



Competition Commission Enquiry into Banking



Payment Card and Interchange hearing



19 April 2007



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Nedbank's perspective on Payment Card and Interchange

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1. The result of interoperability in the SA card payment system – 2006 statistics

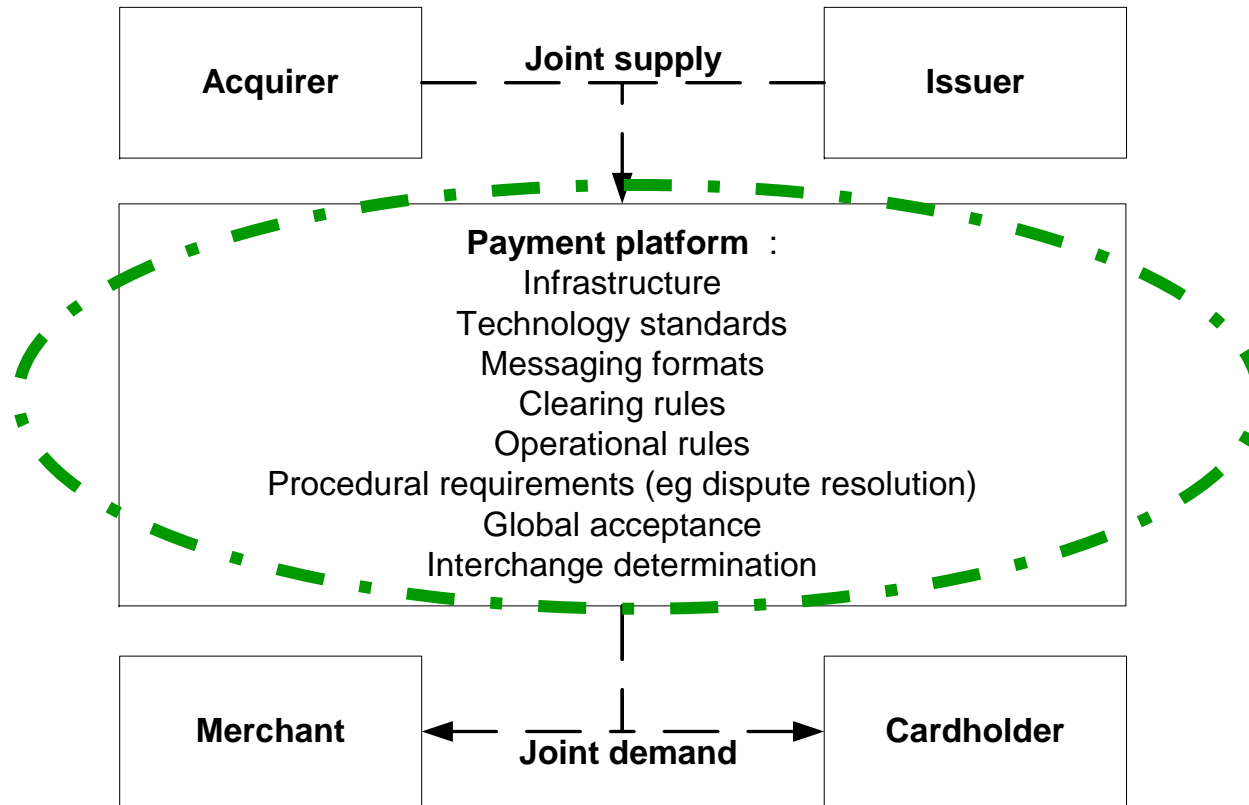
- 88.5 million debit card transactions
- 302.2 million credit card transactions
- 24 million debit cards
- 7.2 million credit cards
- Accepted at 129 000 merchants
- 5 acquiring banks
- 11 issuing banks

SA payment card system is vibrant and growing.

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2. Interoperability requires cooperation



Interoperability requires a payment platform. The benefits and costs of the platform must be balanced to maximise participation. Interchange is this balancing mechanism.

3. The role of the issuer and acquirer in the payment platform



Issuer	Acquirer
<ul style="list-style-type: none"> – Provision of credit and debit cards – Marketing and product innovation investment – Development on underlying account system – Provision of credit line – Underwriting 55-days interest free credit period – Dispute and chargeback services – Account opening services – Maintenance of underlying account – Payment functionality – Rewards and discounts – Insurances – Concierge services – Customer Contact Centre – Statements – Internet access. 	<ul style="list-style-type: none"> – Payment clearing and settlement services for all cards accepted – POS devices and merchant training – Call Centre support – Authorisation services (24 x 7 x 365) – Key account management – Statement and reconciliation services – Specialised acquiring, cell phone, internet – Value-added products, eg airtime top-up, cash back – Fraud prevention and monitoring systems to minimise losses – Standard and customised reporting and MIS.

4. Nedbank as issuer and acquirer



- Nedbank operates in SA as both an issuing bank and an acquiring bank
- Nedbank is a relatively small issuing bank due to historical under-investment in its retail presence
- Nedbank is a relatively large acquiring bank largely due to the 2002 Nedbank-BoE merger
- This relative positioning results in Nedbank being a nett payer of interchange.

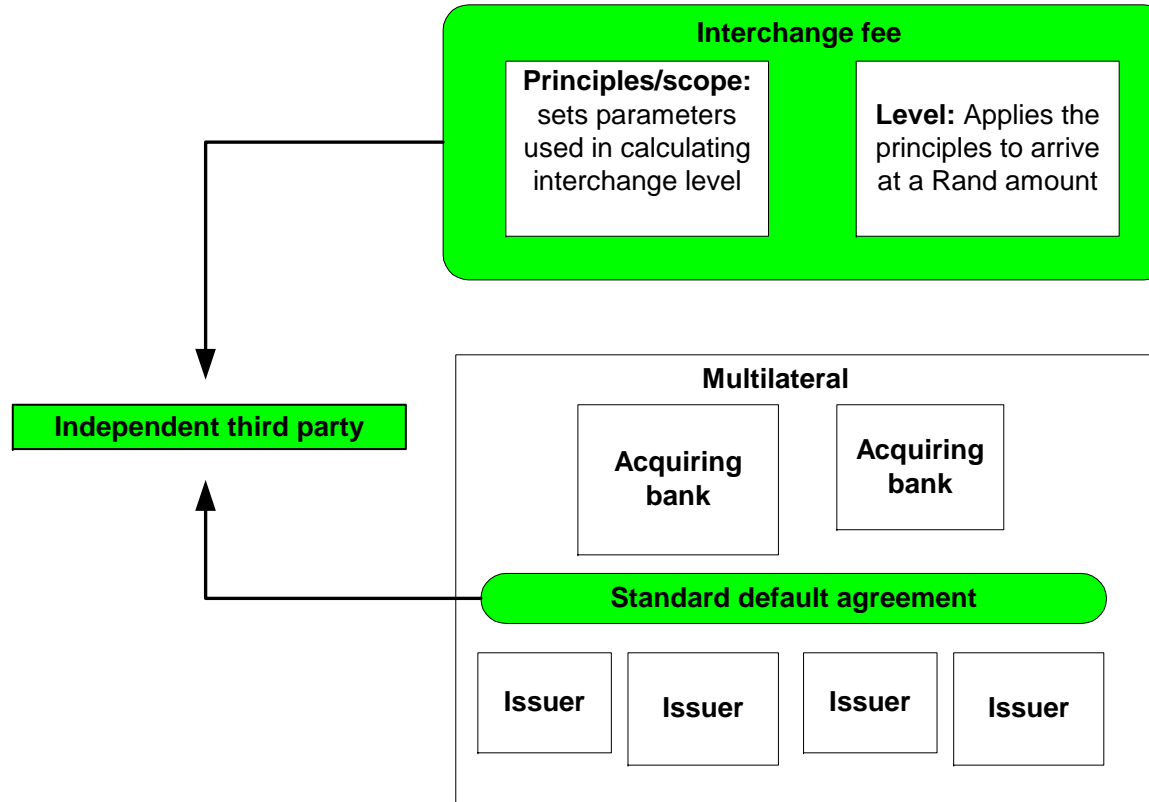
5. The relative demand of the cardholder and the merchant within the payment platform



Party	Factors impacting willingness to participate in the platform
Cardholder	<ul style="list-style-type: none">– Access to multiple substitutes to effect payment– Access to multiple retailers to make purchase– Benefits from using a specific payment mechanism.
Merchant	<ul style="list-style-type: none">– Requirement to encourage spending by individuals in store. (acceptance of most payment mechanisms).

The cardholder can choose where to bank, shop and how to pay. The merchant must facilitate ease of payment to ensure the sale.

6. Determining the appropriate level of interchange



The third party should be an objective and independent entity which has the requisite payment expertise and the sustainability and efficiency of the payment system at heart.

6. Determining the appropriate level of interchange



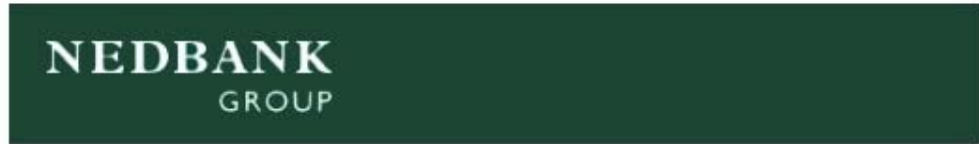
- To effectively balance demand, interchange setting must consider:
 - Relative value placed by cardholder and merchant on payment method
 - Substitute products and their benefits and costs
 - Total cost of providing platform
 - Regulatory requirements that may enforce demand
 - Relative market power of both sets of customers.
- In conducting a cost study Nedbank supports an approach based on the weighted average cost across participants.



Thank-you



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