide nine, you referred to over 85% of your ATM cash withdrawals being on us withdrawals. How was this achieved because you know, one of the reasons that there are all of these penalties is we get the feeling that there is a sense that consumers almost naturally go for the easiest most accessible, not necessarily one that belongs to them, so you have achieved something that the others are still battling to get to.

MR ZEUNER: I think we are in a position, Veneta, where you can also comment on, that we have done extensive communication to our customers and surely you have seen Veneta in every newspaper where we communicate to the consumer tips on managing bank charges and we have had quite an extensive campaign of communicating and some of the ads can be made available to the panel as well in alerting the customer to exactly that Veneta you might want to share some of your consumer....

MS KLEIN: I think it is important in terms of, we spoke about transparency, let me just go back to that point. We have spent a lot of time, studying legislation as it is pertaining to consumers in terms of their rights, the Consumer Protection Bill for example and we may even have mentioned in our last submission that we are the only bank that actually joined with the South African National Consumer Council to ensure that we understand what it is that the consumer need besides the charges, besides relooking the way we do business. Hence we have been out there. I mean, we have been taken to Louis Tager of the consumer tips and I mean we have come under scrutiny with that.

I even think it was Mr. Bodibe last time who suggested that we did not necessarily, you know, we have been advertising in media where the masses of South Africa cannot afford to read, we have subsequently gone into booklets and we have been spreading that out all over. But I mean, we have been focussing on things such as redress, on transparency, on their rights, things that the South African consumer did not necessarily focus on up to now. So, we are very open to, show us what else there is that we must focus on, and we will look at that in terms of the consumer.

I just want to add on in terms of the, somebody spoke about the FSC and the ATM’s that we put out there, some of them, quite a few of them which operates in areas which would not necessarily be profitable for us as a bank. We could not necessarily get out money back on, but if you look at what the FSC requires of us to do, to have an ATM presence within a 15 kilometre radius deep rural, and then I think we are doing, if you look at our distribution, not badly at all. So the cost consideration is not the first consideration. It is taking the facilities closer to the South Africans who have not had access before. So, there is more than just the cost component and looking after consumer education that we do consider here.

MR VON ZEUNER: I think we also do detailed analysis per sub segment of our customer base and in certain areas we for instance found that after opening an account as much as 70% of the interaction with the bank is through the ATM's. So that preference of the customer that we obtain through community forums and so forth, ATM's is a very, very important part of our strategy, I think as is born out by our number of ATM's compared to some of the competitors and I think we, as you will possibly find in other areas where other banks have would have put a concerted effort behind, ATM's has been one where we have surely made sure that we communicate to our customer extensively as we believe that the main source of engaging with the bank for certain of our sub-segments.

MS NYASULU: If I could ask my final question, relates to the comment you made about the possibility of the direct charge model where you felt that it is a theoretical alternative and I have to agree with you, at this point it is all theory and that it is all it can be until we have actually gone into the detail of testing it.

One of the objections that you raise is the fact that it would introduce uncertainties to the consumer and you mention the fact that the possibility that different charges are less. By your own admission you have been very good at educating your customer and you are absolutely right, we have seen all the adverts. Why would it be so difficult this time around to go through the same kind of education.

MR ZEUNER: I do not in terms of my comment, if I say it is going to be extremely difficult, possibly wrongly understood. I think what we say is, this is a model that the consumer is accustomed to and before we embark on a change let us make sure that it is really to the benefit of the consumer and therefore we said, I mean, if that research is done and that seem to be the best model for the consumer we will fully support it. I am just concerned about numbers that we read in the media, approaches that we read in the media, which I am not sure that that necessarily is what the consumer stand to benefit.

But if the decision that that is the way to go we will fully support it and I do not think it is something that cannot be overcome in terms of communicating to the customer. We must just be sure that it is necessarily to the benefit of that, Alfie, I do not know whether you want to add anything on that?

MR NAIDOO: Yes, I think at worst it will be a short-term problem for people adapting in general, not just consumers, but I think the market in general, but I think the benefit would be that all players would have to opt their game in terms of communicating. So we personally do not see that as a big issue or big barrier to adopting a new approach.

MR VOLKER: Just may be to try and explain a bit more what I think I made that comment, I just want to embroider on it a little bit more. Currently the pricing to the consumer is in the control of the issuing bank and they fund all the fees and we can choose to charge either no fee, which is the case say in Mzansi or Private bank, or you know the fees that we have mentioned quite frequently. In a direct charging model, if one our customers goes to an ATM that does not belong to ABSA, we have got very little control over that and if the pricing is standardized across all those machines, surely we could educate our customers.

But we have got no control and it could be that pricing is determined by geography or time of day or type of ATM and there could be a whole lot of factors. So it is just that uncertainty that is less in our control that we think is worth considering before making a radical move like that.

MR ZEUNER: I think let us conclude. I mean on that 85% (eighty five percent) of the customers clearly understand how the fee work, that is why they use our ATM's. There is no reason why any change cannot be communicated to them as effectively if it is in their benefit.

ADV PETERSEN: But Mr. Van Zeuner, that 85% (eighty five percent) is also achieved on the basis of the disincentive or what I have called earlier a penalty charge. I know, I do not expect you to accept that classification. Are you sure they would incur if they did not use your ATM?

MR ZEUNER: I can understand you arguing on the penalty. I would rather put it that and that is why I say I think it would be a fair comment from the panel to say, if we are then get so little from a third party aid, why do you do that? I think where we are currently is in the view of our customer, is that in terms of choice and convenience, we have it as a key objective that we literally want an ABSA ATM around every corner and I think that the convenience to a large extent drives the customer behaviour rather than what might be perceived by a punitive fee.

ADV PETERSEN: If that is so and I am not challenging that, then it would seem to me that you would not need to erect a barrier against your customers going elsewhere for that service.

MR ZEUNER: I think what is important and we made it in our initial submissions as well, the concept of free and an activity at no fee, I just do not think exists. So, there is activity to which there is costs, to which there will be a fee. Now, in which ever way you package that, and I take the point from the Chairperson and we will not have to wait for a conclusion of the panel's finding to make sure that we address carriage fee in a better way.

I think the concern by not highlighting what is the carriage fee, allows the opportunity, if you only collect that in one fee, I think you lose control of exactly how all of that is made up and as I have said, I am happy to co-operate with any third party that brings me to other insights on that and if that means revisiting the approach, I am quite happy to do that and I will take that learning from a third party.

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ADV PETERSEN: Yes but perhaps I have not made myself clear. I am not suggesting that where carriage exists in the model, that should be passed through in that form to the consumer. Carriage as I understand it, is a charge made by one bank to another. What the bank that pays the carriage recovers from its customer, is a separate matter. It is related but it is nevertheless separated. Am I right?

MR VON ZEUNER: Correct .

ADV PETERSEN: What I am trying to address is the, because what set me off, was your 85% (eight five percent) figure. What I am trying to come to grips with is the, however it is included in the ultimate charge to the cardholder, is not what I am addressing here. There is an element of that which is a disincentive to use another bank’s ATM and I am trying to understand to what extent your 85% figure is dependent upon the application of that disincentive.

MR STILLMAN: I think Bob has clearly felt that this , is not semantics. You refer to it as a penalty, as a disincentive. I think from a point of view of

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an Economist, which is what I am, our regard the possibility to offer a bill or On us fee and the Off us fee, is actually a competitive tool that actually can builds competition in the market place. It actually promotes competition for new customers. The way in which a bank like ABSA in sort of combine its large network and then try to attract customers from other banks by saying, look, we have got this great network, it is everywhere and if you come to us, you can pay this low On us fee, and so it is absolutely the case that when you look at the, unless if this has come nearly to the earlier presentations.

If you look at the Off us fees and the On us fees and you were asked, where does the bank make more money on per transaction basis, would you say it is a penalty or a disincentive. Your assumption seems to be, you make more on an on us transaction, Standard Bank made an argument to that effect earlier. But when you have done these numbers and you sort of wave things out before you book the Off us fee and you take out the carriage fee, and you look at that amount going to the issuing bank, that actually will make the other cost exactly, but the magnitude as such is quite clear to me that there are per transaction basis, the bank is actually making more on an Off us transaction than on an On us transaction. So, it is really not a kind of disincentive to say that you are trying to discourage your customers from doing transactions that in that sense actually make more to the bank with the Off us transaction to be more per transaction than the On us.

So, the way I have understand it, think about it, I think it is right for my understanding in Standard Bank, is that these low On us fees are actually a competitive tool. Which you do was you build a ...(indistinct) ATM network, you put them in all kind of places and then you build a market, well, come to ABSA because you can find them anywhere and you can get the low On us fee. So that you stifle that, you say no difference between off us and on us, you will actually reduce the incentive of prompts to compete ATM networks through to customers.

ADV PETERSEN: But Mr. Stillman, allow me just to pursue that. If we envisage a direct charging model then on the acquiring side, the ATM service provider side, the provider would not be precluded from giving a lower price

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to own customers than charging a high price to other bank's customers using that machine. Just allow me to develop it, and then ... Now, that price differentiation could itself serve to attract new account holders to that bank, because they would gain the benefit of that discount. You are defending something that is applied on the issuing side where if I am your customer, your cardholder, I am going to be paying extra every time I use another bank's ATM so that you may attract other people to your bank, not me.

MR STILLMAN: I am not sure I am tracking you.

ADV PETERSEN: I am already your customer, and you are now squeezing me.

MR STILLMAN: No, I actually want you to do an off us transaction. If you were already my customer, if I am ABSA and you are my customer, interesting point about not wanting you to go to their ATM's because you might get the ATM, the Standard marketing message and I might lose you as my customer, and that is a business consideration that I do not think is at all important, but just in a sort of narrow sense. If I am ABSA and you are my customer, I want you to do an off us transaction.

I make more on an off us transaction than I do on us transaction. Remember those calculations that you have gone through, that is why I actually to pull it out of one point in an earlier hearing, but if you look at the difference between the Off us fee and the carriage fee, and you look at that amount that is retained by the issuing bank, and you compare that to the On us fee, were there actually more direct costs in the On us environment. It is clear that the bank on a per transaction basis makes more on an off us transaction than an on us transaction that is the view I expressed it that ABSA is ...(indistinct). So that is why I always kind of sort of twitching when I here penalties and disincentives, but I think ...

ADV PETERSEN: Is that the whole business picture?

MR ZEUNER: I think what is important is, as I have tried to allude to earlier, is we believe that I mean, ATM's is a strong offering of ABSA and yes, we do draw customers with that. However, where I am not sure I am with your question, is that I mean, I believe likewise there are other products and other services of other banks whether it is a lending product or whatever, where there is more competitive characteristics to a product which is done to draw customers. ATM's for us in terms of convenience, the quantum of our network and the fact that it is better for an ABSA customer and more affordable on an ABSA ATM, is definitely a differentiating factor that we drive as part of our strategy.

ADV PETERSEN: Yes, I understand that. But if you just bear with me. In the situation where every bank is applying the differentiation on the issuing side, what I have been calling a disincentive or penalty, if we suddenly think ourselves out of that, where there is no such disincentive of penalty, you could be attracting many more other bank's cardholders to your ATM's. In principle that must be correct, surely.

MR McIVOR: Mr. Petersen, could I ask you a question. Would that be on the basis that you could make a difference on the acquiring side by the direct model. Is that what you are saying?

ADV PETERSEN: Just for purpose of isolating the variables so that we can think through the different permutations. Just for purpose of isolating the variables so that we can think through the different permutations, yes but can we start with one where there is no differentiation at all. You could still be attracting and that was the case across the board.

MR McIVOR: Because you have the freedom to set your acquiring price.

ADV PETERSEN: And also your footprint is very considerable, and so convenience may bring many customers to you. From within sensible parameters.

MR ZEUNER: Again, I mean, running the risk of saying yes where I should have said no, not understanding your question, I mean I believe it is a differentiating factor to draw customers to us if we believe that one of the benefits of ABSA is our offering in ATM's, it is a tool with which we want to draw customers.

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MR McIVOR: Yes Mr. Petersen, I am not clear where the distinction comes in between the off us and the on us. If you level those two out which effectively to me is the result of what I think you are suggesting, where is that competitive in the long run?

ADV PETERSEN: I am not sure I should be answering questions, but ... I think if I yield to Mrs. Nyasulu at the moment, I would appear cowardly in the transcript. So let me just give a short answer. Speaking for myself I am not seeking to do that. I am seeking to test whether we could not get a healthier competitive field. If that differentiation were shifted to the acquiring side, so that both of those fees, the higher one and the lower one, the one charge to the other bank's customers, being the higher one I am assuming, our own customers being the lower one, whether those would not be both become subjected downward competitive pressure. When they are charged on the issuing side, I do not see that downward competitive pressure applying.

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MR McIVOR: MR Petersen, I think that would indicate, that would be one of the reasons why we have indicated our support to investigate the direct charging model further. We are certainly not as ABSA, casting it aside and saying it is not a good idea. What we are saying is, let us have a look at all the consequences, do the research and as Mr. Van Zeuner said, if it comes out as the best option, we will go for it if it is best for our consumer.

One of the measures of that best for consumer, clearly is affordability. Our concern from the fifth side in the direct charging model is that it may not result in a lower cost. If you introduce new players, new environments, are you adding new layers into the network that adds to the cost base. We are not clear on those answers. So, I do not think we are casting aside the suggestion at all. It is something that we would very much like to have a look at.

ADV PETERSEN: I have other questions but I am going to yield now.

MS NYASULU: Thank you. I am actually sitting here and my brain is in overdrive because I am thinking if I could patent competition out of banking industry, I truly would be rich. And the point I am making about this is, this must be the only industry that I know and I am talking purely from a marketing perspective, where competition means that I could go next door and buy someone else's car and you could still make money.

In real competition is where two people are vying for the consumer's rand and therefore if the consumer chooses to go to the right, the left has lost, and that is what true competition is about. And this is the only industry where even if the consumer chose to go left, went to buy the BMW, VW still finds a way to win, and the only conclusion I can come to is that is because you can, whereas in other industries nobody owns that consumer. In the banking industry you have the benefit that the customer is yours and you are simply able to charge because you can.

MR VOLKER: There are probably other industries where there are arrangement, networking arrangement such as the cell phone companies, etcetera, but I do not want to comment too much on what they are doing. I think the fact is that getting back to the issuing bank's choice, there are many banks and ABSA also does it, that choose not to charge the consumer for a ATM cash withdrawal, whether it is On us or not On us. I think just one example is, Investec bank hasn't invested at all in ATM infrastructure.

However, to attract customers and they have got a particular profile of customers, they choose not to charge for ATM cash withdrawals, whether it is local or even overseas. That is my understanding I am not one of their customers. But I think what it does demonstrate, is that it does give a bank the choice of charging the way they want to attract more customers and I thank that is the theme that we have tried to bring across the whole time is that we have to give customers choice of how they wish to transact with the bank, and it is not just ATM's.

I think we have mentioned a cash back at point of sale which we have pioneered with retailers of which we have got thousands of point of sale, so our customers are aware of that, that if there is not an ABSA ATM conveniently close by they can go into one of these retailers and draw cash, they could go to a branch, or they can choose not even to draw cash.

There are many options of actually doing a direct purchase through a debit card or through a free cell phone transaction, etcetera. I think that is really for us where the value proposition comes in, is that full range of options that the customer has got and we feel that the current arrangement does not restrict the banks in providing those options. There is in fact a big variety of ways that we could attract customers and be competitive with the other banks.

MS NYASULU: You are still on stage.

ADV PETERSEN: Yes, well thank you. I am not sure if it is fruitful to engage further on this Mr. Volker, but I have the sense you are leaving out of consideration that this competition is going on with the very important component of interbank agreement in regard to one of the very important costs that banks incur in providing this Off us service to their customers and we are trying to address the question of whether that is really still necessary. And why we will need to have, the hope we will have thorough assistance on the legal side here and as well on these issues.

I should perhaps just mention that, when it comes to Section 41(b) first of all, it is not simply a question of the price that one is looking at, but is the question of the allocation of customers. Now, if the customer belongs, if I hold the card from your bank, then I belong to you, wherever I have used the card in the ATM environment. I am not treated as the direct customer of the ATM service provider, and if that is not necessary for the viability of the network then it may be an issue in relation to Section 41(b). Because, if I do not buy shoes with that same card, I am not being treated as your customer. I am treated as your customer for purposes of the making of the payment, but if we compare the dispensing of cash with the dispensing of shoes, it is a type of merchandise there is this fundamental distinction. I understand fully how it arose historically as an extension of over the counter teller services, convenience for customers, you have to make arrangements with other banks. But let me come to a question.

I would like to ask you whether you agree with the submission made to us by the Standard Bank and I cut it to the essence that the ATM infrastructure in

South Africa may now be sufficiently developed to eliminate the carriage fee and replace it with the model of direct charging. They go on to say, provided of course that certain concerns can be satisfactorily addressed, that that fundamental conclusion that the ATM network may now have developed sufficiently, that it is no longer necessary to have the interbank agreement called carriage, would you endorse that assessment of the point which the market has now reached?

MR ZEUNER: I would be cautious to support that and I think one of our key responsibilities still, as per the Financial Services Charter, is taking access to previously unbanked, to I think, to which you in our first submission made reference to, quite a sizeable number. I am not sure that development within the ATM network is at that level before we get to a point of making access more available than what is currently the case. So, I would be cautious to support that. I do not know whether any of our panel wants to say something.

MR JALI: But you have showed us a slide, which showed how developed the network was.

MR ZEUNER: We definitely showed the slide but I can also clearly point out and I do not think we all passed the test for instance if we look at the Northern Cape. So, there is certain areas where I do believe there is still opportunities and I think for that reason it was necessary that there is a Financial Services Charter. Eastern Cape, Northern Cape, I think, there is ample opportunity still and I think that is some of the areas where we need to address certain issues, and as I have said that is why there is a Financial Services Charter to ensure that we address those issues.

MR VOLKER: Let me just expand on that. We do not believe that maturity is necessarily the argument for moving away from carriage fee. I think it is more of a, the principle approach and we believe that the ATM environment as in any payments environment is quite dynamic and is constantly changing. For example, on ATM themselves we offer a variety of transactions, not just a pure cash withdrawal.

We offer a balance enquiry, mini statement, purchase of airtime, purchase of prepaid electricity and all of these require a multitude of arrangements between the banks because we want other bank's customers also to have access to these services and we believe that it is the most effective way to be able to come to some arrangement with their bank in terms of charging them for the privilege of that service, and beyond ATM's the saying is true.

I think if we go back to cash back at point of sale, we had discussions with the retailers that wish to offer these services as well, and we offered them the option of a direct charging model, that they could charge the customer for the privilege of doing cash back at point of sale. They were very reluctant to do that and they far rather preferred that we charge the customer for the full cost of that transaction. So, I think it is very difficult for us to jump around from a principle point of view between different transaction either on the same device, or if we move to another environment such as cash back at point of sale, then to be forced to another model which clearly, you know our partners in that environment, the retailers, are not very keen to do.

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ADV PETERSEN: I have understood Mr. Volker, what you just said related to what you said earlier, that one should have uniformity across the different payment streams rather than a fundamentally different model, but carriage in all the different cases would be differently determined. Would you envisage this idea of the process of independent evaluation applying in all those different streams?

MR VOLKER: Yes, I think fundamentally yes. It should be open to scrutiny. It does not matter which, even in a cash back at point of sale environment, I think it should be open to objective scrutiny and open to an objective evaluation of the real costs involved in that environment.

MR ZEUNER: I think that comes to our point at the first presentation where I say, if this should be a finding, a view of this panel that can assist the consumer to better understand, disclose better, have more transparency, we will surely support that.

ADV PETERSEN: And in that context, okay we have to seriously weigh up pros and cons in regard to this independently set interchange model which you are not the only ones to suggest, if you are aware. One of the things we have to consider and perhaps you could address us in due course, is what is the danger there of the banks providing information into that process regarding their costs, having a, and I am not speaking about a dishonest intention here, but a natural inclination to load upwards in that process.

We have heard how difficult it is to allocate costs. Direct competition has the advantage that provided it is robust and that it takes care of the relationship between cost and price. In the interchange model is the natural incentive not upwards?

MR ZEUNER: I think just on the comment of cost, I think it is also a point that we made in our first presentation of rather having an approach for value for money, value for service, as rather than a cost price approach. Your comment on cost allocation loading of cost, and so forth, I think obviously is something that I am quite happy that we do at an appropriate time to sit down with you and deal with some of that cost allocations and the approach that we follow. I mean, it is something that we scrutinise quite often, but I am sure

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that we can within the confidentiality of the discussion, we can make available some of that information in discussion.

MR McIVOR: May I also say, Mr. Petersen, just in that context or in the context of the determination of the review of those fees. I think in large we talk of the methodology of those fees. If you take in all costs from multiple players and adding all of them together and aggregating the bunch, then the cost driver may be upwards. If, however, you take a situation where you have ten players, all of them have different cost bases and different level of efficiency, and you take the most efficient player, therefore the lowest cost player out of that bunch and if you set that as a benchmark then I think your equation becomes very different. So I think the direct answer to your question is, there are ways around, a concern of a natural tendency of upward pressure in …

MR VOLKER: I think just a quick comment. Obviously in terms of a honesty, it would probably be essential to have an independent auditor vetting the figures that are submitted. But I think in terms of real

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experience, are view is that over time, if a review is done on a regular basis, the costs would come down because of the volumes and the great efficiencies that participating banks would strive for.

I think there is a natural dynamic that if an interchange is set at a certain level, that you want to actually be more efficient than that default rate, because it makes you more competitive and more profitable, and the next time round, be it two or three year’s time, that natural efficiency would then translate into a lower rate, you know, and so it carries on. And I think experience is more as in the credit and debit card environment, that is in fact what is taken place and internationally where these kind of studies have been performed, it has always been a downward trend.

ADV PETERSEN: Would you accept in this context the idea of some regulatory oversight of that process which came up for example in the Standard Bank submission, but not exclusively from Standard Bank.

MR ZEUNER: Again, as I said, I mean, I am quite comfortable with that and if that means that more is disclosed and transparent to the consumer, we will

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support the process, whatever would put integrity to the process and comfort to the consumer, we will support.

ADV PETERSEN: Finally, would I not have to conclude that one of the things that goes with that approach is that the disincentive pricing would continue to reside on the issuing side because the customer would continue to belong to the issuer and that I would have to contrast that in my mind with the possibility of incentive pricing, a positive competitive differential pricing on the acquiring side that would go with the direct charging model.

MR STILLMAN: Well, I think that the direct charging model …(indistinct), close the case, that depending on the structure of the fees on the issuer's side, that you are going to still find an incentive for consumers to use the network of their bank, because of the lower On us fees.

Than when they would use the ATM of another bank so they would be getting that kind of incentive and likewise we discussed in the existing system, that will be an incentive as well for customers to use the ATM's of their own banks. I think it's true on both systems is that the incentive of a bank to roll out new ATM’s will be preserved because there will be a continuing difference between the on us costs and the total costs of an off us transaction. I think the change is perhaps, when you think about the level of the carriage fee versus the direct charge, but fundamentally it’s just basically rather than having the acquiring charge built into the off us fee, it would be out separately.

MR NORTON: Mr. Petersen, I think one point which is of interest in this regard, I think the panel is aware and I think it was raised in the Nedbank presentation I think, that this type of consideration has taken place in Australia for a number of years and the Reserve Bank of Australia has published a very helpful media release which the panel may have in its possession, I am not sure what was, we would be very happy to provide it, where they indicated the direct charging model and the context of ATM’s has been considered since 2001 in Australia.

But for a number of reasons, I think the industry has moved away from that proposal and the current proposal as I understand it, that is on the table in

Australia, is the retention of bilaterally negotiated interchange fees but with oversight by the Reserve Bank in Australia to ensure that those fees are at the appropriate level. That seems to us to be the position in Australia after sort of lengthy and careful consideration of the very similar issues that you are looking at today, and it might be helpful for the panel maybe to have regard to the Australian experience because it may have some bearing on your deliberations.

ADV PETERSEN: Thank you Mr. Norton. An all comparative experience is useful, but as I understand ABSA's position you are not arguing for bilateral settings, is that right?

MR VOLKER: I think we still think that the multilateral independently determined one is the most efficient, but I think we should have the option of being able to do bilaterals for particular circumstances. So the multilateral one should be a default rate with the option of setting bilaterals if we so of wish. It generally would be lower.

MR JALI: In your original submission, the one you file in October, you argue against bilateral negotiations, indicating that amongst others, one of the downsides is that it is a barrier to your entrance into the market. Now, what would be your submission now?

MR VOLKER: Now, I think it will be exactly the same. I think that is, we just think it is good to be able to have options if you want to do that, but I think by large we probably would not make use of that option. We still think that by far, the multilateral independent way would be the best way.

MR JALI: But you have argued against it, that is why I am raising the point, this is about competition. So if you prevail anything and say this is a barrier to entrance, you immediately say to Competition Authorities, do not even look at it.

MR VOLKER: I think generally, if there is a bilateral I would argue that it would be for the benefit of the particular group of customers. So, for example if you wanted to access, if you want our network to be accessed by a particular bank's customers at a lower rate than the default rate, then we should be free to do so. Not that we would do it, but I think just that option should be available too.

MR JALI: Which brings me to the next point. I just want to double check that it is still your position. I think I understood you well, you said you had no problems with non-banks becoming acquirers.

MR VAN ZEUNER: I think, yes that is our position as we have said and we said it in our initial submission as well. I think that of the standard that should be applied is where we allow any operator access to cash and a bank account of our customers, I think there is a certain standard that the Reserve Bank should insure, is complied with. So, we do not have a problem with that as long as whatever the decision is, make sure that we keep the stability and the integrity of our payment system intact.

MS NYASULU: Just with reference to the comment you made about Brazil and the fact that consumers are not allowed to use another bank's ATM and you saw that as wasteful, would you say it is in the best long-term interest of your customers for you to have an ATM everywhere where your competitors have an ATM?

MR VAN ZEUNER: I think if the placement of ATM's give customer choice and create a competitive environment I am happy if that is the case and that is why I was cautious about the approach of Standard Bank to say that we have reached a level of almost no further development on the ATM. I do not think that necessarily is true and I think that is where there will again be room for innovation to make sure that we put something on the ground that is affordable, that still offers a return, that still address the needs of the customer.

MR JALI: That brigs us to end of the ATM hearings and thank you very much for coming Mr. van Zeuner and the rest of the team. We will meet again because we do have other hearings.

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