



**Competition
Commission
Enquiry into
Banking**



ATM Hearing



April 2007



MAKE THINGS HAPPEN

NEDBANK
GROUP

A Member of the  OLD MUTUAL Group

Response to questions on ATM transactions

Background

1. Services enabling access to cash in cardholder's account
2. Critical success factors for cash service
3. Offering a shared ATM network
4. Dynamics of enabling access to cash

Enquiry's Topics

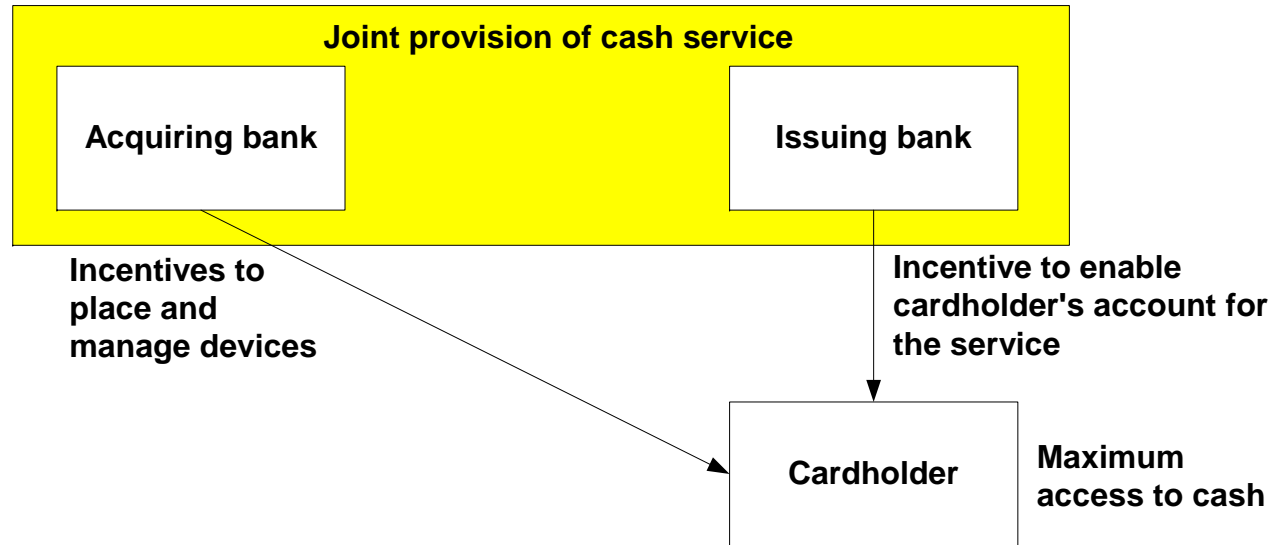
1. The current ATM model
2. Direct charging without a carriage fee
3. Existing model without convenience (*interbank/SASWITCH*) fee
4. The Independent Interchange Model
5. Assessment

Services enabling access to cash in cardholder's account

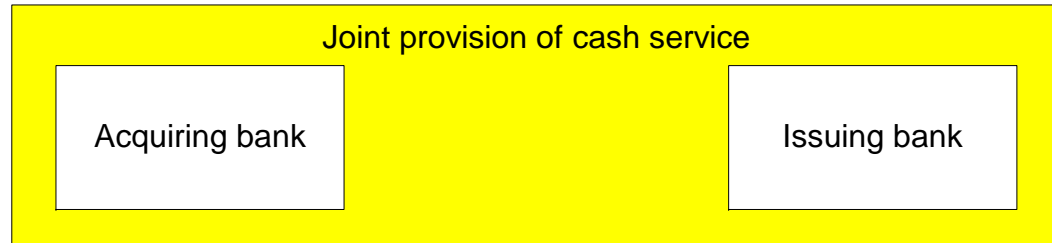
Bank owned ATM device	3 rd party ATM	Cash back at POS	Mini-ATM/NAD	Branch
Cash withdrawal from a device owned and distributed by a bank.	Cash withdrawal from a 3 rd party owned ATM device sponsored by a bank.	Ability to request cash from a cashier through a POS transaction. This can occur in conjunction with a purchase or separately as a stand alone transaction.	A stand alone device. Cardholder presents the slip to cashier who disburses cash.	A cardholder goes into branch of their own bank and requests a cash withdrawal from teller.

These services compete with alternatives to cash, eg debit card, credit card, cheques and internet/cell phone payments.

Critical success factors for cash service

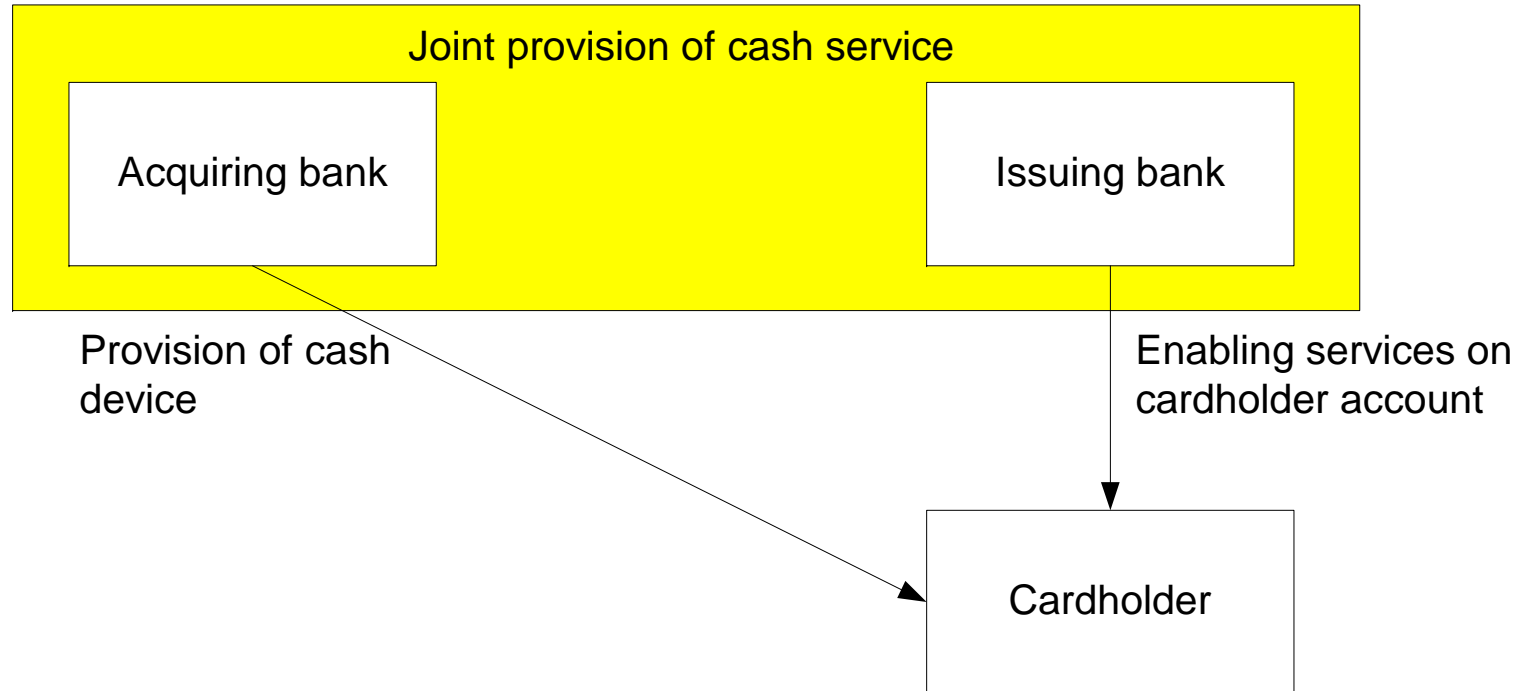


Offering a shared ATM network



- A shared network requires:
 - Shared technology platform within the switch (SASWITCH/Bankserv)
 - Mutual rules to govern the transaction process
 - Definition and administration of query resolution processes between the issuing and the acquiring bank
 - Specific technology and industry compliance
 - Commitment of resources to the administration and maintenance of these rules and query resolution processes with other participants in the shared network
 - Economic incentive for both parties to participate.

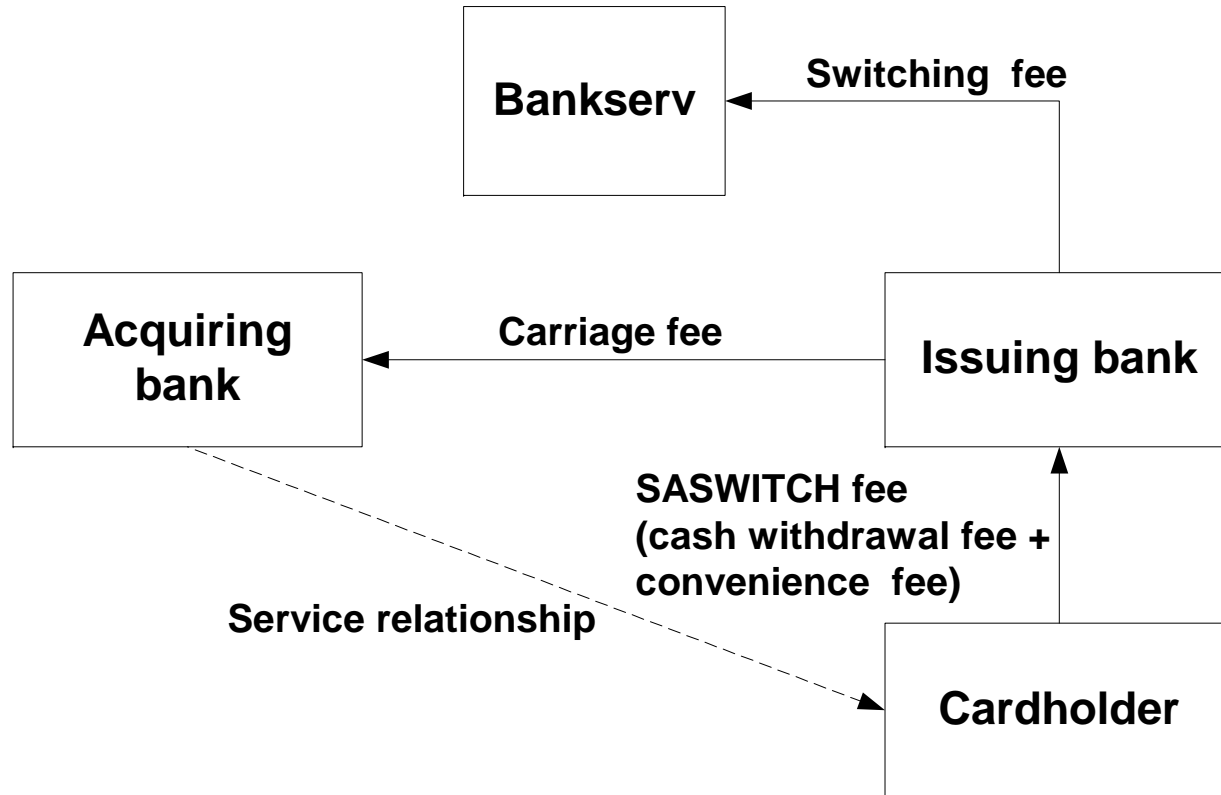
Dynamics of enabling access to cash



Dynamics of enabling access to cash

- The acquiring bank cannot offer a cash withdrawal service to the other banks' cardholder without the issuing bank offering the service to its client
- The required distribution of ATM devices to service cardholders is too large and costly for any one bank to deliver it to the market in their own capacity
- The acquiring bank and the issuing bank provide a mutual platform facilitated through the shared ATM network which the cardholder can use to make a cash withdrawal
- The cardholder is thus simultaneously serviced by and receiving a benefit from the acquiring bank and the issuing bank
- Both the issuing and acquiring banks require economic incentive to offer the service.

1. The current ATM model (off-us)



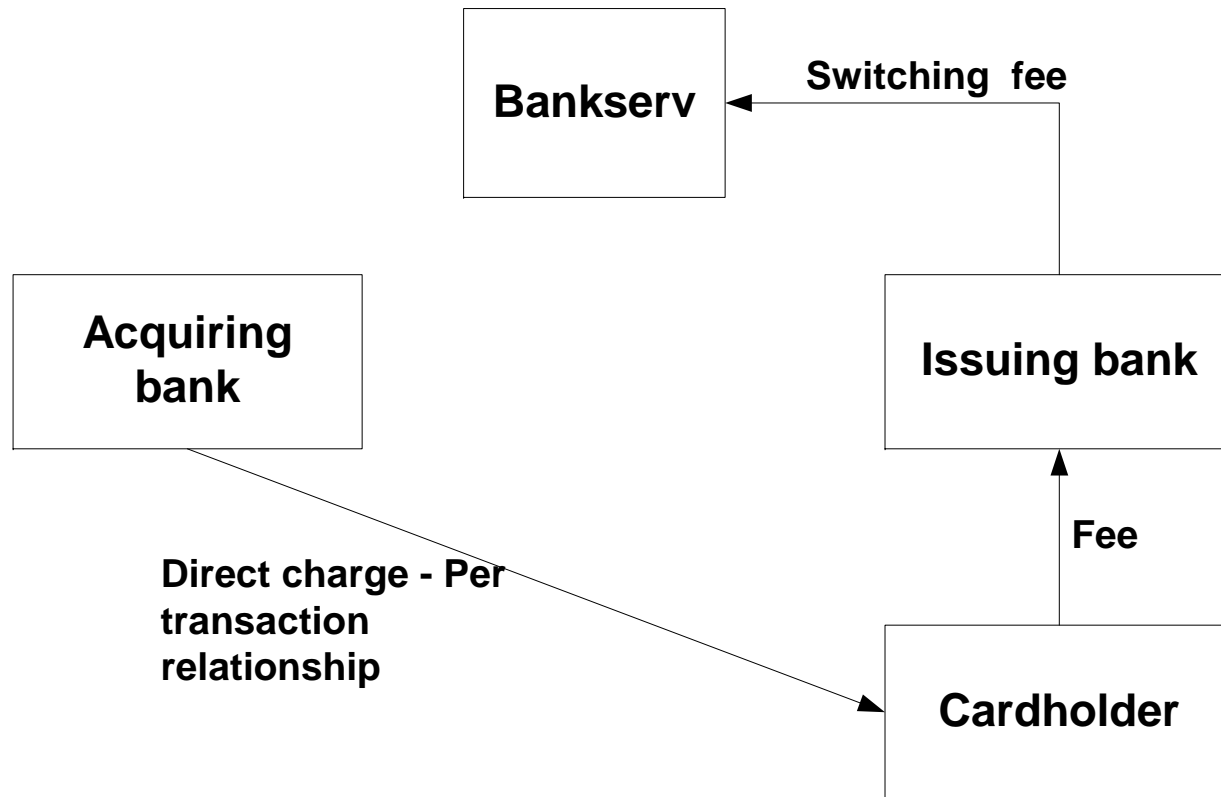
1. The current ATM model (off-us)

Fee	Rationale
SASWITCH fee	<ul style="list-style-type: none"> – Convenience of provision of additional service to withdraw cash at any SASWITCH linked ATM – High fixed costs of full service banking offering – Cost of providing an integrated shared network – Maintenance of underlying account – Support of innovation on the shared network – Issuer product innovation – Resolution of fraud claims – Cost of cash in form of carriage fee.
Switch fee	<ul style="list-style-type: none"> – Switching infrastructure.
Carriage fee	<ul style="list-style-type: none"> – Provision and maintenance of ATM device – ATM availability (uptime and cash on hand) – Security and other cash handling costs.

1. The current ATM model (off-us) – assessment

Pros	Cons
<ul style="list-style-type: none"> – Acquiring banks are incentivised to place ATM devices – Issuing banks are incentivised to enable necessary services on the underlying account – Level playing field accommodates smaller players and new entrants – Accommodates entry of 3rd party ATM providers – Uniform national pricing for all off-us transactions – Supports the attainment of FSC objectives for the Mzansi account – Current innovation spend directed to competitive innovation. 	<ul style="list-style-type: none"> – Possible regulatory concerns on the manner in which the carriage fee is set – Possible discrimination by banks with large ATM footprint to increase the cost of accessing the shared network to smaller banks through bilateral negotiations – Possible shielding of carriage fee from competitive forces.

2. Direct charging without a carriage fee



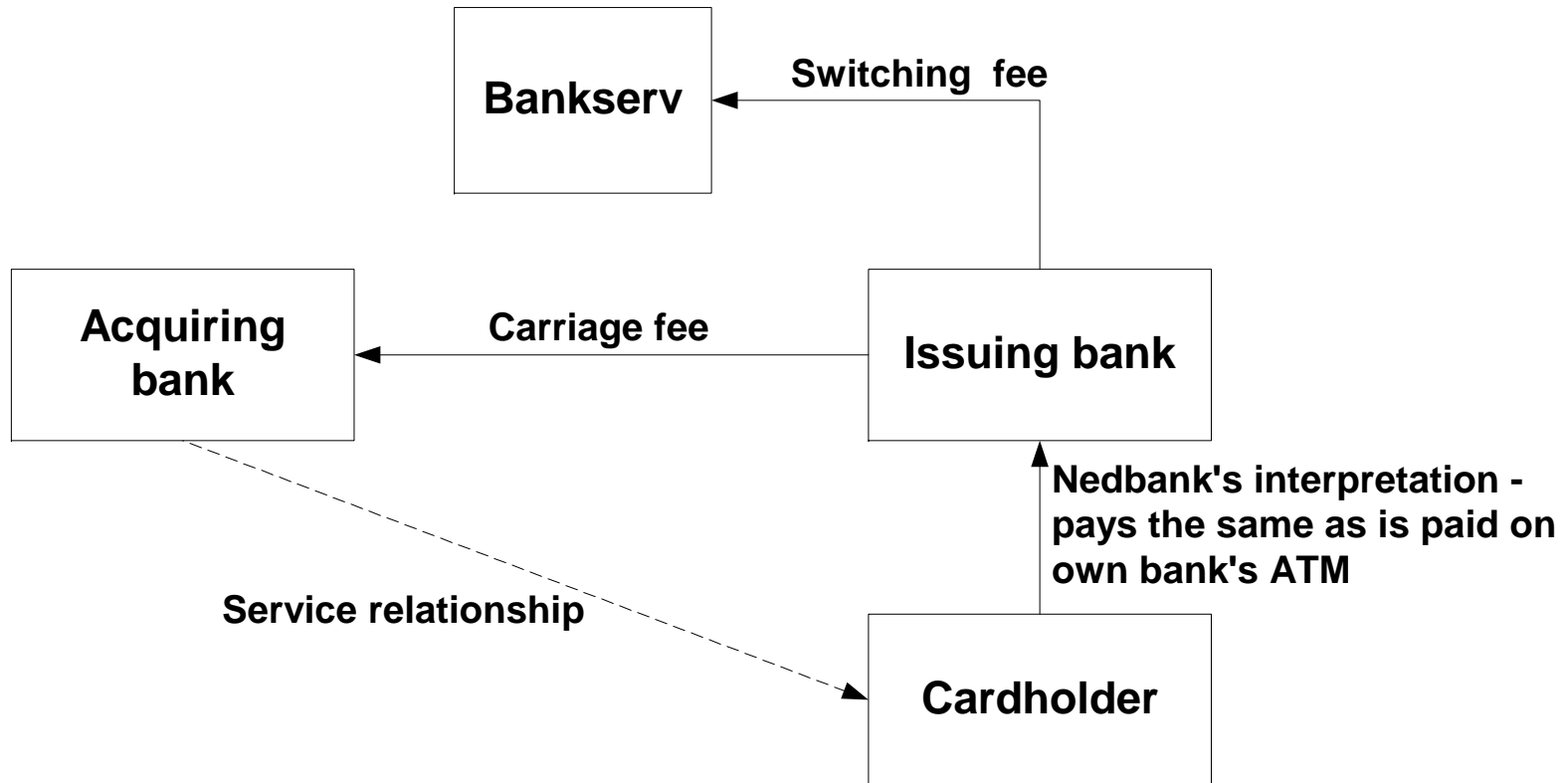
2. Direct charging without a carriage fee - assessment

Pros	Cons
<ul style="list-style-type: none"> – Acquiring banks are incentivised to place ATM devices. – Issuing banks are incentivised to enable necessary services on the underlying account. – Accommodates entry of 3rd party ATM providers. – No need for agreement on the carriage fee. 	<ul style="list-style-type: none"> – Significant costs of change for the industry and within each bank – Potential anti-competitive outcome through creation of natural monopolies in areas of low supply of ATM devices – Possible anti-competitive outcome for new banks in gaining access to the shared network and to small banks in using the shared network due to relative power of large ATM device owners – Possible negative impact on ability of smaller banks to acquire new clients – Potentially no consumer benefit – Potential for multiple off-us fees between acquiring banks and across geographies – Maintenance of current arrangements for Mzansi accounts would require agreement between banks – Current innovation spend diverted to adoption of new model.

2. Australian experience with direct charging

- Issue first considered in 2001
- Direct charge model was initially suggested as the most appropriate alternative
- Australian Consumer Association highlighted concerns with this model
- Payment System Board Annual Report 2006 recommends that industry focus on:
 - Liberalising access arrangements in the ATM system
 - Exploring common interchange arrangement. Important that bilateral process not used to adversely affect access or competition
 - No restrictions on direct charge subject to agreement between participants.
- Payment System Board update March 2007 considers:
 - Retention of bilaterally negotiated interchange fees
 - If pursue direct charging, negotiate with interchange partners.

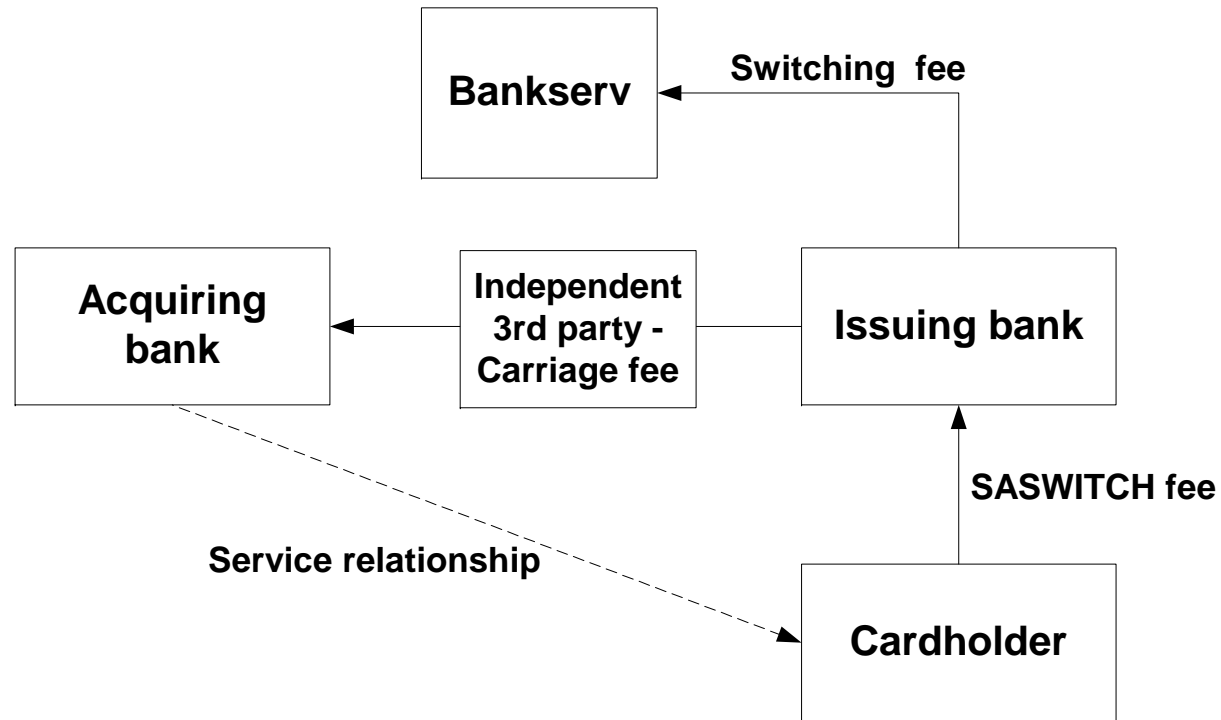
3. Existing model without convenience (*interbank /SASWITCH*) fee



3. Existing model without convenience (*interbank /SASWITCH*) fee - assessment

Pros	Cons
<ul style="list-style-type: none"> – Acquiring banks are incentivised to place ATM devices – Issuing banks are incentivised to enable necessary services on the underlying account – Accommodates entry of 3rd party ATM providers – Level playing field accommodates smaller players and new entrants – Accommodates entry of 3rd party ATM providers – Supports the attainment of FSC objectives on the Mzansi account. 	<ul style="list-style-type: none"> – Possible regulatory concerns on the manner in which the carriage fee is set. – Potential shielding of carriage fee from competitive forces. – Agreement required by banks to charge a consistent fee across on-us and on-them transactions – Or alternatively, to be effective over time, oversight on pricing may be required – Less transparency on cost recovery.

4. The Independent Interchange Model (off-us)



4. The Independent Interchange Model - assessment

Pros	Cons
<ul style="list-style-type: none"> – Objective, independent and regular assessment of carriage fee – reduced regulatory concerns – Lower risk of unintended consequences – No/low cost of implementation – Speed of implementation – Acquiring banks are incentivised to place ATM devices – Issuing banks are incentivised to enable necessary services on the underlying account – Level playing field accommodates smaller players and new entrants – Accommodates entry of 3rd party ATM providers – Uniform national pricing for all off-us transactions – Supports the attainment of FSC objectives for the Mzansi account – Current innovation spend directed to competitive innovation. 	<ul style="list-style-type: none"> – Possible regulatory concerns (less so than current model)

Assessment

All options have pros and cons

Investment of substantial resources to achieve potentially risky outcome.

Unintended consequences may not support desired outcomes.

Necessary outcomes of alternatives

Retention of interoperability.

Confirmed pro-competitive and efficient outcomes.

Client benefits are realised.

Outcomes and benefits are sustainable.



Thank-you

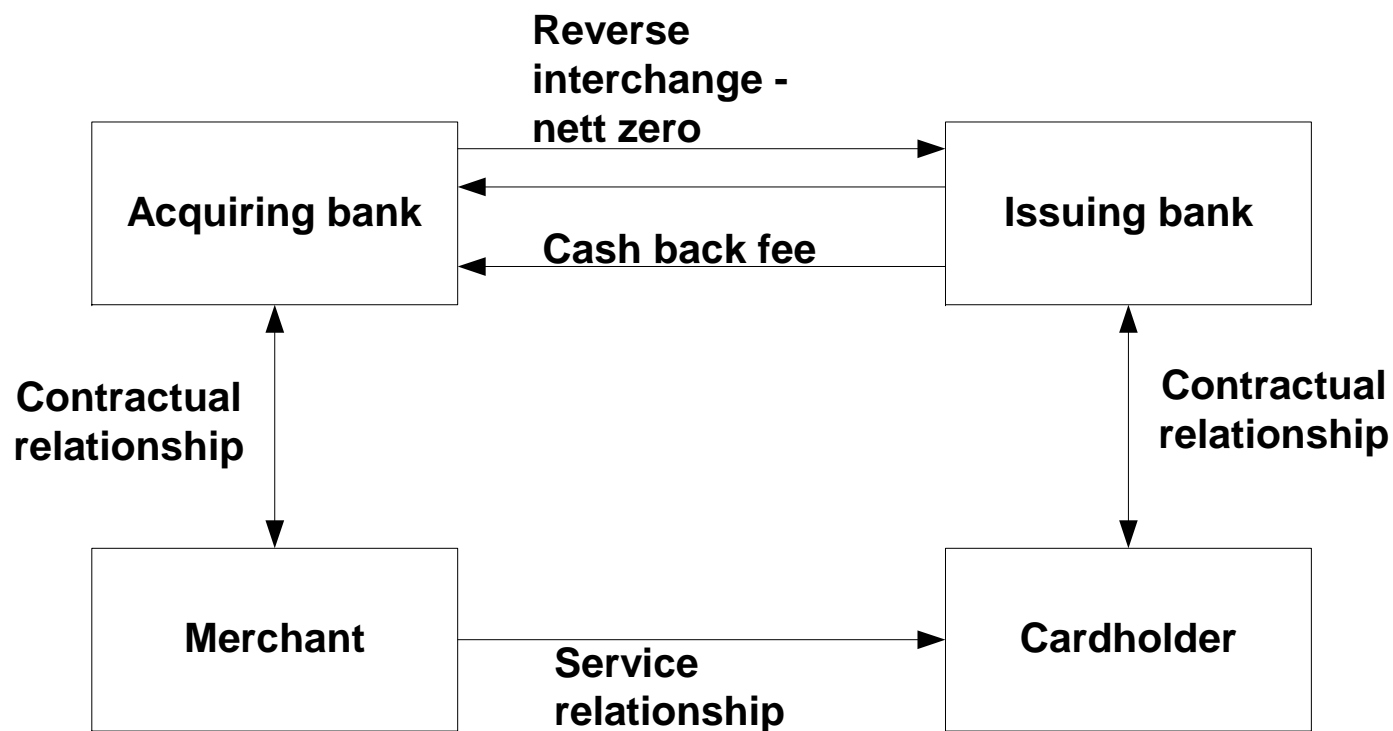


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Appendix 1 - Cashback at POS



Appendix 2 - Current innovation – the Nedbank Transactor account the Mr Mahlangu example

Bank charge	Quantity	Original Fee	Value	Nedbank	Bank A	Bank B	Bank C
Monthly maintenance Fee	1	R 6.50		R 5.75	R 6.50	R 7.50	R 5.90
ATM withdrawal							
Own bank	2	R 9.80	R 200	R 8.90	R 9.80	R 10.00	R 9.40
Saswitch	2	R 23.20	R 200	R 18.50	R 23.20	R 21.50	R 21.60
Cashback + purchase	2	R 8.10	R 100	R 13.00	R 8.10	R 13.50	R 11.60
Saswitch ATM balance	1	R 3.50		R 3.50	R 3.50	R 3.00	R 3.35
Banks own cheque	1	R 44.00		R 19.00	R 44.00	R 38.00	R 38.00
OTC transfer	1	R 27.50		R 23.00	R 27.50	R 15.00	R 14.00
Debit order (external)	2	R 9.80		R 7.50	R 9.80	R 12.00	R 9.50
Total		R 132.40		R 99.15	R 132.40	R 120.50	R 113.35

Source: Various banks websites (Nov 2006)

Nedbanks commitment to affordable banking - pricing on average 20% less