

## Itumeleng Lesofe

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**From:** A G Rogers [agrogers@iafrica.com]  
**Sent:** Sunday, April 30, 2006 10:53 AM  
**To:** Banking Enquiry  
**Subject:** Bank Charges

### Banking Charges - submission of opinion

My understanding is that you seek input to evaluate whether the banks charges are justifiable. I am of the of the opinion that the current bank charges are not logical, neither are they justifiable. For ease of explanation the procedures, as I understand them, have been highlighted. I have not commented upon each and every charge.

1. Banks derive revenue from the differential cost of sourcing funds and the employment thereof. Currently no interest is paid on amounts held by customers below a fairly high creditor balance. A considerable pool of 'free funds' are therefore at the Banks disposal. These balances when aggregated amount to a significant amount and enable the banks to save on the cost of borrowing from the Central Bank to 'square' their books at the close of business each day. In other words Banks are already generously rewarded without the recourse of high charges for other functions that they perform.

Proposal: - If banks in other countries, where banking is competition is allowed such as Hong Kong or Singapore, can pay interest on far lower credit balances why can't our banks be encouraged to do so. It would have the effect of encouraging saving amongst their customers and make banks review their back office procedures because they wouldn't have the cushion of a wide differential between sourcing and deploying funds.

2. Work undertaken outside of the borrowing and lending function obviously has a cost, and this cost alone should be covered by the charge levied. The charge should not be a means of a generating a cross subsidy for some other loss generating activity. Some may argue that higher charges are caused by higher 'Staff costs', given they are a major competent in any sub-division of a Bank's operating costs. This may be true but the remedy lies with the banks. Staff are a reflection of the selection criteria employed, training received and management guidance. In other words the Banks have only themselves to blame if the persons they employ cannot do the task for which they are employed.

Levying charges higher than can be explained is not a solution for the banks to protect themselves from expensive mistakes when procedures not being followed.

Perhaps highlighting the amount spent on 'Staff Training' as a percentage of 'Salaries and wages' or 'Bonus' payments may have a salutary effect when annual results are published.

3. Lending is a significant source of revenue for banks. The interest rate charged when lending comprises effectively two components

- (i) lending rate for a secured minimal risk loan (prime rate) and
- (ii) a further margin to cover the risk of default for that type of lending.

Sophisticated banks, have empirical data that influences the additional further margin (risk of default) that is added to the prime lending rate to arrive at an overall rate that the borrower pays.

It is for discussion that banks locally apply this degree of sophistication to their lending portfolio. If they don't, they need a greater supply of revenue (bank charges) to cover the shortfalls that occur due to unsophisticated lending.

Proposal: - As long as banks believe they will be bailed out if they err the longer it will take for them to adopt and specialise into those sectors where they have understanding of the risks involved. They can't

be all things to all people. If national directives dictate certain sectors should be supported then Government should underwrite the losses incurred, provided prudent procedures can be shown to have been followed.

3. One would expect bank charges to vary from one bank to another due to each having different levels of technical sophistication and administrative procedures - they don't in reality. Banks should not try to be all things to all people, it results in losses and that leads to higher charges to recoup the loss incurred. With competition would come specialisation on a particular niches. At present this competition is not evident and the charges are difficult to comprehend.

Proposal: - Fewer charges that each member of staff can with ease explain rather than state 'that's the rule' as a means of explanation may help allay the suspicion that Bank Charges are high.

4. In ability to justify a charge leads to suspicion that one is being overcharged. For instance 'ad valourem' charges. In other words a scale of charge that varies with the face value of the entry. To date I have not found a bank employee who either understands 'ad valourem' or once explained can justify the charge. There is not more care or diligence exercised because an entry is for R2000 than there is for one of R200, so why the different level of charge. The charge should be to cover the administrative overhead and should be the same irrespective of the value of the transaction.

Proposal: - Abolish 'ad valourem' charges and in their place charge for the work involved (flat rate).

5. Cash handling charges as currently applied are indefensible. By all means have a charge for amounts of specie that exceed specified levels as the counting and storing of such low value coin can be onerous, but remove the charge for the handling of notes. If the charges are in part due to losses caused by theft and robbery they shouldn't be paid for by those who are encouraged to have banking accounts.

6. ATM's where introduced by the banks to save the cost of fixed premises, transmission of paper from branches to the central administrative centre and enable payments to be made quicker and without the use of note and specie. Customers have been encouraged to use this facility - how then is the charge for usage justified?

7. The differential between buying and selling rates for Forex are wide. Insist on the publication of the buying and selling rates applied at a specific time by all the foreign currency license holders, as this might encourage some competition when comparisons are made by the public.

8. Why do the banks pretend to offer 'customer service' by delaying the crediting of a customer's account with inward forex until they have contacted the customer to ascertain when they want the funds applied? Could it be that the banks use 'Customer service' as a ploy so that they have use of the free funds for a longer period so as to lower their cost of operation?

Proposal: - provide customer education via pamphlets. Insist any delay beyond the value date caused by the Bank requires interest to be paid to the customer at the prevailing Central Bank repo rate

In conclusion I object to paying charges that are neither transparent nor explainable by the bank employees. To state 'It's the rules' or 'That is what we have to charge as per this chart' do very little to quieten the unease that Banks are in need of strong competition and a lot more freedom as to which sectors they engage with. If the authorities allow more reputable banks to operate within the country standards of service can only rise and charges become more competitive.