

Itumeleng Lesofe

From: André Conradie [ancon@absamail.co.za]
Sent: Monday, April 24, 2006 2:12 PM
To: Banking Enquiry
Subject: N.P.S. / COMPETITION IN THE BANKING SYSTEM / BANK CHARGES

I am an Ex-Bank Employee with 34 years of experience in the field - > 21 years in a senior managerial capacity.

BANKS DERIVE THEIR INCOME FROM TWO MAIN SOURCES: I.e.

1. "Interest" : - **Money Lending Business.**
2. "Non- interest." : - **Banking Charges / Service Fees, Commission etc.**

Historically the **primary** income (**> 80%**) of **Banks**, came from **Money Lending Business**. However, over the past 20 years, there was a major **shift** in **emphasis** from the traditional main source of Income, namely **Interest**, to the **Non-Interest** side.

This was primarily due to the following:

- a. Fierce **competition** in the market as far as **interest rates** are concerned.
- b. **Fluctuating interest rates**, caused shrinkage in marginal income derived from interest.
- c. **Risk factor** of Interest Income vs.. a more stable Non- Interest type of income

Prior to the large scale mechanization / computerization in the banking industry, everything had to be done by hand, which was both **time consuming** as well as **very expensive**.

As **Computerization / Mechanization** developed - "**Non-Interest**" income became ever more popular for the following reasons:

1. The main constraints of expanding the "**Non Interest Income**", namely the **operating cost / time** was now extremely lessened by computerization and the banking business exploited this to its full extent.
2. **Non-interest income** as compared to **Interest income** , is a much more stable source as well as less risky in comparison with interest, especially when interest rates fluctuates.

HOWEVER:

(I)Despite the fact that computerization caused a **major cost saving** on the earning of Non - Interest Income and thus a better profit, the Banks across the board steadily **increased** their fees to such an extent that it is virtually unaffordable to the public at large.

(ii)Small entrepreneurs in the **secondary money lending market**, such as Micro Lenders etc., are **virtually prized** out of the market with the ridiculously high rates which the major banks are charging, mainly because they are seen as a threat to the corporate banking establishments.

(iii)Although the previous **anti- competition** structures were formally abolished - **Informally**, Banks still have fee structuring agreements !

In comparisson to international standards - cost of banking in South Africa is extremely expensive.

(iv) **No cost saving** on new technology was **ever given back to the consumer** - on the contrary - the the tariffs and rates rather increased !

(v.) The **Micro Lending Industry** has very **great disadvantage** against Corporate Banking,

because the deal with the lower income sector in a sector where the **risks are far greater** and there **security of** the loans virtually **non-existing**.

André Conradie

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