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CHAIRPERSON: Good morning ladies and gentleman today will be another hearing on pricing behaviour & market power we will have the ABSA team once again good morning Mr. Von Zeuner and your team...

MR. VON ZEUNER: Good morning Chair and members of the panel.

*Recording equipment malfunctioned while Mr Von Zeuner was introducing his team.*

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The ABSA team comprised of Mr Von Zeuner, Venete Klein, Walter Volker, Keith McIvor, Bob Stillman, Anthony Norton, Alfie Naidoo.

MR. VON ZEUNER: ABSA has from the outset approached this Enquiry with a view to improving banking for all stakeholders. While much has been done to improve transparency and comparability and educate customers we believe that more can always be done. Absa has heard some of the concerns of the Panel and regarding the difficulty in comparing banking products and we have some positive recommendations.

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**Pretoria**  
**17 July 2007**

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*PRICING BEHAVIOUR & MARKET POWER*

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Absa believes that the principles of transparency and comparability should be enshrined in the industry code of conduct by the establishment of a customer charter and bill of rights which clearly outlines a customer's right to information, the manner and language in which this information is to be presented and the level of detail provided. The charter will clearly spell out customer's rights and banks responsibilities.

As part of this charter, we propose to introduce a switching code. On that matter  
10 banking codes in other jurisdictions often impose obligations on bank to facilitate switching.

These banking codes are normally market led reforms and are enforced by an independent party such as an Ombudsman with the oversight of an appropriate regulator. Under these codes banks are typically required to provide information on standing orders and direct debits to the new provider within a fixed period. We propose to create a central FICA repository. A central FICA repository would avoid  
20 the duplication of customers having to comply with FICA requirements on every occasion that they change banks as the FICA compliance requirements are quite cumbersome.

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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Absa is in favour of a centralised repository to be run by an independent regulatory body such as the ombudsman which would ensure that customer information is kept confidential, and which would have the responsibility of updating customer information. Absa has embarked on enhancing the rights of our customers and I will now ask Venete Klein to talk about some of the work we are already doing on consumer rights.

10 MS KLEIN: Yes Chair thank you. We obviously put a lot of emphasis on consumer protection and empowerment and to this end we spent a lot of time albeit we know that the Consumer Protection Bill is still out there and it is not been promulgated. We have not only just studied the Bill to see what it is that we should be going onto platforms and educating the South African community on, we have also studied what the international consumer rights actually says and we just pulled out a few things. I mean there we talk about the right to be informed, to be heard, to choose, consumer education obviously is a right, right to readdress, safety, to be informed and a healthy  
20 environment. So we have considered what is happening internationally, we compared it what in the Consumer Protection Bill and we are leaving no stone unturned to get onto platforms and making sure that our consumers out there

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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understand their rights whilst not yet promulgated. Huge focus on equal access to the consumer market, confidentiality and privacy, the right to choose, disclosure of information, fair and responsible marketing. Lots of focus there, honest dealing and fair agreements, fair value, good quality and safety and the right to be heard and obtain readdress. So the point I am making is, lots of focus from our side in getting people to know what the rights are there.

10 MR. VON ZEUNER: Chairman the... a lot of the activity of ABSA is embedded in our ABSA Customer Charter which is part of communication to the ABSA customer. Can I also just clarify that I refer and will refer in some instances in our presentation today to the role of the Banking Ombudsman. I think we obviously understand some of the developments that are taking place in that area and therefore if I refer to Ombudsman, we refer to whatever would emanate on a statutory ombudsman level.

20 Further content to the Industry Code that we propose, is that of a pricing advisory service in addition, as we have already mentioned, consideration should be given to the introduction of a dedicated price telephone line manned by an independent third party to supplement on line calculators which we will refer to later. We also propose relaxation of prohibitions on comparative advertising.

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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During our October submission, ABSA recommended in the interests of comparability and transparency the realisation of the prohibition on comparative advertising. ABSA recommend it in the content... context of banking advertising, the more lenient position in the UK should be followed, in which comparative advertising is permitted provided that it is not seriously misleading or it does not make unnecessary use of rival trademarks.

10 Another area that we want to address on in that regard is one of electronic payments. The panel has raised questions regarding default charges. When we look at the issue, we believe that there is room for improvement in the area of rejected debit orders. Multiple rejected debit order fees can arise when the merchant presents the same debit order on multiple times.

20 ABSA has explored several solutions to alleviate this problem and proposed the following for consideration. Encouraging the use of AEDO and NADO as not default charges are incurred for rejected debit orders. The enhanced early debit order system was introduced last year in terms of which beneficiaries would be given more access to the debit order system.

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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The high-risk beneficiaries would be restricted to using AEDO, while the low risk users would be allowed to use the NEADO facility. Processing is completely different to that of EFTs because the transactions are processed in the earliest possible processing window rather than late afternoon, as is the case for EFT. Even unsuccessful presentments attract no default charged to the customer.

10 Introducing a full credit tracking system, normally AEDO and NAEDO caters for the early morning window and one re-presentment in the late afternoon. The introduction of a full credit tracking system would enable the banks to represent a specific AEDO or NAEDO transactions until funds are available in the customer account for presentment. The credit tracking system would be paid for by the beneficiary and the customer will not incur any further cost.

20 Exploring the possibility of canceling debit order agreements at the bank, this will enable banks to provide customers with the ability to cancel direct debits. This is analogous with the BACS scheme rules in the UK, which allow customers to cancel a direct debit at any time by phone or internet although in some instances written confirmation can be required. The customer still bears the responsibility of making alternative payment arrangement with the merchant.

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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Introduced the electronic authentication of debit order using smart card technology for consideration, the enforcement of existing regulation on re-presentation of debit orders by beneficiaries. The EFT/PCH rules state that the mandate in respect of a debit order that has been returned for lack of funds on two consecutive occasions is regarded as cancelled. Banking systems do not currently identify those instances where a debit order is presented more than twice.

10 Manual checks are however performed when concerns are raised about this by a specific user. ABSA accordingly recommends the serious consideration be given to the enforcement of the existing PCH rules on re-presentation of debit orders by beneficiaries and that the necessary system changes should be implemented, regulating debit order processing at beneficiary level by discouraging beneficiaries from exceeding a 10% rejection rate. I think it is also important that we can in that regard manage the users of that facility more effectively.

20 For the purposes of this presentation forward, we would like to explore the issues and recommendations put forward by ABSA in the introductory slides to this presentation through the eyes of Mr. Mahlangu, a low-income consumer. The objective is to

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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make this presentation practical and relevant and not to obscure issues at the level of generality.

I think the profile is as per slide and I think has also been raised in previous presentations. Firstly, Mr. Mahlangu has a wide variety of banking options which to choose from. The retail banking industry in South Africa is already highly competitive. As the panel is well aware smaller banking competitors exist alongside larger banking competitors. Smaller banks have the opportunity to increase their footprint through tie-ups with non-banks as well, such as certain IT companies.

We refer to that in some of our previous presentation when we referred to Mercantile Bank as well as Bank of Athens. Competition from non-banks is also increasing and recently we have seen two new entrants to the sector in the name of Grinrod Bank and Bidvest Bank. Grinrod Bank's activities include retail banking services. They obtained conditional approval from PASA in June 2007 to operate ATMs offering electronic fund transfer services and other payment services.

They also have plans to offer a card based wage payment service in a venture with the technology company NET 1. Bidvest was launched on 1 July 2007 and it offers

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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deposits and investment options, funding to corporate and retail customers, travel, foreign exchange, card solutions, trade services, short, medium and long term loans. They have procured an ATM reach through ATM solutions and cross border money transfers from Moneygram.

10 Bidvest have a network of branches across South Africa. Further entry and competition can be expected as a result of the Co-operative Bank's Act and the Dedicated Bank's bill. ABSA assist Mr. Mahlangu to understand our products and compare prices. Mr. Mahlangu can phone ABSA's dedicated toll free price line, staffed with specialists in advising customers on pricing and price changes.

Mr. Mahlangu can access information on products, fees and fee changes through trained branch staff, our pricing brochures, cell phone notification services and an online fee calculator. ABSA publishes articles in the press to educate consumers about banking and helps them save money on banking. ABSA also encourages its new and existing customers to review and discuss their banking requirements with  
20 ABSA staff.

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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ABSA sees its role as more than just the execution of client's financial transactions. We believe we play a vital part in the social and economic fabric of South Africa. In discharging this responsibility, ABSA has invested in consumer education and disclosure to enable customers to understand financial services, how to save money and how to understand ABSA's products and pricing.

Somebody much more *au fait* with what we are doing in that space is Venete and I would like her to just elaborate on what we are doing in that space.

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MS KLEIN: Thank you, ways in which we believe that it would be best to educate our consumers out there is amongst other initiatives. We have partnered with Visa to deliver an industrial theatre on financial literacy. To date we have had 24 shows hosted by ABSA and Visa and a total of about 2 300 people have attended. We have also designed an education program to educate the chartered target groups on basic financial literacy.

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The program has been tested in all nine provinces and the major roll out will start in August. We call this program *BUBOMI*, *BUBOMI* that is life. It has been designed on the basis of story telling which we really believe what works well here.

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*Pretoria*  
*17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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Stories are based on the desired learning outcome and through its emotional connotation to the content of the stories. It creates learning experiences, example what do you do if you loose your monthly income because of gambling on your favourite horse “Lucky Lady.” So those stories are actually very, very telling. The program has been tested and it is going to be rolled out like we said. It will be delivered through all of the Love Life centres and local communities out there will help us to recruit the learners that they believe will benefit best out of this.

10

We have also sponsored the Consumer Conference on National Consumer Rights Day, which was on 15 March, and the conference was hosted by the National Consumer Forum. In addition ABSA supports the quarterly Consumer Fair Newspaper which distributes 80 000 of these newspapers to consumers in the flexi dominant market. ABSA has joined hands with the National Consumer Forum in empowering customers with knowledge through dedicating a regular four page section in each addition of the Consumer Fair to issues of financial literacy and Chair

20 if you will, I have actually left copies for all of you out there and I have also left some on the seats, it is actually some good financial articles in there.

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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Furthermore, we are employing roving and mobile sales teams which is going into deep rural areas to educate consumers in their own language as well as trained customers to use ATMs and points of sales and open accounts and train customers to use Mzansi and Flexi accounts and what I have also done Chair is I have left a little booklet called Basiza which is actually probably the most basic way of explaining how to open an account, how do you use an ATM, talks about saving and investments, even talks about insurance cover and I have left it in the front there for yourself to just have a look at.

And then Oupa after your recommendation last time, the little booklet, which I will tell you have gone down so well, all of our tips that were in the Sunday Times, your good point last time was we do not reach the right people, has gone out. We have probably printed about 80 000 and they will keep going with that for as long as it is needed. ABSA... Yes sir.

(Indistinct question from the Panel)

MS KLEIN: At this moment in time, yes.

MS KLEIN continued

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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At this moment in time, what we have done with all the other education like *BUBOMI* that has been done in the local languages. We started with Basiza and it is in English at the moment but like with our ATMs we know there is an opportunity to do it in the eight languages or the 11 official languages. Thank you Chair.

10 ABSA has a toolkit, which is a game board which has DVD and VHS and audio material for customers in the LSM125 bracket. We educate customers on basic banking, transaction services, financial planning, savings investments and insurance and credit. ABSA has flipcharts and one-on-one training which adds on to what I have already spoken about and we also do custom... we also have customer education champions in each of the provinces and consultants.

So where it is that we do not pickup enough people, we have individuals dedicated to making sure that we go out into the communities and together decide who the grouping are and how far that reach should be.

20 MR. VON ZEUNER: So Chair, towards understanding, when selecting a transaction account, Mr. Mahlangu will be required to answer a few simple questions. ABSA staff makes use of a simple decision tree to help the customer choose the account

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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most suited to their needs and we have got the decision tree, here Keith can talk you through that. Questions to Mr. Mahlangu will include for instance, easier category with special banking requirements i.e. youth, students, senior and also recently added to that range is Islamic Banking. For some accounts, for example ABSA's Flexi Save Account, more than one pricing option maybe available and the ABSA staff member in such cases would discuss the pricing option with the customer.

10 A lot of these decisions and information embedded in the decision tree is all obviously also information that we obtain through customer research, Venete that you are also quite involved with.

MS KLEIN: Thank you Louis, the research conducted by ABSA is aimed amongst other things at identifying those products that customers would find attractive and their expectations regarding prices. We are however conscious that customer surveys are not an exact science and are not always a perfect reflection of the actual market conditions.

20 Accordingly, customer surveys are but one factor which ABSA that takes into account when developing products and I think the point that I just like to highlight is

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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before ATMs were installed a long time ago, if you had asked the customer then, would you want an ATM, the answer would have been no. Today if you asked the same question, we have got 40 million transactions going through there.

So I guess it depends how you use it. Research is very valuable, we have to listen to customers but, we will have to take that in consultation with a lot of other factors, which we do.

10 MR. VON ZEUNER: So having work through the decision tree, getting clarity on the answers, the ABSA solution for Mr. Mahlangu would be a Flexi Save Account with the fees of R41, 00 which equals 1.5% of his income and which is well below the 2% benchmark as recommended in the Finmark Trust Studies, but also on that score, Alfie, other activities that one can apply to even lower some of those bank charges.

20 MR. NAIDOO: Yes I mean to enable a like for like comparison, we stayed with this transaction profile, however, if you change the profile slightly so that a cash withdrawals are slightly higher amounts with fewer transactions, that would drop to R21, 00. Now we understand that there is security considerations and practical

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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considerations as to why those lower amounts are withdrawn but once again as part of our process in a branch approaching customers working through this decision tree, we would come out with the Flexi Save as you see in this form or advise that if they had a slightly different profile with the same result, those fees could be halved. So we are still within the one to two percent range, once again providing customers with that whole notion of affordable banking.

10 MR. VON ZEUNER: Chairperson as we said at our first presentation, we are quite proud of the pricing calculator that ABSA has got active in its branches. Currently problematic from the extent that we are... cannot do this comparative advertising that I have referred to, but I would like to ask Keith Mc Gyver to talk us through the pricing calculator which we believe is a mechanism to address some of the issues which have been raised in some of the discussions thus far, that it is rather difficult to compare price with banks.

20 MR. MC IVOR: Thank you Louis. It has been said I think in several forums that it is difficult to compare bank products across each other. Some time back in ABSA, in order to support our sole staff in the effort to serve our consumers better, we developed an in house calculator that did a couple of things. The first thing it does is

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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it takes the ABSA product and compares it against the comparable products from competing institutions.

The second thing it does is that the customer enters his or her profile and it spits out a cost figure per bank and would highlight to the customer the cheapest option. Our initial intent was to take that calculator live onto the website. Legal advice suggests that because of the rules of trademark, copyright and comparative advertising that we would not be allowed to do that.

10

Consequently we have positioned purely as an internal service tool. As Louis has said in this morning's presentation, one of our suggestions would be that this type of capability be housed within an external third party environment supported not just by the internet but by other mechanisms as well in an effort to make comparative price decision easier, and the point we are making is it is not impossible.

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If we have a look in this particular situation and I am sorry it is very small but this is what the calculator looks like and the customer would go in there, he would select a particular ABSA product, he would... she would populate their various transactional

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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profiles, so the frequency of transactions as well as the Rand value of those transactions and it is across the entire range of banking activities.

It then pulls out a comparative analysis and in this case, it would be the ABSA Flexi Save Account versus the Nedbank Transactor Account, Standard Bank E-plan, the FNB Smart Account using the pay-as-you-use option, the Old Mutual Bank Savings Deposit with its various value categories in Old Mutual Bank Savings product with different categories.

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In summary it would then spit out... as I said it is particular recommendation. In this instance using the profile that was presented to the panel by the FSCC way back, I think it was in October last year, where they claimed that Ben Mahlangu would pay R103, 75 using our Flexi Save account with the profile indicated it would come out R41, 00. Just to confirm Alfie's point, if Mr. Mahlangu dropped his transaction profile slightly, increased the value of the transactions that he would be using, it would come out R21, 00 which the 75 basis points, or .75% of his R2 800, 00 income.

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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It is something that we are quite proud of, and as I have said, the point really is to say it is not impossible, it is doable and we believe it is extremely valuable.

MR. VON ZEUNER: Chairman we were obviously mindful of the using the example that we do not use an example where our product is more expensive than some of the other banks, so we are mindful of that as well. In addition to the ABSA fee calculator, there are other independent online fee calculators already emerging in South Africa. For example, Bank Monitor allows the consumer to use the calculator three times per month, free of charge to compare the fees of different banks.

Experience from other jurisdictions, would suggest the emergence of further sites. In the UK, for example there has been a proliferation of online sites over the last few years and these sites are encouraged by the competition authorities. One is obviously mindful of a digital divide and mindful of people that have access to the internet and Alfie, possibly some comments on how we deal with that?

MR. NAIDOO: Yes I mean, I think the whole notion of digital divide does not necessarily take into account mobile penetration and our experience over the last two years has shown extreme traction in terms of the number of customers and the

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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number of transactions that are conducted through this channel. So even in terms of price comparisons et cetera, those could be pushed or pulled... pushed quite easily to a mobile phone for the same effect. So it is not just about internet penetration, a combination of dedicated price lines, 40 million cell phones out there and the large branch network in general, can really inform customers quite substantially in terms of understanding what their options are. And as we lead now into some of the discussion around basic banking products and how do you keep it simple, we really think that a combination of a piece of plastic in the form of a debit card and a mobile phone with mobile banking really is the base product that you need, irrespective of the segment you operate in, to a very effective full value banking both in terms of cash withdrawals and deposits as well as broad funds transfers which in our case, has been free for the last two years.

MR. VON ZEUNER: I think to add to what Alfie has said, I mean what we as almost management also stands amazed to, is our willingness of staff to use their own time to educate consumers. For instance, on Saturday, we had our staff out in Baragwanath to the taxi ranks to assist people with cell phone banking and it is just amazing the experience on the day.

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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Chairman, I have got two slides, can I refer to the technical team's proposal? As ABSA understands the technical team's proposal, the rationale behind their proposed basic banking product is to increase transparency and comparability on the basis that the elimination of product differentiation will allow customers to compare apples with apples and choose purely based on price. ABSA's position throughout these hearings has not been to reject outright suggestions made by the technical team or the panel which may be creative solutions to some of the issues raised in this Enquiry.

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In this instance however, ABSA is not convinced that another basic banking product is the solution to the concerns which the technical committee has raised. The technical team's proposal regarding a basic banking product appears to contemplate a series of standardised banking products align to the needs of predetermined customer profiles. This proposal assumes that such basic products do not already exist. In our view all of the banks already offer basic banking products for the middle market.

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There is also already a standardised banking account, the Mzansi account for the low-income market. Banking customers have differing requirements. The banks existing product offerings are designed to meet these differing requirements. It is difficult to

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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see how a standardised banking product could cater for the varying needs of the different customers.

In other words, a rigid basic banking product is only likely to meet the particular needs of a limited number of customers whilst being irrelevant to the vast majority. If the banks were to offer additional features in order to meet the requirement of its range of customers, we end up back where we started with differentiated products that could inevitably not be compared on the basis of price alone.

10

The issue of comparability we believe is addressed directly by the proposals put forward by us today. The development of an industry code and standards, greater disclosure and access to the output of pricing comparison calculators, we believe that in some of the research that the customer requires that level of comparability and not necessarily a standard account.

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So in conclusion Chairperson, customers have a wide variety of banking options from which to choose and this should increase even further in future. The introduction of an industry code to promote best practice would ensure greater transparency and enhance competitiveness in the interest of customers. An industry

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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code together with increased availability of pricing calculators through a variety of channels is ABSA's preferred method to address identified concerns regarding transparency and comparability. Members of the panel, you are perhaps somewhat cynical about the continued refrain from the banks that the industry is highly competitive. We genuinely believe this to be the case and anticipate the competition will increase even further in future.

10 We are conscious of the fact that the banking fraternity needs to be part of the solution and not part of the problem. In that spirit we have advocated the introduction of an industry code to promote best practice. We believe that banks need to be more conscious of the need to inform customers of alternative methods or mechanisms to facilitate payments. Chairman we can take questions.

20 CHAIRPERSON: Just before I let the others ask questions, I have got of couple of questions for clarification. You made reference to a Code of Conduct, which may be we need to consider developing for purposes of dealing with all the other concerns which were raised. What is the current status of the Code of Conduct? Don't you think it addresses that? If so, why not. Why was it not made to address these particular issues?

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*Pretoria  
17 July 2007*

*PRICING BEHAVIOUR & MARKET POWER*

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MR. VON ZEUNER: Okay I think...

CHAIRPERSON: Also it was not (indistinct)...

MR. VON ZEUNER: Yes.

CHAIRPERSON: The current code.

10 MR. VON ZEUNER: I think the Code of Banking Practices is possibly gone a long way from where we were a few years ago to address certain of the issues. I am of the opinion that possibly we do not apply enough attention to revisit, enhance and up the quality of those particular codes to address issues of the day. To give you an example, when recently the Governor of the Reserve Bank made comments about credit card facilities and so forth, the banks were asked to come together and do a Code of Credit as to how we will approach customers on extension of credits et cetera. This is typically something that one should not get into an additional code but there must be some mechanism whereby you can enhance the Code of Banking  
20 Practices to fulfill and manage and oversee some of those activities.

I think furthermore, what we are not proposing is to say that an Ombudsman, the office whatever, must be a policeman over pricing but we do believe there should be

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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clarity on overseeing and having more authority to some of what we recommend today. So I think one can accept that the foundation is laid, the basic issues have been addressed but it seems like we have not progressed with enhancing either the powers of the Ombudsman office or the content and richness of the Code of Banking Practice. Venete you are sort of looking at that quite often, any comments from your side on that?

10 MS KLEIN: Just to add that in terms of the powers of the Banking Ombudsman, obviously we all realise that the Banking Ombudsman has got a set area of things that he takes care of but currently he is also having to report into the statutory ombud being Charles Pillay. So the expansion of the roles and the powers through the complete Ombudsman structures, I think will do a lot in overseeing what banks should and should not be doing albeit the Banking Ombudsman I think, is limited. I think Charles will be able to pick up the broader spectrum of things that banks should be looking at.

20 MR. VON ZEUNER: A lot of the activity currently of the Banking Ombuds, I think really deals with customer's complaints and yes, I mean it serves a particular purpose. I mean for instance, our research in terms of how we monitor their activity,

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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fees and prices is sort of fourth on the list of activities in terms of customer complaints from that office. High number on ATMs, high number on insurance related issues on mortgages et cetera but I think it is time to move on away from an office that deals with customer complaints to an office that proactively look at the interest of the consumer and oversee that activities in the bank. I think Chairperson, not to sort of preempt a question, as we also work through our own presentation, we constantly ask ourselves the question, so why do we make these recommendations at a panel and why have we not been instrumental to get some of this going much sooner.

I think that a lot of the issues were definitely on the agenda to be addressed. I think the emergence of the Competition Commission and I think an absolutely conservative approach is to what should be discussed and not be discussed, just put a halt to some of those discussions and I think on hindsight and reflecting, I think it is actually sorry that we as banks have not taken this debate further and done some of these issues sooner, but possibly we needed the Competition Commission inquiry to wake up to some of those responsibilities.

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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MR. NAIDOO: That is a significant shift though that we suggesting to move away from a... not away from but to supplement the complaints and good practices that is currently the focus to this. How to enable customers to make it easy for them to actually do business, whatever the nature of that business might mean. So it is really a mind shift that says how do we get them to understand issues of transparency, comparability et cetera in a lot more detail and would suggest a different set of skills, different set of attitudes in order to up that game but we think that would be really valuable to help customers with an end-to-end understanding.

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CHAIRPERSON: In your answer whilst I appreciate the submission, I just want... I think really it is a shift but now I just want to find out, are you anticipating an Ombudsman with some sanction?

MR. VON ZEUNER: I think exactly...

CHAIRPERSON: If banks failed to comply with the Code of Conduct which is suggested.

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MR. VON ZEUNER: I think as I said at the... when we started our presentation today, we obviously aware of discussions taking place in revisiting and re-looking the

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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whole role of the ombudsmen and particularly the statutory ombud. So can we say that we do not have a problem with a body that will have some sanction, some authority to oversee compliance to the Code of the industry? We do not have a problem wherever that authority might vest.

10 CHAIRPERSON: And then you made reference to... when we were talking about the debit orders, you made suggestion of the fact that there should be an enforcement of the PCH rules relating to the debit orders, what is the position currently? Are they been enforced or what is the position. If not why not, because I would have assumed that if there are PCH rule and they being breached, they will be enforced and maybe we will be sitting here and hearing about some bank which has been sanctioned for whatever.

20 MR. VON ZEUNER: Yes, I think and Walter can comment on the use of that as well, I think the rule is clear in terms of two unpaid debit orders that calls for cancellation, but I think it is important to understand how the beneficiary deals with debit order facilities and the mechanisms used which to some extent, almost exclude the bank from the process or be it that we home the transaction and then secondly the fact as I have said in the presentation, that we can through system and technology not

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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enforce that rule. So we need a consumer, a customer to raise the problem of certain unpaid debit orders to revert back to the beneficiary of that debit order, so that we can act on the usage of the particular facility, but I think Walter you have got more detail on that.

10 MR. VOLKER: I think it is exactly what Louis said, the systems, the computer systems can pick up a represented debit order if it is exactly the same. So the system will pick it up. As soon as the beneficiary party has changed one small item in the debit order, the system sees it as a new transaction. So unless the consumer actually reports the misuse of their account, we will not be able to pick it up from the system side.

20 I think however what has transpired in the meantime is the fact that roughly on any given month the percentage of unpaids in the region of anything between four and seven percent. So we would say roughly about 95% of these transactions are successful, they are not disputed but goes through quite successfully. To address the five percent, we have introduced the early debit order, the AEDO and NAEDO and I think it has gone a long way to address some of the problems in that area although

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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not totally and I think we have to seriously look at ways of addressing still the few areas that are not 100%.

MR. VON ZEUNER: I think we... I think it goes back to the earlier point that you have made Chairperson as well and that is, that I think, the rule is there. The rule has not been affectively applied and enforced and I think it bears testimony of the fact and back to, a body, that oversees adherence to some of those rules, that it actually, this is a good example of why there should be a body to oversee that and make sure that the industry adheres to that rules.

10

I think furthermore, as I have said in the presentation as well, I think it is important that there almost be an instruction that banks will enhance their systems to address this issue. We also in preparation obviously for our presentations here today, looked at as Walter has said 95% success. Fact of the matter is we have got a social responsibility. We are bringing the un-bank into the banking environment. They do not understand this and we have got a responsibility to address that five percent to make sure that we put a system in place that has the integrity and credit worthiness the a consumer confidence to use it and that is why we are proposing that there be a stronger sanction to enhance systems and oversee adherence to it.

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*Pretoria  
17 July 2007*

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PRICING BEHAVIOUR & MARKET POWER

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CHAIRPERSON: Let us go to slide 11 that is the, Mr. Mahlangu and the Bank Monitor Calculator. It is not very clear.

MR. NAIDOO: You have two calculators. That is the ABSA Competitive Calculator or we have Bank Monitor.

CHAIRPERSON: Yes, I am just following upon what Mr. Van Zeuner just said about bringing the un-banked into the net, basically, what concerns me about the  
10 calculator, maybe are we not presupposing that there is no problem with literacy in the country, firstly, and not only literacy, secondly financial literacy which I think is also another problem with this calculator.

MR. VON ZEUNER: Alfie, do you want to pick it up?

MR. NAIDOO: Yes I mean I think on matters of literacy there is ongoing work that we are doing as Venete has pointed out whether the industrial theatre, communication  
in multiple languages and so on. The basis of this calculator is at the stage where a  
20 customer believes that they require a product. What we do and I think a fairly straight forward where albeit that the calculator right now is just in English, in a very

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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simple way say, “What is the nature of transactions do you do that” and “what is the frequency.”

So we are trying and to simplify by saying if we look at just those two things, we can then provide you with indicative cost of what it will be to support or to support that account. So notwithstanding the fact that there is more we can certainly do on financial literacy in general, we tried to keep the calculator deliberately simple both for staff and for customers to understand what their options were.

10

MR. MC IVOR: I think in support of what Alfie is saying, we are not suggesting that this is the end state objective by any stretch of the imagination, and one of the challenges, which would have to be determined and worked out is how do you get this type of information into the various target markets that you want to get there.

Financial literacy training is great and it happens, but we have developed these decision tools and I will provide you a copy at the end of the presentation, we will give you a copy on one of those things, which asks really very, very simple questions and attempts to provide the person given the guidance to the theoretically and educated client, about their best options you know in terms of the choices that they have at their disposal and exactly what those co options cost and how those options

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*Pretoria*  
*17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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compare across multiple environment. But it is still a challenge to be overcome, how do we get that information across most effectively. It is certainly not going to be a purely digital offer or play.

MS KLEIN: Chair if I may? May I please...?

CHAIRPERSON: Yes you may...

10 MS KLEIN: In terms of the *BUBOMI* project that we are rolling out, I mean there is a specific focus on managing your money, planning ahead and then the one making choices about financial products, which obviously is not even targeting the people that are not in the banking world yet, it is just basic. So what is this? In the branches itself when people walk in, this is where we make this available. This is where the decision to have an account has already been made.

20 So we are targeting from LSM1 through to five and even the people who have not even been into the banks. So this is what helps in the branches but we are going even below that in terms of the training itself.

MR. VON ZEUNER: I think... important Chairperson, we for instance, on an annual basis invest tens of millions in consumer education. Currently the industrial theatres

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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that have been referred to, I mean is done. I think if we can have a stronger authority in terms of supporting this calculator there can go much more investment can go into that to address some of the issues. When we got the legal opinion to say we cannot do this to the level that we wish, we basically stopped the development.

10 It is live, it is there, it works and I mean if we can literally switch it on tomorrow if we want to enhance it further...but we do not have the authority to do it and as Keith has said in the presentation, we are currently pretty strong legal view of what we can and cannot do, which obviously prohibits further development of it.

MR. NAIDOO: And the benefit of this being rolled out more broadly is right now you will see it is pretty much the big four and maybe one or two others but with all the others that we have described, in fairness to the consumer, those should also be visible and that is just something that has to come into the mix which is quite intensive to do but centralising it and putting in the hands of a third party, I think would just make a much more easier for consumers to make those choices.

20 CHAIRPERSON: Okay I still have some questions but I will let the others ask questions and then I will come back at a later stage if I am not been covered.

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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MR. VON ZEUNER: It is good to see you in trouble with time today and not us.

MR. PETERSEN: Thank you very much for what to me, was a very helpful presentation and because I have quite a few prepared questions which are really related to your very formidable written submissions, I would be wanting to dig down into some areas which you for understandable reasons, have not covered in your introduction today and I would not like you or anybody else to get the impression that I am spoiling or wishing to spoil the positive side of what you have been telling us today and on the contrary, I think that is something on which we should be eager to build.

10

Perhaps I can just say before getting to the questions that it seems that a lot of opportunities for progress have actually been stymied by an excessively crude construction that was given to Section 4(1) (b) of the Competition Act. And that, if in fact it turns out, because the struggle of the construction of Section 4(1) (b) is by no means finished, but if it were to turn out that it is construed fundamentally, by reference to a requirement that there must be an anticompetitive purpose in the conduct which is prohibited by Section 4(1)(b) then anything that brings competitors

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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together with a pro-competitive purpose could not be prohibited then, but it is not in my hands as to where that goes.

Again if I may say at this introductory stage that I am going to have some difficulty and I think the other members of the panel may have some difficulty in this... in posing questions and eliciting answers to the extent that the subject matter is covered by claims of confidentiality, but I think we must just go ahead and you have to stop us and...

10

MR. VON ZEUNER: Yes...

MR. PETERSEN: Refer the matter to the Chairman if you want to assert it. Because on paper at least a great deal of the so-called confidentiality claim by all the banks and I do not make this point directed at ABSA in particular, it seems not to be connected with the protection of valuable business secrets so much as with the avoidance of possible public embarrassment. But that is not to deny that there are serious business secrets that are in fact included in the confidentiality plan.

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Let me start if I may with the... because this is our opportunity and we have got very short time, we had very short time with the other banks and so we may well ask you

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*Pretoria*  
*17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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general questions which we did not have the opportunity to proceed with previously.

I have the impression that there are signs of significant competition and there are signs of significant scope for competition, but largely confined to what I would think are knish areas.

That is not unimportant, but in looking at the prospects for development of competition in full service retail banking, I want to ask you this general question.

10 Would you agree that because fixed costs are such a high proportion of banks' cost in providing services that economies of scale are not only a very significant factor but perhaps the main factor in profitability?

MR. VON ZEUNER: Bob do you want to reply to that?

MR. STILMAN: I thought that one was coming my way. It is clear that there are very large fixed costs in the banking industry. It is one of the themes that I think has been emphasized by all the banks in their presentation and I think rightly so. I think  
20 that some data or other provided in the various materials but I think in the order of 70, 80% of the cost structure can be regarded as a fixed cost and then in those costs in

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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terms are common cost that are very difficult to allocate to particular products or even in some cases, business units.

10 So as a consequence, what you necessarily are going to have in our world, which means by the way then that you have very large economies of scale. We have this fixed cost and the larger volume, the lower your average costs and so what that means necessarily, is in this kind of industry, you are going to have prices that are in excess of and indeed considerably in excess of the marginal cost of providing any particular service that is necessary to be able to cover all that fixed costs and provide a return to shareholders.

20 So that is, you know, I think, a starting point that follows immediately from the cost structure of this industry. Now, I think that it is a separate question, as to how the... what the degree of competition is within that structure and the level of profitability within that kind of market structure. We know the prices will exceed marginal costs and we cannot really draw any conclusions about market power or competitiveness of the market from the fact that prices are greater than marginal costs for essentially all services.

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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You could have in theory, a range of possible outcomes. You could have a market construction where there was very soft competition and there were high profits being earned. Alternatively, in the structure where you have this kind of very large fixed costs, you could have fairly intense competition among the players in different forms.

10 To some extent price, perhaps more non-price dimensions, but rivalry in competition among the different players and I think the one question then I think that I will look at when I think about how to better assess the intensity of that competition in this sector, in this particular industry there is, is there any evidence that, from an overall bank perspective, that we see any evidence of excessive profits. It is not a perfect measure but certainly one thing you look at and that is why I then go to the profit data and find that when you look at the profits of the banks in South Africa that by international standards, they really sort of in the middle of the distribution.

20 So I think that the fixed costs, trying to summarise, the fixed costs have implications for the kinds of products you are going to see and how prices relate to marginal cost. They do not necessarily have implications for the overall level of profitability in the industry because within that structure you could have soft competition with very high

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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profits or you could have fairly robust competition where profits in that market structure overall have been kept at a sort of a normal reasonable level.

MR. PETERSEN: Thank you Mr. Stilman, you have answered quite a few questions there, which I had not come to yet but with respect, I will come to them. I just want to focus for the moment at the... not the question of whether there is or is not competition or what the intensity of the competition is between the existing providers of full service retail banking. I just want to focus for the moment on the barriers to entry and what seem to me to be part of the same question, barriers to expansion and I understand you to have confirmed that the importance or the... that the high proportion of costs which are fixed costs in retail banking, does mean that economies of scale are at least a very significant factor in profitability.

MR. STILMAN: Yes, well there is certainly a significant factor in the industry I think the level profits depends on how, about the intensity of competition. So you do not... I do not say that you see high fixed costs therefore you see high profits.

MR. PETERSEN: But that economies of scale and the ability of firms to achieve them is a very significant factor in their ability to operate...

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*Pretoria  
17 July 2007*

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PRICING BEHAVIOUR & MARKET POWER

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MR. STILMAN: Yes...

MR. PETERSEN: In full service retail banking.

MR. MC IVOR: Our contention Mr. Petersen would be that that is a market characteristic. It is not a firm characteristic.

10 MR. PETERSEN: Sure. Now, accordingly when it comes to full service retail banking, would you agree that smaller banks, we are aware of and you have emphasized the new openings that have been created for entry into banking in some form or another, and I am just trying to evaluate that when it comes to the main area of full service retail banking.

When it comes to that would you agree that smaller banks inevitably face considerable disadvantages and new entrants even for example a large international bank, would have to be prepared to accept a significant period of low or even negative returns before achieving a profitable scale in that sphere?

20 MR. VON ZEUNER: I think obviously, given the discussion on fixed cost and so forth, I think one cannot argue with that part of your assumption. However, I do think that there are mechanisms in place today that can assist the smaller player to bridge

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*Pretoria*  
*17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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some of those constraints that you have referred to. I think in ABSA's case, if you talk about an international investor, I think there are ways and means that one can get around that. If that was not available, I think I would... 100% agree with what you have said, but I think there are mechanisms, we referred to it as you have said in partnering with IT firms, other banks et cetera, that can assist a smaller player to enter that market.

10 I think another good example, what we have also used in our initial submissions, was our partnering of Virgin Money, where I think they do bring a particular value proposition to the market but definitely not burdened by some of the costs where they partner with a bank. One would obviously need to see how that relationship unfolds in future, can it move to a standalone option or is it a continued dependence on a larger player. So I would just qualify by saying I think there is ways and means that they can get around that burden.

20 MR. MC IVOR: Could I add on to that Louis? I am often and I think it has been reported in the press and certainly by market analysts, amazed the agility of the knish players, as you call them Mr. Petersen, at how they start off in knishes and then very aggressively seek out perhaps other knishes but knishes that they want to participate

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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in and knishes that they find extremely profitable to the extent that I would regard Capitec and I think Capitec are on record as saying they an organisation that wants to become a full service retail bank and they do not have the legacy of the huge systems and the massive infrastructure that a large bank like ABSA does.

10 So my guess would be that it is... when viewed in one dimension perhaps you are right, viewed from another perspective there are tremendous advantages to being small and growing in specific knishes and I think there are fierce threats on the arising from those smaller banks but I do not think it is all negative.

MR. VON ZEUNER: Yes I think one must also look at I think Bidvest is possibly one where a lot of those issues have been addressed. If one look at their product offering, their range of services, I think it pretty much plays to the space that the bigger banks are in. I mean Grinrod is definitely directly in competition with the retail bank but I do also see in their propositions, the combination with other third parties. I referred to it when I said ATM Solutions, which I think, assist them to 20 again, get past some of those fixed cost constraints. Again I think if one see the approach of Pick 'n Pay Go Banking, I think is another good example, of how there

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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are ways and means to get past that, which I do not think it need to be that level of a constraint as you have referred to.

MR. PETERSEN: Thank you. Now let me turn to another aspect of the profitability issue and you will appreciate that because I want to focus on one aspect at a time in order to explore it, it does not follow from that I am giving exclusive weight to that factor or anything else. I am just trying to go through what seemed to me to be a range of factors that have to be taken into account. Let me start by agreeing with the following, which is in your main October 2006 submission in Annex 6, which is not confidential. Page 24, paragraph 2.4.1 and I will quote it:

“In a competitive market, and I think Mr. Stilman adverted to this in his answer a little earlier, in a competitive market it is the marginal firm that makes the return equal to its cost of capital. Other more efficient competitors make high profits. On average therefore firms will make more profits than the costs of their capital. Given that firms only choose to make investments if the expected returns are above the cost of capital, this should be of no surprise.”

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*Pretoria*  
*17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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I have no trouble with that, but my question following from that and I will repeat it if you need me to. What indicators should we look for in order to determine whether the profits of efficient firms are at a level suggesting the absence of effective competition? What are the indicators that we should be looking for in order to determine whether the profits of efficient firms are at a level suggesting the absence of effective competition?

10 MR. STILMAN: Well as you, sorry, can I answer that, attempt to answer that, which is a question that I think you are aware that your Competition Tribunal has been grappling with quite a bit in the Harmony Mittal case on excessive pricing and how and to what extent should one use profitability evidence to try to assess whether pricing in a particular market is accessible which I think is a sort of a core level of your question about the intensity of competition and whether it is effective. And the simple answer is there really no consensus and no clear bright lines that one can apply in that area.

20 I think it has to be and it is clear from I think the decision of your Tribunal how much they were grappling with that precise question and their frustration about not being able to come up with a very simple solution. I think inevitably if one is trying to look

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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at the effectiveness of competition in the market, it has to be a mixture of looking at the market structure, how many players there are, is there evidence of entry, what kind of rivalry do we actually see, is it you know price, non-price rivalry, do we see, I may have mentioned entry already and the level of profits is certainly one of the factors and I appreciate you trying to do a factor-by-factor, but I think to answer this global question of effectiveness in competition, I think we can only ask in this particular instance, how are the profits in this industry....., how do they compare with banking profits we see in other parts of the world and there is no bright line.

MR. PETERSEN: But as I understood annex 6 and not only Annex 6, also your Annex 4 which is confidential, let us take Annex 6, page 26, paragraph 2.4.4 there you point out the problems with international comparisons: (1) The markets are different; (2) The business cycles are or maybe different; (3) Inflation is different although you go on to deal with that factor and 4. The risks are different.

It seems to me one could add and this seems to me quite a fundamental point, that we do not know whether and we do not know the degree to which, banking is truly competitive in any other country which comparisons might be made.

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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MR. STILMAN: I think every one of those points is a valid point and I think that is why to make the ultimate judgment on the effectiveness of competition, you have to look at basically the range of factors. It ends up being you know in part of the matter of professional opinion and judgement. There are no bright lines and I, you know and I do not think any economist would say otherwise.

MR. PETERSEN: Now because I cannot quote your Annex 4, let me put my question to you in the following way...

10

MR. VON ZEUNER: Can we just...

MR. PETERSEN: Yes...

UNIDENTIFIED MALE: The Annex is the....

MR. VON ZEUNER: The Annex 4 is the CRO Report on Banking in South Africa and I think we..., I think we can discuss it if you want to refer to that I am comfortable if you wish to refer to that.

20

MR. PETERSEN: Mr. Von Zeuner to be fair to you, it includes both theoretical analysis. It is a very, if I may say so with respect, a very thorough study, it combines

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*Pretoria  
17 July 2007*

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PRICING BEHAVIOUR & MARKET POWER

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theoretical analysis with some ABSA specific data. Maybe if I get to ABSA's specific data I will alert you to that.

MR. VON ZEUNER: If you refer to one of the paragraph then you can...

MR. PETERSEN: Alright...

MR. VON ZEUNER: We can make a call on that but I mean I am fine...

10 MR. PETERSEN: Well have a look at page 30 if you wish..., Annex 4...

MR. STILMAN: It should still be no problem because it simply compared international data.

MR. VON ZEUNER: Okay.

MR. PETERSEN: And I think one must read that with pages 27 and 28 and also Tables on 29, where you basically set out Mr. Stilman what you have done...

20 MR. STILMAN: Correct.

MR. PETERSEN: Now you are examining what you call Profit on Average Capital for the period, ten-year period 1996 to 2005. Incidentally let me just interject here

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*Pretoria  
17 July 2007*

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PRICING BEHAVIOUR & MARKET POWER

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that if it is not asking too much, would you be able to supplement that with the 2006 data?

MR. STILMAN: I should think there would be no problem.

UNIDENTIFIED MALE: Looking specifically to the table for the panel...

MR. PETERSEN: Yes.

10 UNIDENTIFIED MALE: Just to say this is data that we purchased from the Banker magazine in the UK and then adjusted the results that they have, so to the extent that they have that information, I am sure we can get it.

MR. PETERSEN: Thank you, you just by way of background to this, you made the criticism of the methodology in the Faulkner report sometimes referred to a Faulkner 3 which is actually the Competition in South African Banking, the Task Group Report for the National Treasury and South African Reserve Bank dated April 2004, I will just refer to it as Faulkner...

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MR. STILMAN: No I appreciate it because that is the context. I just want..., the context was beginning with the observations on the difficulties of this comparison,

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*Pretoria  
17 July 2007*

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PRICING BEHAVIOUR & MARKET POWER

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observing certain claims made by Faulkner and then trying to basically test those claims.

MR. PETERSEN: Yes and in the course of doing that, you pursued a methodology which you..., I understood you to be saying, is sound, for whatever these comparisons maybe worth and we have noted your reservations about that, where you took profit on average capital, another expression for what is often called a “return on equity.”

10

MR. STILMAN: Correct.

MR. PETERSEN: Where equity is defined, you define it on page 76 of Annex 4. It is defined with reference to Tier One Capital, sorry and Tier One Capital is defined on page 76.

MR. STILMAN: Yes.

MR. PETERSEN: And you indicated that is a common comparator across the countries that you are using in your study.

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MR. STILMAN: Yes.

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**Pretoria**  
**17 July 2007**

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*PRICING BEHAVIOUR & MARKET POWER*

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MR. PETERSEN: Now I want to ask you whether you would agree with the following, which are my words, that over the whole period from 1996 to 2005, South African banks have had a substantially higher rate of profit on Tier One Capital adjusted for inflation, than banks in Europe, Kenya, Brazil and Malaysia, let us just stop there. That is not the whole picture, but I ask you whether you agree with that?

MR. STILMAN: That is what the data...,sure I am referring to Figure 5.4.

10 MR. VON ZEUNER: Correct...

MR. PETERSEN: I have understood that correctly, that the..., that South Africa essentially matches the rate of return in Australia, Nigeria, India, the UK and the USA.

MR. STILMAN: Yes.

20 MR. PETERSEN: And then, let me put this to you, would you agree that no significant country has been identified in your very thorough study, that shows a substantially high rate of profit in banking adjusted for inflation over that ten period..., ten-year period than South Africa.

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*Pretoria  
17 July 2007*

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PRICING BEHAVIOUR & MARKET POWER

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MR. STILMAN: Yes and that is correct.

MR. PETERSEN: Fine. Now I am going to revert to Annex 6 at this point, which I used mainly to prepare my questions because it was not confidential. In regard to analysing our own situation, you say on page 25 of Annex 6 in paragraph 2.4.3.4, I quote:

“Since banks are involved in a number of different activities, if profitability analyses  
10 is to be undertaken, then it is necessary to examine profitability at the level of  
different products or segments depending on the relevant market.”

MR. STILMAN: Correct.

MR. PETERSEN: Right, now my first question following from that is, does ABSA  
make a profit on Mzansi?

MR. MC IVOR: It is very difficult for us to determine equivocally or unequivocally  
20 whether we make a profit or whether we make a loss because we do not account, as  
we shared with the technical team and the Panel, for our business at that level of  
granularity. The measure that we do have is I guess a measure of financial behaviour

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*Pretoria*  
*17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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and if that behaviour trends down, we assume that is a bad sign and if it trends up we assume that is not such a bad sign.

MR. PETERSEN: Financial behaviour is measured how?

MR. MC IVOR: Financial behaviour measured in profitability but at an allocated level not at the detail account level and the experience that we have had on Mzansi is the more business we do, the greater that trend of allocated profit behaviour would trend downwards as opposed to upwards.

MR. PETERSEN: Well thank you for that answer because obviously the next question I was going to ask you if you would answered that definitely one way or the other is how do you know but you have indicated that you do not know for sure but you can figure it out...

MR. MC IVOR: On allocated basis, correct.

MR. PETERSEN: And presumably that could be done similarly at the level of other different products or segments. Now to be fair you have emphasized the difficulty and speaking entirely for myself, I think I understand the difficulty in appropriately allocating common costs.

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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CHAIRPERSON: I do not understand the difficulty. I have raised this issue a number of times because I really think with all the technology we have costs can be allocated and you can all know whether a certain line or certain product is profitable or not. I get a lot of... reading the various documents from the various banks, some even go to the extent of saying they do not know whether credit cards are profitable or not.

10 MR. STILMAN: May I just jump in because I think the distinction probably has to be drawn here between financial reporting, the way profits get reported and attempt to allocate the entire cost of the bank and what I think is Mr. Jali's completely reasonable point about if I am in business in..., I may have a lot of products maybe a multi product firm and now I am considering doing one more thing. I am going to open and have a new product and can I not as a bank figure out what the increment or revenues are that I expect to generate in that product and can I not compare that with what I think would be the running costs of the product and what other kinds of  
20 incremental affect that may be in my infrastructure. If I have offer this product will I need to have a..., you know a few more people here, a few more people there. Can I

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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not do that kind of calculation and you know how to be in business if you cannot do that calculation.

MR. VON ZEUNER: Chairperson can I ask that we..., that just bring in Johan now with the Head of Finance and I think just to comment on some of the statement that you have made, I think there is a lot of work that we currently do on activity based costing and I think Johan, if we can just elaborate a bit more on what is available and whether it is an accurate measure.

10

MR JOHAN: Mr. Chair the..., we are busy with an extensive activity based costing exercise and it is reasonably easy to allocate direct costs so there is no problem with allocating that on some basis. When we get to common cost, or overhead cost or indirect cost, it becomes very subjective. For example, how do you allocate the brand sponsorships we do? Do you do it on a number of accounts, number of customers, number of transactions, contribution to profit?

20

So it becomes very subjective so we do allocate on a basis and that basis is not scientific, it is not defensible, so it is purely from a financial reporting point of view but we know what the quantum of those costs are and we know that the product

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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needs to make a contribution to recovering those costs. So it is difficult to allocate those costs but to be able to measure performance .....we do it on some basis and that basis is to what you challenge or what any body can challenge.

10 MR. VON ZEUNER: I have extended the invitation Chairperson to the Panel to say that I mean we are happy on a confidential basis, to sit down and discuss with the panel some of that information, as Johan has said, I think we are of the view that it possibly is not as scientific as it should be, but to answer to your point, do we know, do we not know, yes we do and we are happy under those conditions in a confidential manner to engage with the Panel on that.

MR. PETERSEN: Well thank you for that but in your confidential submission of data, you as was the case with Standard Bank, declined to provide allocated costing.

20 MR. VON ZEUNER: I agree and I think that is possibly the safest way to do it because of the comments that we have made that that information in terms of numbers I think, would lead to more questions and the wrong interpretation which we feel uncomfortable with but again that is why I say I mean if we can sit down and talk through that I am quite happy to engage with you on that level.

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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MR. PETERSEN: Would I be right in thinking that the chief result of the difficulty that you have described in allocation, is that it is dangerous to compare banks on that basis because the allocation methodology may well not be consistent as between the banks.

MR. STILMAN: Compared in what manners, I am not sure I understand.

MR. PETERSEN: Well you have said in annex 6 on page 25, paragraph 2.4.3.5 that  
10 and I quote:

“Banks across the European Union insisted that profit and loss calculations could not be reliably be made at the level of the retail product line, this is mainly because of banks’ inability to attribute shared costs consistently to particular problems.”

MR. STILMAN: Yes so if the..., if one would be trying to for example...

MR. PETERSEN: Sorry that is page 31, I beg your pardon, please answer?

20 MR. STILMAN: I was going to say if one were trying to compare efficiency of different banks let say in the cost structure of different banks, across banks then you would run into problems if you were dealing with costs that has been allocated where

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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the allocation method may differ across banks. So that is it, I certainly agree with your proposition.

MR JOHAN: I just also would just like mention that we also need to look at..., the structure of this specific bank, ABSA is predominantly a retail bank, Standard Bank is a lot more in the corporate market, so to compare whatever they..., is public information is basically impossible because the methodology used to have is different.

10

If you go into international banks, some banks are predominantly in the wholesale market some retail..., so comparisons are extremely difficulty. Secondly the..., which I wanted to mentioned earlier, was there is certain norms that we use to measure a bank, ROA, ROE, costing ratios or cost to assets or all those basis. So there is a range of measurements that you can use but it is not an exact study. It is just an indication. It is norm that you can over time track rather than specifically compare for that specific period.

20

MR. PETERSEN: But so that we can get this problem in proportion, let me come back to this activity based costing exercise that you are undertaking. Here I am going

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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to refer to another confidential document which is your response to the Part B data request, page 5. The sentence starting with “inconsistencies” and going on to the end of that paragraph, may I read that?

MR. VON ZEUNER: Yes.

MR. PETERSEN: Okay, I quote:

10 “Inconsistencies in ABSA’s cost allocation processes were identified during a review of ABSA costing methodologies in 2004, following which ABSA commissioned an activity based costing project in 2005. This project is now in its final stages of completion and is expected to be implemented in early 2008. Until that date ABSA does not have consistent costing data at the transaction and account level.”

MR. VON ZEUNER: Correct.

MR. PETERSEN: Now what exactly is expected to be implemented in early 2008?

20 MR JOHAN: Firstly the results that the activity based costing exercise would give us was a better way of allocating costs to on a direct basis firstly, a more standard approach across the Group, so that is the first step. As far as indirect cost or the

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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common cost is concerned, we still struggle with the same issues around the basis for that. So we have a methodology that is standard across the Group where it previously was fragmented because of the history of the bank. You will have a methodology that can be defended but it is still subjective in terms of the common cost allocations. So it is a refinement or a better product but is it still not the end state of, where we think it should be.

10 MR. PETERSEN: Just help me to understand what exactly activity based costing entails. Does it include a methodology for allocating common costs?

MR JOHAN: Yes it does.

MR. PETERSEN: Without exception?

20 MR JOHAN: But again it is subjective, I mean whether you used a number of accounts for certain cost and a number of customers for another, it makes a huge difference in the allocation but there again we need to go back to the principle of firstly determine a direct cost base that....contribution and then more manage the trends rather than the exact result.

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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MR. PETERSEN: Will it still remain the case? Sorry Mr. Von Zeuner, will it still remain the case that another bank implementing activity based costing could have intrinsically a different methodology of allocation?

MR. VON ZEUNER: Without doubt...

MR. MC IVOR: Mr. Petersen, even at the product system level or at a product..., a delivery channel level. Bank A may elect to price or to cost Channel A at zero  
10 whereas the other bank wishes to amortise its costs of development because its particular strategy is running in that particular direction given its particular target market client profile area of operation, method of operation and all of those things. So even at that very fundamental level that it is.

MR. PETERSEN: Now..., sorry?

MR. VON ZEUNER: I think it is important that one must just, also this whole  
20 debate, see as part of the evolution of financial reporting of the banks. I think if one would look at what has been reported in the past and where we are now, I think the whole move to efficiency and effectiveness, I mean if one look at the prominence that

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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you would have had on the cost to income ratio in the past, it is almost not relevant any more if we look at return on capital et cetera.

10 So, much of what this development is, I think one must see in the broader evolution of what is required to be reported and how we will disclose financial information in future and therefore I would not rule out that in future, there will be a level of more consistent application in the industry, but our exercise for 2008 is pretty much ABSA specific and we do not foresee that to be at a comparable level. I just want as we have it on record, the reference to until that data, until that date, ABSA does not have consistent costing data at the transaction and account level.

I want to qualify as I have said before that I think there is information currently available which we use internally but we do not believe that at this moment in time that information can be made public or be disclosed in reporting or would have served any purpose in submitting this to the Panel but we will be able to discuss this at a confidential meeting with the Panel.

20 CHAIRPERSON: Alright we will take the tea break now. We will resume at 11:30.

**(Tea Break)**

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*Pretoria  
17 July 2007*

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On Resumption:

CHAIRPERSON: We resume again and before I forget, you gave us the slides. I will take these as Exhibit FFF. Last week we had First Rand and they gave us copy of their slides, that will be Exhibit EEE. I do not think we have placed that on record. That will be triple "E" and then this will be triple "F." Right Mr. Petersen still wants to ask some questions. Let us just not forget our cell phones.

10 MR. PETERSEN: Just picking up the thread, we dropped it at tea. Would I be right in thinking that your ability which you have indicated you are very willing to engage in, your ability to engage in costing for purposes of arriving at a sound methodology and conclusions in respect of payment card interchange and interchange in other relevant payment streams depends on being able to make quite comprehensive sensible cost allocations.

20 MR. VOLKER: I think that is true and we have gone through a similar exercise and I think the..., the fact is that with interchange studies the requirements of the data elements required are quite clearly defined. So if they are defined upfront very clearly, it makes it a little bit more easier.

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*Pretoria*  
*17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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MR. PETERSEN: So then getting back to the general point, your stand point seems to be that profitability analysis will inevitably be inconclusive when it comes to drawing conclusions about the presence or absence of competition in retail banking, would that be fair?

10 MR. STILMAN: I would put it differently. I think that one cannot look at profitability data and reach firm conclusions based on that alone as to the level of competition in a market. I think that a profitability study can be one piece of data that is used in arriving at an overall assessment of competition in the market.

20 MR. NORTON: Mr. Petersen can I just add to that? I think from a more technical legal perspective, I think a lot of the cases, particularly in Europe that have looked at excessive prices, profitability is only been one aspect that has been included in the mix. There is a range of other components that customarily competition authorities look to. The range of competitors, barriers to entry, prices of competitors, extent of competition in the market. Profitability is just merely one indication in those types of cases and if one looks specifically at the only South African authority to date, the Mittal judgment, profitability does not really come into the equation in any great measure at all and they got different indices for evaluating excessive pricing.

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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So I guess, if we are sticking with South African precedent then we would have to look at the argument specifically in relation to the parameters that the Tribunal defined in the Mittal case. If one looks at more of a European precedent then profitability is merely one factor, which one would look at in the greater mix of things.

10 MR. PETERSEN: You will appreciate it that I would not want to comment on the Tribunal's reasoning in the Mittal case given the stage of that case. My understanding was that that reasoning avoided altogether profitability analysis.

MR. NORTON: Correct.

20 MR. PETERSEN: But that is in the context of the specific provisions to do with excessive pricing under the Competition Act. I am really wanting to explore the extent to which one can sensibly use profitability data to arrive at a conclusion about the strength or weakness of competition and in particular price competition in a particular..., any particular segment of the market and it is in that regard that I would ask you to have a look at Annex 4 of the October 2006 submission, pages 8 and 9 and

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*Pretoria  
17 July 2007*

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PRICING BEHAVIOUR & MARKET POWER

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here again I need some indication as to the extent to which I can delve into this in public session.

MR. VON ZEUNER: We are fine with that.

MR. PETERSEN: Okay, this is under the heading of Analysis of the Recent Financial Results from ABSA's Retail Banking Activities and recent at that stage took it up to December 2005.

10 MR. STILMAN: Yes that is correct. This report was filed in October of 2006.

MR. PETERSEN: Sure now the general thrust that I picked up from this is that increased profit is to be attributed primarily, not exclusively but primarily to increased volumes and resulting economies of scale.

MR. VON ZEUNER: And reduction in impairments.

20 MR. PETERSEN: Yes, okay leaving aside reductions in impairments which is a very specific category which I understand but apart from that that you attribute increased profit primarily to increased volumes and resulting economies of scale and you show

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**Pretoria**  
**17 July 2007**

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*PRICING BEHAVIOUR & MARKET POWER*

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that prices on a per account or per transaction basis have increased either in line with inflation or at a lower level.

MR. STILMAN: Yes that is a fair summary, this was an analysis of the performance over the last several years and those... that is a good summary of the conclusion of the analysis.

MR. PETERSEN: Fine, now it is that what I want to explore, and just to avoid  
10 misunderstanding let me make it clear that I do not doubt that a rising tide will lift all boats but in a competitive market, and what I am pursuing here is guidance as to what conclusions one can draw about competition, the state of competition, in a competitive market would we expect to see increasing economies of scale with lower unit costs reflected simply as increased profits?

MR. VON ZEUNER: Bob can you handle...

MR. STILMAN: Yes I am just thinking about the answer and actually feel it is fairly  
20 complicated having to do with the, well with, demand, the way which demand shifts but in any event, what you would expect to see is, as demand is expanding in the overall market, you would expect to see the increased economies of scale, lower unit

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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cost and as to what implications that should have on the level of prices in the industry, that is something that is actually is a matter of theory is..., I do not think you can give an unambiguous answer on.

MR. VON ZEUNER: I think we must just Chairperson, also add that I mean, yes, we are looking at the market conditions. I think what we also cannot deduce from this is some of the responsibilities placed upon the banks for instance, emanating from a Financial Services Charter. As we roll out our distribution, which is not necessarily at the level of sort of producing to the level that some of the existing infrastructure necessarily is. So I must say I am a bit concerned, I take it that the assumption is right but I think when we talk about unit cost et cetera, et cetera we must also see in times of where we are with investing for the future and some of our social responsibilities.

MR. VOLKER: Can I add something to that? I think by way of contrast, I just like to look at a bank like Capitec versus ABSA. I think by no stretch of the imagination can we say that Capitec is a major player for example in the payments environment. It is not their main business. Their main business is probably in the lending

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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environment and they are very good at that, they are making a lot of money on that in that environment.

So it depends on what business you are looking at. I do not think in terms of unit costs *per se* that is a major issue for Capitec for example. So they make a lot of money as a bank and yet the unit cost argument is not as appro..., as valid for them as for us. In fact they can cross subsidise probably some of the costs associated with transacting that we would not be able to do because we got a different profile of  
10 customers and a different business.

MR. VON ZEUNER: I think we also, and I am sort of back to the question on comparability, I think one must..., if we look at comparability, I think it is important that we just look at the history of the banks as well. I mean that the new entrant today is surely in a position to cherry pick and structure themselves more effectively. If we for instance take a product like a cheque account today, I mean a cheque  
20 account product for all intents and purpose is a dying product. You do not need to have that in your range of offerings today if you would enter the market today for the first time.

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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I think the..., the fact that you got a heavy burden on your infrastructure, distribution there were definitely a time when your bricks and mortar was definitely an asset. It is not an asset necessarily today, particularly with some of the opportunities that you have on piggy backing on some of the other role players that you can banks or non-banks. And then I think as we have alluded into our presentation, it is important that we strike the balance between investment, savings, lending and transactional activities, which allows maneuverability and alternatives to other role players which in terms of the discussion up to now, I think I just want to put it on the table, in terms of cost from a transactional perspective and cost over the wide spectrum of products and services that you offer that that be put into context.

And I think that was part of our problem in terms of making certain information available in the submission that I do not think that necessarily is always available. And I would just in terms of one of the comments Mr. Petersen that you made that you said ABSA and Standard Bank did not disclose the information, I think it might be the Chairperson, if one draw the assumption then let say that some of the other banks would have made that available, I think the makeup of the business is

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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substantially different which one must just bear in mind when you do those comparisons on.

MR. PETERSEN: And Mr. Von Zeuner you can rest assured that we will give very careful attention to all the points you have just made but I want to take it back if I may to the main stem of my question, and this is really our opportunity to get your assistance because you did tell us and I raised it before, that since banks are involved in a number of different activities, if profitability analysis is to be undertaken it is necessary to examine profitability at the level of different products or segments depending on the relevant market and I do understand that there can be and no doubt is some cross subsidisation also between segments. You have indicated that you are not sure whether Mzansi is returning a profit or a loss but clearly if it is a loss that cannot be dramatic otherwise that would be evident to you. Now let us come to your two..., your first two retail segments above Mzansi. FBS, you just for the record remind us what that stands for?

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MR. MC : FBS stands for Flexi Banking Services.

MR. PETERSEN: And that covers a segment of the market, how defined?

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*Pretoria  
17 July 2007*

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PRICING BEHAVIOUR & MARKET POWER

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MR. MC : Income is less than R5 000, 00 per month.

MR. PETERSEN: And then income from R5 000, 00 up to...

MR. MC : R41 000, 00.

MR. PETERSEN: 41 thousand Rand per month, you have the RBS...

MR. MAC : Retail banking.

10 MR. PETERSEN: Retail banking segment, right. Now in your data and I am not going to mention the figures, but if you would allow me to generalise and you can correct me if I am not interpreting the figures properly, you show over the period 2002 to 2005 a compound average or is it aggregate, compound annual growth rate, CAGR for a number of segments, number of product lines.

I am going to limit it to FBS. Well go to page 10 in CRN, in Annex 4. I am going to confine myself to FBS and RBS. If one looks at the figures on page 10 and then over  
20 the page on page 11, let me express myself carefully, we have profit rising at a compound annual growth rate essentially the same as the rate at which revenue has increased over that period.

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*Pretoria*  
*17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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In other words I am comparing the first line of table 3.1 with the first line of table 3.2 and I am looking at the CAGR column. So we have revenue rising at a compound annual rate and for FBS, which is the lowest segment above Mzansi, you have profit rising at essentially the same rate.

CHAIRPERSON: Mr. Stilman wanted to say something?

MR. STILMAN: Yes I just wanted to..., well I will let you finish your question and  
10 I have an observation, I would submit that the..., it is important that the Table 3.1 is the profit measure and that is the consequence of the shifts in revenue and cost and so the shift in revenues in 3.2, the shift in costs in 3.3 and so you are seeing as..., so what I would..., and again I probably should let you finish but just on that first comparison...

MR. PETERSEN: Please...

MR. STILMAN: The first..., where I would say is I see revenues going up by 23...,  
20 well a given figure in FBS expenses in table 3.3 for FBS going up about the same amount and so just as a matter of percentage, that means that the profits are going up at about that same amount and then we move on to your next point or...

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*Pretoria  
17 July 2007*

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PRICING BEHAVIOUR & MARKET POWER

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MR. PETERSEN: I hear you, I am quite comfortable with that...

MR. STILMAN: Okay so I just...

MR. PETERSEN: You have identified...

MR. STILMAN: There is just three pieces. There are three pieces to the puzzle.

10 MR. PETERSEN: Sure the critical piece we..., we also know something about price,  
the critical piece we do not have is volume but one can get to that from computing  
the other elements it seems to me.

MR. STILMAN: Yes.

MR. VON ZEUNER: I think Mr. Petersen just to in that number if you say what we  
have and do not have we must again just highlight the role of impairments.

20 MR. PETERSEN: Certainly, in the RBS segment, I detect from these very same  
figures a significantly higher rate of growth of profit than the rate of growth of  
revenue.

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*Pretoria*  
*17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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MR. STILMAN: Yes because the growth in revenue exceeds the growth in cost over the period and because of the leverage, you know because profit margins are a small percentage of the total, that implies a bigger percentage increase in the profits.

10 MR. PETERSEN: That I follow and thank you because that saves me several steps in what I would otherwise would have to go through because it takes me back to the main question that I have started with under this heading. In good times when volume is expanding, when revenue is expanding, when cost, unit cost is not expanding as fast as revenue. In other words in real terms or total cost is not expanding as fast as revenue, in other words unit cost is in fact coming down. If the market were price competitive, I know competition is not exhausted by price competition, but if the market were price competitive in this segment, would we not expect to see the benefits of those cost savings passed through in substantial measure to the consumer by way of price reduction and I cannot see on your data and look also at the next page where you give the rate of increase of prices in RBS, I cannot  
20 see that that has happened and so what I am asking you to address is, why should I not draw the conclusion from that, that in this segment at least you have not been

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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under the pressure of effective price competition during the period covered by these figures?

MR. VON ZEUNER: I think again and sort of not to repeat myself but I think two issues that is quite important is, the role of the expenditure, I mean as you have rightly said I mean if the conditions gets more favourable and everything that goes with it, one thing that is sort of quite a burden on expenses at the time and let us talk about the retail environment over the last three years when it was pretty favourable conditions. If you look at the increase at staff costs, staff numbers and again look at the investments that were made within distribution. Now bear in mind that some of those, there is capital investments amortised over a period of time so you do not see that impact fully.

I just would caution against an over simplification of that comparison and not looking at the investment component in technology and infrastructure and people in that period of time and also changes in how we look at impairments and reporting of impairments. So I think I am cautioning over, over simplifying by merely saying because of the one, we should see this. I do not think that necessarily follow and if I

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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cannot demonstrate you the investment in infrastructure and distribution people et cetera, et cetera then obviously I would agree with your statement.

MR. STILMAN: I also want add one other thing which is that in virtually in any industry I think you are going to find that there is fluctuation in levels of profit over a business cycle and so finding that during these good times the demand has grown and the activities picked up and there has been an ability of the banks to realise increased economies of scale, showing that that has been accompanied by some increase in profitability in this area, I do not think you know in itself is something that you know distinguishes the banking industry from many other industries that one finds.

I think you know we also have to be careful in these analyses about not testing real world industries against what I call a false benchmark of a perfectly comparative market wherein a perfectly competitive market, which is never seen in the real world.

You know you had these kinds of relationships that every change in costs is then mapped through quickly and fully and exactly to the price that is not the way the industry is (indistinct).

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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MR. VON ZEUNER: I think just on that point, I think it is..., let us conclude to say we do not agree with the statement and I think one but we must understand Mr. Petersen, I mean the cyclical nature of that retail business and certain investments that we do make in the up time to cater for some of the activities in the down cycle and I can explain for instance where we are at the moment.

10 I mean if you look at customer growth volumes, I think for the past couple of years we had that in double digits, given where we are currently and all the changes, I mean it is in a single digit number. You see the concomitant that are increases currently in delinquents in arrears and normally if one look at the cycle, that is the investment that we need to make in the up cycle to cater for when we are in the current level of a down cycle and therefore I do not think that you can necessarily say that increased volumes, increase income you should see a price reduction, it does not follow.

20 MR. PETERSEN: How, may I put to you two difficulties I have with what have just been said. First of all I do appreciate that there is no such thing as a perfectly competitive market. Secondly under the same heading, it is not at all my intention to suggest that competition is not effective unless the whole benefit of costs savings is

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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past through to the consumer. It is a matter of degree one is looking at here and to see whether we can diagnose the existence of a, not an ABSA specific problem, an industry wide problem revealed by the ABSA facts.

MR. VON ZEUNER: Yes.

MR. PETERSEN: Okay and the question therefore for me is not whether you did good things with the surplus such as invested, the question is were you able to make that decision or what to do with the surplus because you were relatively sheltered, not uniquely...

MR. VON ZEUNER: Yes...

MR. PETERSEN: From a compulsion, a competitive compulsion to pass more of it through as a benefit to the consumer in reduced prices. I am purely raising this to see whether it as it were, takes the temperature of competition because it is not a..., in my view a satisfactory to answer to say that “do not worry about the price I am charging the consumer because I am putting it to good use.” The competition question is have you got that freedom or are you constraint by such competitive

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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pressure that you must find your investment capital from other sources than the consumer price?

MR. VON ZEUNER: I think I would just like to just in terms of clarity, my comment of the good things in terms of a Financial Services Charter, I moved beyond that. I say that if one look at the price increases of ABSA over this period in the documentation, I believe that the fact that we were at a level of dealing with prices below the rate of inflation in that time, is some of what I could give back to the consumer. It is not at the level of price reduction where you are but it did enable me to think different about prices, which I have done in the past at a much higher level as what I have done over the last few years. On the other hand also I think to deal with some of the issues of volatility in a cyclical nature or a cyclical business, there is certain not the good things, there is certain reality and necessities that I need to do to position myself for the down cycle so that there is a level of consistency in my approach to shareholders et cetera, et cetera and I think therefore the competitive issue is not the issue really for me in that time. I think it is managing the business through a cyclical nature but allow for a level of sustainability in the broader

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*Pretoria  
17 July 2007*

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PRICING BEHAVIOUR & MARKET POWER

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performance of the group. Johan I do not know whether you can come in on some of that?

MR JOHAN: No I agree a 100% with that. I mean you can manage your costs in isolation but separate from the income and we kept our income below it or increase below inflation. Our cost is running a lot higher than inflation in double digits for over the last three, four, five years because of the increased volume so the scale benefit definitely adds to the (indistinct).

10

MR. PETERSEN: But sorry that is not so with respect in regard to RBS if I look at this table.

MR JOHAN: Yes you have to challenge the allocation methodology behaviour. That is why you probably need to look at the personal bank level, to get a better picture of what overall cost over that period.

MR. PETERSEN: Well even if its not double digit but Mr. Von Zeuner you will appreciate it, take on board what you say, but you will appreciate that the kinds of information that is for understandable reasons presented to the public on occasions like this and not just by yourselves...

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*Pretoria*  
*17 July 2007*

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PRICING BEHAVIOUR & MARKET POWER

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MR. VON ZEUNER: Sure...

MR. PETERSEN: Our prices have increased either not at all in the case of Mzansi...

MR. VON ZEUNER: Right...

MR. PETERSEN: Or in line with or even below inflation, wonderful it seems, but hang on a minute, if such a large part of banks' costs are fixed costs and if the increase in profit, which is significant in some segments, is so largely accounted for by increased volume, it must be accounted for by lower unit costs. So the question therefore is why have prices not come down, not that it is an answer to show that they have remained level or only gone up slightly.

MR. STILMAN: Can I just say also that I think in better than this is a thought that there is a..., or rather that there should be a tight relationship between changes in price and changes and average cost and that is not right as a matter of economic theory. What we talked about is various points in this whole process is how prices actually do get determined in this kind of industry and how you will, really will not and how prices will exceed marginal cost throughout the whole bank and how..., the replication of that is that there are changes in marginal cost there maybe changes in

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*Pretoria*  
*17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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price in the optimal set of prices that even a bank in a rivalous industry should be charging but simply a change of scale in a reduction in average total cost, that is the unit cost, it is not something that is a matter of economic theory even a competitive oligopoly, oligopoly is a competition market should be mapping through necessarily to price changes of the same magnitude or even necessarily at all.

10 It depends on this..., some of the pricing in an oligopoly where you have multi-product firms and lot of fixed costs is complicated but it does not..., it is not driven by changes in unit costs and I think maybe the thing to do on that also is because you sort of ventured into a couple of areas that have some fairly sophisticated economics that it might be useful for it to come back with a short note on economics that passed through, to what extent, what can one infer by competitive conditions from pass through. How price changes should relate to changes in average unit cost, the relevance of the demand elasticities and the (indistinct) I mean it is a set of technical points and it all come together to answer these very important questions you are  
20 asking which I think I know what I would like to do is actually put them down on paper and submit them to you.

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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MR. VON ZEUNER: Can I just for my own clarity because I mean clearly we do not address your question by some of what we answer. I mean if one, and I run the risk of taking one line, if we take for instance staff costs in that time of higher revenue and when there I then the view of unit cost et cetera. I mean staff cost increases is in excess of 10% and so it works on other lines as well. If one look at for instance at IT infrastructure dependent on a lot of international expenses et cetera, exchange rate and so forth.

10

Some of those expenses must be addressed by the higher revenue of the favourable cycle at that period of time. I am not sure that I clearly understand then where I show you the higher expenses as you have indicated in the document, I mean pretty much at the line of the revenue increases, why not the clarity on why there cannot be fee reductions as such.

20

MR. PETERSEN: Well it may well be with respect, that we will be most assisted by some supplementary submission in writing on this to address the issue of pass through, but if I see in a sector over a sustained period of at least four years, a growth of..., a growth rate of cost, total cost at "X..."

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*Pretoria  
17 July 2007*

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PRICING BEHAVIOUR & MARKET POWER

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MR. VON ZEUNER: Yes?

MR. PETERSEN: A growth of revenue at “X” plus so much...

MR. VON ZEUNER: Yes?

10 MR. PETERSEN: And a growth of profit at “X” plus-plus, okay then my slow brain tells me that costs do not account for the relative stability of prices and so I still want to know whether it is..., and let me emphasize this is not in anyway an attack on the way in which the bank is run, on the soundness of decisions of what you do with your resources, okay?

MR. VON ZEUNER: Yes.

MR. PETERSEN: It is a question of whether I can deduce from the lack of pass through of the benefit to the consumers...

MR. VON ZEUNER: Yes.

20 MR. PETERSEN: That you were not under intense competitive...intense pressure of price competition...

MR. VON ZEUNER: Yes.

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*Pretoria  
17 July 2007*

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PRICING BEHAVIOUR & MARKET POWER

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MR. PETERSEN: During that period in that segment.

MR. VON ZEUNER: Let us then agree that we will furnish you with further information on it and I would from our side make two closing comments on that. The one is that I think on hindsight the information in the pack on 2002/2005 extremely favourable conditions, I would then like to come back to you with more information on a more representative time period where the down cycle is better reflected as well.

10

And then secondly, I think which clearly does not come through on either side in your sort of conclusion on this, is certain bank charges and fee might have remained at a particular level but it excludes certain offerings in that time that for instance were put forward at a lower prices that we have done away with or information or offerings that we have made for free. For instance I mean cell phone banking as a consequence of competition, remaining free. Certain benefits in terms of default charges that has been lowered and done away with and I think let us then take a sample of a ten year period of time with your questions and comments that you have made and put that forward in an additional paper a.s.a.p. where we will demonstrate the impact of competition as certain offerings benefits to the consumer because of an

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*Pretoria  
17 July 2007*

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PRICING BEHAVIOUR & MARKET POWER

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up cycle but also certain realities of investment for the future that we had to do within favourable times and I trust that could put more perspective to the conclusions that you draw.

MR. PETERSEN: Thank you.

MS NYASULU: Can I just follow that..., follow-up on that question because I have a much bigger puzzle than even Mr. Petersen and maybe in your responses you could help me with this one. And it has to do with the issues of cost particularly fixed costs, and I think all banks have said those account for about 80% of the costs, and the issue of absorption and do pardon me because I have grown up in a manufacturing environment where the thing that costs you the most in terms of fixed cost is the one that you put volume through and it is the only way that it is going to wash its face, through volumes.

Now banks put forward the argument that says they have fixed costs which account for 80% and those sit in the branches, the staff and all of those things and yet you getting..., you are encouraging behaviour that moves away from all of those things that are washing, that are costing so much. To me the logic would have been branch

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*Pretoria*  
*17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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networks and all of those things cost me so much money and so I want lots of volume through those kinds of things so I am totally puzzled by the kind of behaviour....

MR. NAIDOO: Yes I think...

MS NYASULU: Or behaviour change that banks are driving.

MR. NAIDOO: Yes I think to the points that we have made earlier when we..., the way we define a broad based offering is multi product and multi channel, so in fact if  
10 you go back five years, branches were certainly not the flavour of the year, I think in general globally we saw banks try to move towards more of the electronic channels. The reality is that right now branches are pivotal to our business so it is by no means a case of driving away from the branch infrastructure.

It is just the nature of what we do in the branch versus providing the convenience and accessibility through other channels so there is no penalty of any sort for using one  
20 channel versus another in the context of our full value banking, we are rather saying that in a branch there is a specific type of transaction that you may wish to conclude either by nature of its complexity or language, but for the bulk of your transactional

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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type of services, the telephone, the internet and mobile banking in particular can give that to you. So there is a place for both.

MS NYASULU: You see that make absolute sense to me because then I can understand the absorption issues around that, except that in every submission that we have read, you know, whether you are asking questions about penalties, “oh they can avoid this fee if they move to internet banking, “they can avoid this fee if they move to electronic banking.” So you know, that is where the confusion comes in for me. 10 You have a high cost fixed cost thing. You want 120% capacity going through it to..., for it to wash its face. I think if you will explain it the way that you have, it make sense except that there is a misalignment in some of the things that are in the submissions.

MR. NAIDOO: I think it comes back to the nature of business that is conducted in branches and I think what we have certainly seen the internet, mobile and ATMs is a shift toward the electronic channels for the transactional elements of banking, but to 20 the point that Louis made earlier, elements of savings and investments, credit cards, home loans, vehicle finance and other products are still serviced most adequately and most appropriately through those branches. So what we actually seeing are volumes

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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across all our channels. If I look at just our mobile banking channels that is currently doing four million transactions a month, two years ago that number was almost miniscule. So we actually have seen the uptake on those alternative channels as well.

MR. VON ZEUNER: Venete?

MS KLEIN: I think just to add on there, the branches are a vital part of..., for us to deliver our service. I mean to a point where on average you got about 13 500 people  
10 per branch but what we have seen in South Africa is that that is not..., that is not how branches should be built because I mean there is big bells and whistles, flagship branches same as in Sandton and all over.

What we are moving away from, what we are trying to do from an innovative perspective, is to build almost smaller, more serviceable, based on the needs of the people in a particular area. So we are building branches that can accommodate let  
say 9 000 people. I mean, I think, Diepsloot is an example. We are building a  
20 branch there but in terms of wanting to put points of real service ability, instead of building one branch, which maybe within the seven or eight kilometre radius from somebody, we are going to be putting down four points of presence.

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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Not lower cost and lower grade but so in terms of densification people can be closer to their points of contact and as Alfie has said, customers typically do not want to go and just go to an auto teller, it is an education, it is a process we take them through but the thing that encourages me with the innovation that we can embark on whilst looking at the branches and that expansion is, you know, we have got customers on the other hand saying to us “you know we want to make more use of your auto tellers but we cannot go to your auto teller and deposit money because it takes us too long to get credit.” So we are now looking at what we call the “cash machine” where you got identification of the notes as it goes through so you get immediate credit. All those innovations are things that we are focusing on to get people better and better equipped for the services that they require.

MS NYASULU: Sorry it is not my floor, it is Mr. Petersen’s but so can we anticipate that we will see fixed costs start to go down as we take the frills out of the branches and that?

MR. VON ZEUNER: Well I..., can I on the fixed cost for instance, just comment? I mean, we have basically now lost out on opportunities of in sourcing certain activity in the South African contact centre industry because of the impact of Telkom costs.

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*Pretoria  
17 July 2007*

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PRICING BEHAVIOUR & MARKET POWER

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So I think if just to qualify on that, I think we will see reduction on that fixed cost but there are costs that currently is out of our control and we for instance believe that there are ways and means that we can look at additional revenue et cetera if some of those cost gets addressed in a similar way and I think that Alfie is important.

MR. PETERSEN: Now I want to move on to something slightly different. I want to quote to you and they fairly short quotes and I can give you a copy of what I am quoting, two statements of economic theory. Again with the caveat that I am not seeking to build a whole universe on statements of this kind but just to understand whether you would accept that these maybe valid dynamics or potential dynamics in the banking situation here. I mean it seems to me they are just common sense but it often sounds better if common sense is quoted out of a textbook. The Economics of Regulations and Antitrust by Viscusi, Vernon and Harrington 3<sup>rd</sup> Edition, published by the MIT Press in Cambridge Massachusetts, page 109 to 110, I quote:

*“One of the most significant ways in which firms compete is by trying to make their product unique relative to other products in the market. The reason is that the more differentiated is ones products, the more one is able to act like a*

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**Pretoria**  
**17 July 2007**

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PRICING BEHAVIOUR & MARKET POWER

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*monopolist that is you can set a higher price without inducing large numbers of consumers to switch to buying your competitor's products."*

Since it is on the same point maybe I will give you the other as well and then you can consider your advice to us on that. In similar vein how are Varian, V A R I A N the University of California in Berkley in Intermediate Micro Economies and Modern Approach, 5<sup>th</sup> Edition, page 453, I quote:

10           *"It is possible to produce models of monopolist competition,"*

I read that to mean models of oligopoly behaviour,

*"Where there is excessive product differentiation in such models each firm attempts to make consumers think that its product is different from the products of its competitors so as to create some degree of market power. If the firm succeeds in convincing the consumers that their product has no class substitutes, they will be able to charge a higher price for it than they would otherwise be able to do."*

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And then he goes on:

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**Pretoria**  
**17 July 2007**

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PRICING BEHAVIOUR & MARKET POWER

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*“This leads each producer to invest heavily in creating a distinctive brand identity.” And his illustration is not banking, it is laundry soap. “Laundry soap for example is a pretty standardised commodity yet manufacturers invest huge amounts of money in advertisements that claim cleaner clothes, better smell and a generally happier existence if you choose their brand rather than the competitors.”*

10 Is that sound economic theory?

MR. STILMAN: Okay let well let see. First of all how Varian and Skekuzi (?) are both very well known and highly reputable economists and I am not familiar with Viscusi co-authors but those are..., there is no question, these are main stream economic textbooks and what is being described is I think, what you have said accurately, is a form of what goes on and all the oligopolistic competition, where you as in many, many industries, laundry soap, cell phones, banking, you name your industry, there are efforts by firms to differentiate their products because they think in part that is something that be you know give them the comparative advantage that they thinking up the product that is well suited particular knishes of the market and

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**Pretoria**  
**17 July 2007**

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*PRICING BEHAVIOUR & MARKET POWER*

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can persuade customers or that get information out then they help create a demand for their product.

The Varian quote was interesting because it went off in sort of a different direction started raising the spectre of excessive differentiation and sometimes one hears that in the context of advertising, can be excessive advertising where essentially money is sort of spent to create these differentiations or differences that are not real but they are just you know nonetheless something that is privately profitable but socially wasteful and I do not think, I think competition economists, regulators, lawyers are familiar with that literature and always wonder about and grab the theoretical possibility and always wonder about its practical adaptability because the question is do you really want to in the industry you get in and start trying to regulate the degree of differentiation and distinguish good differentiation from bad differentiation but on the..., I think maybe the heart of your question is, this idea of the relationship between differentiation and market power and whether one can think of the output of differentiation as the creation of a form of sort of mini market power, a local market power. Power with respect to a particular power...

MR. PETERSEN: If I may interrupt you?

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*Pretoria  
17 July 2007*

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PRICING BEHAVIOUR & MARKET POWER

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MR. STILMAN: Yes?

MR. PETERSEN: Some sheltering from price competition?

MR. STILMAN: Well yes indeed because you could, if you sort or take ..think of one and this is I think any business, anybody who has been in a business school will be familiar with this lecture. If you are in a market where there is a commodity product, there is fierce price competition and so what firms will try to do is hopefully

10 they can come up with a different business model to distinct, differentiate themselves and not have..., not immunised themselves from competition but perhaps immunised themselves and reduce the price competition in the sense that they no longer in the situation of a perfectly competitive firm or in a commodity market where the slightest increase in price prompts all your customers to leave. Instead if you have a..., if you created a product that is unique, you know, well suited to particular customers, mind

20 you that is delivering value to customers, then you are raising the price will not necessarily prompt mass exodus because you now have got a differentiated..., a different share of profit, valued proposition is and having more the business way of looking at it. So that in economic terms means you have got a departure from perfect competition that is what you have in this market.

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*Pretoria*  
*17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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UNIDENTIFIED MALE: You do have firms each of which in some sense have faced downwards sloping demands or not have a..., you have a measure of market power but it does not..., but that does not then in competition terms, then lead to a conclusion that you have a competition problem. So I do not think you were going to that last step, I think you are just trying to ask the question of differentiation, can it be, can you draw an analogy, does it have connections with the creation of, if you will sort of local market power and I think that is a fair way of looking at it, but I think one should be very cautious about going from that observation which is very common place and no disrespect, but very standard observation, to and kind of conclusions about the competition laws, policy implications.

MS NYASULU: I think we should move away from non-research so I am not conflicted.

MR. PETERSEN: I think Ms Nyasulu was once in charge of the mailbag at OMO. You see obviously where this is pointing is towards trying to make an evaluation of the extent to which product differentiation is just necessarily follows from the combinations of products and services that customers want or to what extent it is

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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exaggerated in the interests of sheltering the providers from price competition. That is the area of evaluation that we are trying to or I am trying to probe here.

And so what I would want to ask you by follow-up is would you agree that individual banking services, accounts, transaction types, payment channels are by their nature inherently generic, that is to say they were tend to become commoditised, regarded as simple equivalence by customers, yet because of the multi product or multi service nature of most customers wants which to my mind obviously justifies bundling of certain kinds, banking services are in their nature easily made more complex to compare than is actually warranted.

MR. MC IVOR: Mr. Petersen I am not sure I..., as you said earlier you sometimes battle with slowness, for me it is worse. I am not sure I understand the question. I would submit that customers are..., we are led by customer desires where I indicate that there is a particular technology or a particular ability or a particular channel that would be more convenient for them to use, we go down that particular path and offering them the service. The extent to which we deal in commodities and the process of that addition value add is not perceived to be a value add, I struggle with, and also our point that behind this price calculator and everybody says it is extremely

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*Pretoria  
17 July 2007*

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PRICING BEHAVIOUR & MARKET POWER

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difficult to compare prices, we would contend that we have a real live working example of something where it is not that difficult to compare prices, it can be done.

The debate then centres around how difficult it is to compare the value of these particular add-ons. My argument would be that that is largely dependent upon consumer choice. If I happen to value an internet banking channel more than I would value cell phone banking, free cell phone banking for me has absolutely no relevance but free Internet banking would be significantly relevant, and I think it is on the basis  
10 of those questions that consumers make choices.

MR. PETERSEN: Thank you, I hear you but am I not right in saying that it was found by the UK Competition Commission to be the case, excessive complexity and difficulty of comparison of product bundles when it investigated personal current accounts in Northern Island, was that not one of its findings?

MR. NORTON: I suppose our point of departure might be slightly different from  
20 yours. If I understand you, what you are saying is that product complexity is a means of immunising yourself from price competition.

MR. PETERSEN: Not entirely.

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*Pretoria*  
*17 July 2007*

*PRICING BEHAVIOUR & MARKET POWER*

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MR. NORTON: But a method...

MR. PETERSEN: Can be...

MR. NORTON: Or can be.

MR. PETERSEN: Okay.

10 MR. NORTON: That is what I understand your argument to mean. I guess our argument would be quite reverse, that product differentiation is actually response to competition out there in the market and I guess our point of departure therefore is quite different from yours and I suppose that is probably where we see things slightly differently.

20 MR. VOLKER: And maybe just to add to that. I think we believe that differentiation in terms of products, channels et cetera has got real value, it is not just something that we market a little bit differently but underlying that product that is actually just a commodity.

So I think the fact that ABSA specifically and I think most banks are like that really spend a lot of money in terms of new innovations and we believe it is important to be

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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at the market first with a new innovation, be it cell phone banking, being first to the market with a debit card, being first to the market with smart cards or chip cards, we think there is a real innovations that are of value to the customer and really do differentiate us from our customer far more than a commodity product would do and that we just differentiate through different packaging or marketing.

10 Obviously, I think over time, a new innovation would become commoditised as the competitors catch up to that. They would probably market it at different, price it different but at the same time we would then be already be busy with a new innovation. It is a constant process and we think it has got real value and real significance in the product environment.

20 MR. NORTON: And can I just add one point on your Northern Island analogy? If you are right and we are wrong, no if your point of departure is the better one and ours is incorrect, then I guess we would say the appropriate remedy is the one we have put up on slide 2 because those are in keeping with what the Northern Island Competition authority recommended, you know, rights reminders, transparency measures effectively and I think that is why we put a lot of emphasis on our industry code upfront this morning because we think those were measure which we in keeping

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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with what the Northern Island Competition authority recommended. We have gone a couple of steps further I think in what they actually suggested, but we think if transparency and comparability is really the crux of this issue and if that is a real concern for the Panel's perspective then hopefully the remedy has been put on the table this morning, are really directly directed to addressing those issues.

10 MR. PETERSEN: Thank you, obviously I would want to consider very thoroughly whether that raft of remedies that you put forward and others of..., in these hearings put forward similar remedies, would be adequate to address any problem that we may find of insufficient intensity of price competition in this differentiated area but let me leave that subject there.

20 Now switching and switching costs have been covered in many of these hearings and I do not want to labour the issue today. You have obviously said whatever you wish to say on that. I just want to take up one point which I find addressed in Annex 4 again of the founding's submission on page 51 to 52. Mr. Stilman you discussed the point that where switching costs are high, there is accordingly an increased incentive of the bank to win customers and which they can then hold, this can they often

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*Pretoria*  
*17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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intensify *ex ante* competition, in other words competition at the time of recruiting the customers.

But if that *ex ante* competition were price competition, effective price competition then the advantage of holding the customer would tend to be lost, would it not? So it is not the likelihood. Should I not build on your point by saying “yes very important but it is not likely to be price competition *ex ante*?”

10 MR. STILMAN: I do not think that, I am just thinking now is the models and the theory of it, I do not think that really follows, I mean you could certainly have around intensive price competition. I suppose, it is just for a one year’s contract, I mean I am going to step outside banking just to help myself think through it, but if we imagine a situation where people sign up for one year contract and there are switching costs once you got a relationship, so then we have very intense competition for the first year on price but now once we have won the customer, maybe there is a switching cost problem and so sure...

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MR. PETERSEN: I believe that is called in the classics “bargain now and rip off later?”

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*Pretoria  
17 July 2007*

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PRICING BEHAVIOUR & MARKET POWER

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MR. STILMAN: Yes, is that not nice, yes...

MR. PETERSEN: But I am not suggesting that you will appreciate that. I am suggesting that the way of doing that, if that is not happening in the price, in the sphere of price competition, the *ex ante* competition could well take the form of non-price competition.

MR. STILMAN: Yes.

10 MR. PETERSEN: Which has then the effect of the captured customer being able to be held while the revenue is extracted and not competed away that could be the effect of high switching costs.

MR. STILMAN: Yes, look I will let the bankers bring this back home to banking but even if I told you, even we set this thing up and said that the initial competition is going to be only a non-price means that could be a very effective form of competition in that dissipated any kind of profits that the vendor or the supplier might realise in  
20 subsequent periods. So I do not think it makes a whole lot of difference in terms of the theory whether the initial competition is in price or non-price competition.

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*Pretoria*  
*17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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MR. PETERSEN: Now obviously what I have been raising in the last few minutes is directed to this issue of the basic banking product idea and whether that is a necessary simplification. You have said that you do not support that but part of your argument has been that in reality basic accounts already exist. Well in that case surely only slight tweaking would be needed to make them fully comparable in their core features.

10 MR. NAIDOO: Our sense, yes our sense is that give a customer feedback and the competitive environment that the basic product does exist and the basic product exists as a combination of both product features as well as access. You will recall we have come back to that notion of the full value banking where accessibility, convenience and security are key elements of that and we believe that for either the lower end or in the middle market where that need exists, that a combination of 7 000 ATMs that are available, the 700 branches, a piece of plastic for your basic transacting through those channels as well as mobile and/or internet technology will  
20 fulfill a large degree, if not fully, your transactional needs. Clearly when the products are more complex and more discussion and understanding is required that is a different train but certainly that exists and is available right now.

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*Pretoria  
17 July 2007*

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PRICING BEHAVIOUR & MARKET POWER

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MR. PETERSEN: It is...

CHAIRPERSON: No I just want a bit clarification, are you saying it exists across all the banks or only with regard to ABSA?

MR. NAIDOO: I would think by virtue of all banks offering mobile banking and internet banking as well debit functionality in some fashion it does, yes.

CHAIRPERSON: Okay.

10

MR. PETERSEN: And by the way before I heard you this morning I had flagged page 20 of Annex 4 where you compare Faulkner transaction profiles which you find quite unrealistic with ABSA's actual transaction profiles and it had occurred to me then well is that not a simple basis upon which you basic banking product or products could be constructed. So your resistance to it is, remains for me something a little puzzling.

20

MR. VON ZEUNER: I think we must just qualify in terms of a resistance. I think what we have tried to articulate is, I think at the core of what is frustrating or difficult for the customer today is more the issue of transparency and comparability and disclosure and not necessarily the product and that is why we said that you know, I

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*Pretoria*  
*17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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mean we can get to a..., and we can again take the history of Mzansi, where we are today with what was the initial intent and how things was added on et cetera. We believe that if we get the transparency disclosure right and the level that the customer can compare better, that the need for that one product might be less or even go away. So I think just to qualify resistance, I..., our..., we support a level of comparability and that rules be laid down for that. We do not think that the mechanism necessarily is a product.

10

MR. VOLKER: Maybe just to add to that. I think the approach is rather to say that there is maybe not such a thing as an average customer for which the requirements are all the same. I think the market consists of a whole lot of sub segments and the aim is rather to get to a segment of one person because essentially each person's needs are slightly unique and if we got a mechanism in which we can transparently and easily compare offerings, an individual customer depending on his particular needs can fashion the requirements according to their needs.

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MR. PETERSEN: Thank you, clearly what we are having to grapple with is whether there is some additional mechanism is needed like an obviously comparable product.

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*Pretoria  
17 July 2007*

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PRICING BEHAVIOUR & MARKET POWER

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MR. VON ZEUNER: Yes, sure.

MS NYASULU: Can I just interject because that is precisely for that reason that we are insisting that a customer should have the right to a basic product and it is precisely because customers have different needs to different uses. I mean why do we still have a regular toothpaste even though you could have ten different variants?

Why do we still have a regular tea, where you can have 20 variants of tea. That is  
10 recognition that there is segment of the population, which prefers the basic product as they have always known it? So I am not sure that I buy into this belief that because customers are different they must then have variants...

MR. VON ZEUNER: I think that is what we...

MS NYASULU: Forced onto them.

MR. VON ZEUNER: What we try to make, the point that we try to make in our  
20 presentation is I think we are in agreement with that. What we do say is there is a basic product. It is a matter and therefore we said specifically in our slide, we do not think there is a need for another basic product. There is basic products and that we subscribe to, we just thing that given the different profiles of customers, the different

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*Pretoria  
17 July 2007*

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PRICING BEHAVIOUR & MARKET POWER

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segments that we serve, I do not think that argument necessarily means there must be another basic.

MS NYASULU: Now would you say..., sorry Rob, if I may follow-up?

MR. PETERSEN: Please take as long as you...

MS NYASULU: Would you say that the characteristics of that basic product are the same from bank-to-bank?

10

MR. VON ZEUNER: It seems to be...

MS NYASULU: Because if that is what you are saying then our problem has been solved.

20

MR. VON ZEUNER: I think and that is again the point that we made in the..., in this..., in our presentation this morning. We say that the moment we bring the additional requirements of the customer into play that is when we are back at square one because it makes it extremely difficult if one talks about the basic product, I think that the basic, let us take a basic cheque account, I think there is pretty little in terms of differences, between what is the basic cheque account that gets offered by

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*Pretoria*  
*17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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the different banks. The complexity is with the add-ons that we put to the product and now we say let us accept we have the basic product and let us control and regulate the way in which we disclose and communicate the add-ons. Then we do not need another basic product and that is our point that is our view.

10 MS NYASULU: Now so, you taking the basic variant of a product. What we are talking about is the basic suite of products or services that a person needs. All I want when I wake up in the morning is to be able to save my money in a place other than under my mattress, his to be able to retrieve that money when I need it, is to be able to..., you know maybe.

MR. MC IVOR: Transact.

MS NYASULU: Yes...

20 MR. MC IVOR: Yes, the differences then come in Mrs Nyasulu in terms of how you get the money in and how you retrieve it, and how far away that place of retrieval is and that is the point that we are trying to say is you have got that right now but it is the way in which all of those options that may suit you differently to me be best disclosed in a way that is not confusing that has (indistinct)...

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*Pretoria  
17 July 2007*

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PRICING BEHAVIOUR & MARKET POWER

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MR. PETERSEN: Sorry is it not also a question of if it already exists, the need to make it obvious across banks and therefore directly comparable by customers across banks and circumvent is confusion which can only be resolved on your methods by going to some complicated calculator...

MR. VON ZEUNER: We support that, but I mean we caveat it by saying control, the additional that brought about the confusion up to now that is what we propagate and there I think your statement is relevant and correct, to say in what there is in the existing might need smaller tweaking to achieve what you have just explained.

MR. MC IVOR: But that does not apply Mr. Petersen one common product across all banks.

MR. PETERSEN: Might require more than one, sorry.

CHAIRPERSON: I do not think my understanding of what the technical team was saying was that it necessarily means a new product will be introduced. It is the feature they are talking about...

MR. VON ZEUNER: Well that is..., that...

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**Pretoria**  
**17 July 2007**

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*PRICING BEHAVIOUR & MARKET POWER*

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CHAIRPERSON: There will be basic features, which need to be common amongst all the banks so that people could be able to compare.

MR. VON ZEUNER: I think what we have said in our presentation exactly that, that we are of the view that, as I said earlier, we are just saying it need not be another one and I mean that is something that we were not clear on exactly what is the technical team's recommendation.

10 CHAIRPERSON: I think if I am not mistaken they actually put up a slide the last time we were here which basically showed which I made to understand was settled with all the banks, to say this is your basic product and all of them..., almost everybody confirmed that that is their basic product and then when they put it up it was clear to can compare all the basic products. So they are saying the features need to be..., there should be basic common features, which should be comparable.

MR. VON ZEUNER: And that we support.

20 CHAIRPERSON: And then if you want to add candy as they put it, and you can release that candy, and then you pay for, that like Ms Nyasulu had put it there, it is a side order when you go to a restaurant.

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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MR. VON ZEUNER: Sure but what we are say is, the add-ons there must be a standard of disclosure otherwise we are going to get back to where we are at the moment, Alfie?

MR. NAIDOO: Yes I think to the basic product our view is that on the transactional level that these seven categories form pretty much what most consumers would want to do from a transactional point of view and it largely talks to withdrawals, the deposits, card purchases and paying or transferring funds of some nature. So this class or these seven, I think are basic.

CHAIRPERSON: Are basic...

MR. NAIDOO: Are the basic and we saying a combination of if you look at accessibility, a combination of mobile or cell phone and a debit card is pretty much all you need to conduct these seven on a consistent basis.

CHAIRPERSON: So can we then engage the banks on the basis that there are these basic features, starting from there, these are the ones which are going to be comparable and starting who ever adds anything else then have to actually disclose that this now an addition for which I am going to charge so that it is easy for the

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*Pretoria  
17 July 2007*

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PRICING BEHAVIOUR & MARKET POWER

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customer to say on these basic features which had been agreed upon, I can easily say Bank A is charging more than Bank B or C.

MR. MC IVOR: I need to understand this.

MR. VON ZEUNER: Yes.

MR. MC IVOR: If you are saying that ABSA can have that Flexi Save Account and Nedbank can have its Transactor Account and FNB or Standard Bank can have this Plus Plan Account and each of those things are subject to standard rules of disclosure about the features that they have on, I understand it. If you saying that there is one account that each bank must have that is the same, the same features and the same benefits, I do not understand that.

MR. VON ZEUNER: Because I think just to be clear on that. I think that is our argument. We say, if there is one product then we need to put a new product into the range and that is what we not supporting. If we say we can still have our individual products but as you have said with a menu of basic standard characteristics to those products, that we can support. If there is a menu of basic standard characteristics to

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*Pretoria*  
*17 July 2007*

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PRICING BEHAVIOUR & MARKET POWER

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that product and then clear guidelines to how we manage the add-ons, that we support.

MR. PETERSEN: But sorry I understood you to respond to when I suggested that your own basic product could be tweaked...

MR. VON ZEUNER: Yes.

10 MR. PETERSEN: You seemed to respond favourably to that. Now you seemed to be saying nothing should be changed at all...

MR. VON ZEUNER: No, no that is not what I am saying.

MR. PETERSEN: In..., apart from disclosure?

MR. VON ZEUNER: No....

20 MR. PETERSEN: Now what if all the banks tweaked their basic product so that there was standardisation in the tweak?

MR. VON ZEUNER: You..., I mean my understanding of your point is, there will be a standard disclosure of the basics of a particular product and if that is the transaction types that will be consistent across the banks.

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*Pretoria  
17 July 2007*

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PRICING BEHAVIOUR & MARKET POWER

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CHAIRPERSON: And there is a fee for...

MR. VON ZEUNER: Absolutely...

CHAIRPERSON: Each one of them...

MR. VON ZEUNER: Absolutely.

CHAIRPERSON: Across the banks...

10 MR. VON ZEUNER: Absolutely.

CHAIRPERSON: Which can be comparable?

MR. VON ZEUNER: Yes that is standard...

MR. PETERSEN: Competitive pricing...

CHAIRPERSON: Yes competitive and capacity yes.

20 MR. VON ZEUNER: That standard will be there but then in terms of adding on to additional characteristics to Flexi Save, another level of certain disclosures as you have said that is up to the individual banks.

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*Pretoria  
17 July 2007*

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PRICING BEHAVIOUR & MARKET POWER

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MS NYASULU: Absolutely...

MR. VON ZEUNER: And we support that.

CHAIRPERSON: I think that is the message, which we were trying to...

MS NYASULU: That is exactly what we have been saying.

CHAIRPERSON: Trying to put across but a...

10 MR. VON ZEUNER: Well I think...

CHAIRPERSON: Mr. Stilman seems to have a different view.

MR. STILMAN: This one is not for me Judge Jali.

MS NYASULU: I think we should quit while we are ahead.

(Laughter)

CHAIRPERSON: Mr. Stilman you take (indistinct)...

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MR. STILMAN: This seriously, is not for me.

MR. VON ZEUNER: That is our position.

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**Pretoria**  
**17 July 2007**

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PRICING BEHAVIOUR & MARKET POWER

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CHAIRPERSON: That is your position.

MR. PETERSEN: I think I had my share of overs even though there are a few more balls I would like to bowl, but let me relinquish.

MR. VON ZEUNER: We seemed to be on the same wavelength. We said we must just now bat and not lose our wickets till lunch.

(Laughter)

10

CHAIRPERSON: I am worried about time but if we do not finish, can we sort of agree that whatever other questions we might have, we will get them through to you through the technical team because I know you still be having some engagements with the technical team.

MR. VON ZEUNER: That is fine.

CHAIRPERSON: Okay, Oupa you can take the floor.

20

MR. BODIBE: Thank you Chairperson, good afternoon Mr. Von Zeuner and the team. I have got the three questions and the theme is around costing and pricing and how you apply some of the principles consistently and not consistent and try to

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*Pretoria*  
*17 July 2007*

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PRICING BEHAVIOUR & MARKET POWER

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understand the deviations from the principle, as well as understanding the comparison between Mzansi and what you call a “Mega Save Account.”

So the first point, question I would like to make, it is an observation first and you can tell me if it is correct that in your..., the submission dated 15 March you emphasize why it is important to apply *ad valorem* pricing but I was struck by the fact that for Mzansi the justification is in relation to the Financial Sector processes why you are not charging *ad valorem*, what is the justification for the Mega Save?

10

MR. VON ZEUNER: Okay...

MR. MC IVOR: Mega U. Mega U is a transactional savings product that we developed and aimed for the youth market. I think not only did we invest in IT systems and capability like that, clearly we invest in client acquisition from an early stage and it has been said before that the youth represent the future. So we have this “Mega U” transaction product that is aimed at the youth. One of..., funny enough a product that has given us problems before because of its attractive pricing structure, it presents and opportunity for arbitrage from people that want to take advantage of that and do not qualify. So we have had people running businesses off the Mega U

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**Pretoria**  
**17 July 2007**

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*PRICING BEHAVIOUR & MARKET POWER*

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product. Really it is nothing more simple than a transactional product aimed at customers that are under 18 years old.

On the Mega U from a pricing perspective which we charge..., there is no monthly administration fee, prepaid top up purchases would be at no fee..., no fee. Maestro Visa electron point of sale would have no charge. Overseas it does attract a charge. Branch, we charge R2, 80 on an ATM withdrawal and that is versus Mzansi where you get five free credits and five free debit transactions per month included in the overall fee before you start paying.

So Mzansi was really intended to be an absolutely low cost product with very low volume transactors, new to bank entrants that gave them an opportunity to establish a basic banking profile at very low cost whereas the Mega U is aimed more directly at the youth market.

MR. BODIBE: So the pricing principles if I understand what you say is merely to make it affordable and attractive to the young savers?

MR. MC IVOR: And equally so for Mzansi to make it affordable and attractive for new to bank entrants.

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*Pretoria  
17 July 2007*

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PRICING BEHAVIOUR & MARKET POWER

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MR. BODIBE: The second question now, I was quite struck by the fact that for the first R100, 00 Mzansi is quite and I am not sure if this is confidential, but comparing Mzansi with the other account types, I found it that for the first R100, 00 it is fairly expensive and the references to that are the following. On page 13 of your...

MR. MC IVOR: Yes?

MR. BODIBE: 15 March and there is a table there on cash withdrawal fees.

10 MR. MC IVOR: Yes happy with it, yes?

MR. BODIBE: Can I quote on it?

MR. MC IVOR: Please.

MR. BODIBE: Can I quote it?

MR. MC IVOR: Please we did..., Mr. Bodibe we have given you a booklet.

20 MR. BODIBE: Okay.

MR. MC IVOR: And that discloses all fees so we are very happy to have it publicly, at the risk of pre-answering your question, on Mzansi we charge R3, 87 per

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*Pretoria*  
*17 July 2007*

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PRICING BEHAVIOUR & MARKET POWER

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withdrawal regardless of whether this is at an ATM, regardless of whether it is a Saswitch machine or whether it is our own machine. It is a flat fee. Within the Mega U space, we charge R2, 80 if I recall and...

MR. BODIBE: Two 70...

MR. MC IVOR: R2, 80 and 70 cents per R100, 00 thereafter. So that is proper at ad valorem pricing whereas Mzansi flat fee, once off regardless of type of machine used  
10 countrywide.

MR. BODIBE: But then as..., is the statement factually correct that for the first R100, 00 Mzansi is actually slightly expensive compared to the rest?

MR. MC IVOR: Compared to Mega U, it would be marginally more expensive, it would be three rand forty seven versus R2, 70.

MR. BODIBE: Yes because for Flexi Save is for the first R100, 00 is about R270, 00  
20 for the Silver it was R300, 00. Okay. The second one is in relation to debit card purchases on page 14...

MR. MC IVOR: Right.

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*Pretoria  
17 July 2007*

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PRICING BEHAVIOUR & MARKET POWER

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MR. BODIBE: Okay you can see that table, can I quote it? The last table...

MR. MC IVOR: Yes please, I beg your pardon.

MR. BODIBE: Yes, the difficulty is that you have declared all of this confidential but I am happy that you allow me to..., for Mzansi'it is a flat fee of R2, 30...

MR. MC IVOR: Latest charge will be R3, 00 correct.

10 MR. BODIBE: Yes and Silver Cheque now..., wait, wait, wait...

MR. MC IVOR: And the Mega U would be...

MR. BODIBE: Yes.

MR. MC IVOR: At..., it was...

MR. BODIBE: No, I take back that point, it is not accurate okay and...

20 MR. MC IVOR: I think it is important to bear in mind on Mzansi that originally when the product was designed there was no EFT functionality. It was only a (indistinct).

MR. BODIBE: Okay the next then...

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**Pretoria**  
**17 July 2007**

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PRICING BEHAVIOUR & MARKET POWER

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MR. MC IVOR: You can see (indistinct).

MR. BODIBE: Yes the next one where I think there is a..., in this case a very big difference between Mzansi and say the Silver Cheque is on page 16, the table there on the top. Can I quote the fee there?

MR. MC IVOR: Please.

10 MR. BODIBE: For Mzansi if you doing an account payment at a branch counter you will pay R14, 00 and for a Silver Cheque you will pay the ad valorem fee beginning at R3, 32. Does this mean if I make a deposit of R100, 00, as an Mzansi account holder I will pay R14, 00?

MR. MC IVOR: If you do it across the branch counter?

MR. BODIBE: Yes.

20 MR. MC IVOR: But bear in mind that the explicit..., expressive intent of Mzansi was not in design, was not to have people banking in across the most expensive channel there is which is..., would be the branch based environment was to try

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**Pretoria**  
**17 July 2007**

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*PRICING BEHAVIOUR & MARKET POWER*

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promote electronic use or the use of electronic banking as far as possible, to keep them in low cost channel so that you can provide an absolutely low cost product.

MR. BODIBE: I understand that but in this particular case it is a singular type transaction I am making over the counter.

MR. MC IVOR: Part of the value proposition that we offer the Silver Cheque customer would be branch based banking.

10 MR. BODIBE: Yes, and for a Silver Cheque Account holder, if I make R100, 00 payment at a branch counter I will pay R3, 32?

MR. MC IVOR: Correct.

MR. BODIBE: Okay. Then next set of issues I would like to probe here relate to cost and pricing. Can you specify for me what are the common costs that you face as a bank?

20 MR. MC IVOR: We have provided detail on that I think in one of our previous presentations. Johan, waar is jy? Common costs, vinnige lys, asseblief...

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*Pretoria  
17 July 2007*

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PRICING BEHAVIOUR & MARKET POWER

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MR. JOHAN: That would generally be your branch infrastructure, your IT systems., some of your IT systems or head office environments, your regional office environments, cost of advertising, so it is cost it is not directly linked into a product *per se*. Oh so there is fair note that is (indistinct). Our properties would be a form of indirect cost, brands, sponsorships, corporate social investment, training, all of those would be examples.

10 MR. BODIBE: Thank you, okay. I would like now to refer to supplementary submission dated 9 May 2007.

MR. MC IVOR: That..., I have it here Part B?

MR. BODIBE: Yes.

MR. MC IVOR: Yes.

20 MR. BODIBE: Can we go to paragraph 6, I have got a problem with your argument about relevance to competition. It is that statement...

MR. MC IVOR: Sorry what page are you on Mr. Bodibe?

MR. BODIBE: Page 3...

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**Pretoria**  
**17 July 2007**

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PRICING BEHAVIOUR & MARKET POWER

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MR. MC IVOR: Page 3...

MR. BODIBE: Paragraph 6, and the second sentence of paragraph 6. I know it is entirely..., is confidential. Can I..., is it possible to read that paragraph?

MR. MC IVOR: Yes it is fine..., yes.

MR. BODIBE: That sentence sorry, second sentence. You argued that:

10

*“The relationship between revenues and direct costs cannot even at a conceptual level, provide a reliable indication of the degree of competition in industries such as banking that are characterised by high fixed costs and common costs.”*

MR. MC IVOR: Yes.

MR. BODIBE: Can you explain that?

MR. MC IVOR: Bob?

20

MR. STILMAN: Yes, this was the point I was discussing at, I think, at the very outset of the questions in response to one of what Mr. Petersen’s questions, where I was trying to explain how in an industry where you have a lot of fixed costs, then

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**Pretoria**  
**17 July 2007**

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*PRICING BEHAVIOUR & MARKET POWER*

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what you know is going to be the case, is that the average unit cost is going to be greater than the marginal cost and when I refer to direct cost in that section, I mean basically the marginal cost associated with providing a particular service. And so what is absolutely..., no I think not even remotely in dispute, is that in that kind of setting that kind of market where you have firms with high fixed costs, the prices in that industry will necessarily have to be above the level of marginal cost in order to enable the firm to cover the fixed cost and to provide a return to shareholders.

10

If you did not..., if you had price equal to marginal costs, the firm would go out of business. So all I am saying here and I will accept authorship for this particular paragraph, is that one can, in this kind of industry when, especially when, fixed cost is such a high percentage of the total cost structure, one cannot look at the margin between price and marginal cost in a particular service and draw any conclusions about the level of competition in the market place. A high..., even if prices exceed direct cost the marginal cost by a large amount, by a high, very, very high percent, many times at the level of marginal cost, that in itself does not tell you anything about the level of competition in the market place. That was what I was trying to say.

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MR. BODIBE: So what should you look at in addition?

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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MR. STILMAN: Well what you should look at is the kind of things we were discussing earlier namely, what kind of act..., looking at the existing rivals, what kind of rivalry do we see among them. Do we see price competition, do we see non-price competition. Do we see new entry into the market place? It is not really..., I mean certainly in the area of barriers to entry one can ask the general question of what kind of cost there are to enter the industry, but I am always more impressed by the history of entry. Do we actually see firms entering the market place? Do we see, 10 I think profits as we discussed earlier, are an element that is a very complicated element and problematic from miscellaneous reasons that we have been discussing, but it is certainly part of the analysis. Levels of innovation in many industries, I think economists in general are coming into the view that in fact, if you do not look at innovation and competition innovation, you are missing the really most important aspect of competition in many industries.

20 So I wish I could say here is the formula, plug in the parameters, yes plug in the values, outcomes or output says “ag here we are in the competition measure or competition scale.” It is not that kind of process, it is more the looking at these

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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various factors, which are very well recognised in competition economies in trying to reach a judgment about the level of competition.

10 MR. BODIBE: Your explanation seems to depart slightly from the phraseology of this particular sentence because it suggests, the sentence as it reads, suggests that these issues cannot be subject to interrogation from a competition perspective, but what I hear you to be saying is that if you interrogate these issues from a competition perspective, you cannot on a *prima facie* basis conclude that because of the degree of the difference between costs and price is then, I would suggest lack of competition.

20 MR. STILMAN: I guess I am trying to say is that by simply maybe..., I am saying same thing you are and I..., but..., I hope it is consistent throughout my road what I trying to say is that if one goes into the cost of a bank lets say and finds..., compares the price for a given service with some measure you know from an active..., the best activity based cost in the world, of the direct cost associated with that, and one observes that the price that has been charged is many times the cost of that service, that does not tell me anything about the competitiveness of the market. The prices have to exceed direct cost by large amounts in this kind of industry.

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*Pretoria  
17 July 2007*

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PRICING BEHAVIOUR & MARKET POWER

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MR. BODIBE: Yes my...

MR. STILMAN: And that..., I do not know if that is the answering...

MR. BODIBE: Yes what raised the red flag for me with this particular phraseology is that you stopped at saying that and not saying the other additional aspects say to understand competition you will have to do and do that yes...

10 MR. STILMAN: I appreciate that. That is one paragraph and you know there is the other report that Mr. Petersen has been citing and do..., I hopefully we covered the..., hopefully we gave a picture of the approach that we would take in our various..., in totalality of our submissions.

CHAIRPERSON: Can we carry on until, we sort of finish the questions instead of breaking and starting after lunch again?

MR. VON ZEUNER: Either way is fine with us.

20 CHAIRPERSON: Either way is fine?

MR. BODIBE: I had a number of questions but they are quite technical in nature and so I will skip those and come to the issue of electronic banking. You are suggesting

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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that for example, internet banking, you are providing it free and as well as cell phone banking is free. What are the costs that you incur to provide that benefit?

MR. MC IVOR: Internet banking is not free Mr. Bodibe, but cell phone banking certainly is. I am not aware of the full costs, but I do know that the SMS costs that we carry in provision of the service currently running at about 20 million Rand a year and increasing as we signup more customers. That is just the SMS component and that excludes any additional systems cost or obviously, the opportunity cost of the revenue foregone.

MR. BODIBE: Will I be right therefore that it does not reflect also the full costs to the client because you are looking at your cost but the client in carrying out the actual activity will also take into account their own costs or...

MR. MC IVOR: On free cell phone banking...

MR. BODIBE: For example of maintaining a cell phone contract...

MR. MC IVOR: I would maintain that is not the bank's responsibility, Mr. Bodibe.

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*Pretoria  
17 July 2007*

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PRICING BEHAVIOUR & MARKET POWER

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MR. BODIBE: Of access to the internet, the price of downloading that data and I know that all banks have very huge files because of the graphics and so forth. So from a consumer point of view when you say it is free, they also have to calculate the direct cost to themselves of accessing...

MR. MC IVOR: Mr. Bodibe, when we say free cell phone banking, we do not say free cell phones. Absolutely I agree with you, those costs are the responsibility of the consumer.

10

MR. BODIBE: Sure, and the risks?

MR. MC IVOR: And I guess the risks are (indistinct).

MR. BODIBE: So it is relatively cheaper to you because you have ext..., some of the cost are externalised to the client...

MR. MC IVOR: I thought you meant to the consumer...

20 MR. BODIBE: Yes.

MR. MC IVOR: The risk to the consumer of owing a cell phone?

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**Pretoria**  
**17 July 2007**

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*PRICING BEHAVIOUR & MARKET POWER*

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MR. BODIBE: Not of owning a cell phone of making the transaction via Internet. Is it not that if I do the transaction over the internet I bear full responsibility for that transaction.

MR. MC IVOR: You bear...

MR. BODIBE: As compared to if I do it over the internet and the bank bears that risk.

10 MR. NAIDOO: The rules that protect customers are the same, irrespective of the channel, there is no additional risk. On the point of cost it is true that the consumer incur the cost of an SMS...

MR. BODIBE: Yes...

MR. NAIDOO: But on the other side we need to put an SMS back to them, which is the cost that we carry.

20 MR. BODIBE: And the costs of downloading?

MR. NAIDOO: There is no downloading because it is SMS based.

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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MR. BODIBE: No, no, no internet because you have to access the website and for that you are downloading the data.

MR. NAIDOO: I think that is the point that is made earlier on. The competitiveness of Telkom costs which you know which is not where we at. It is all the cost of connectivity rather than banking that is the issue there...

MR. MC IVOR: I suppose there is also a relative degree of risk if one had to go and  
10 get into a car, drive to the ATM, there is risk involved in the driving process. When you are drawing cash at an ATM, there is a risk involved in carrying cash. If you had to compare that against an electronic transaction initiated via a cell phone or via Internet banking, I would suggest that the risk profile's for the customer are remarkably different.

MR. BODIBE: Okay thank you. A related question about you know what you are saying there is no free lunch, if you go to page...

20 MR. MC IVOR: Apart from free cell phone banking Mr. Bodibe.

MR. BODIBE: Okay there is a free lunch, sorry, page 18, paragraph 61.

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*Pretoria  
17 July 2007*

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PRICING BEHAVIOUR & MARKET POWER

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MR. MC IVOR: Yes?

MR. BODIBE: Second sentence...

MR. MC IVOR: Yes.

MR. BODIBE: Can I read that?

MR. MC IVOR: Please.

10 MR. BODIBE: Okay, “customers receive approximately R50, 00 per month of benefits as part of the account package including funeral support and access to legal assistance and personal health advisors provided that a minimum balance of R50, 00 is maintained.” I got a two-part question, what happens if your R50, 00 is not R50, 00 minimum balance not maintained, do you lose the benefit?

MR. MC IVOR: During our experiences that when a R50, 00 balance is not maintained, the account is generally inactive. I think what we have to do clearly is  
20 apply some condition that protects us from, not abuse, but some ability to make the account as accessible for people as possible, to provide the greatest benefits in order to be competitive as we possibly can and at the same time ensure that we do not shoot

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*Pretoria  
17 July 2007*

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PRICING BEHAVIOUR & MARKET POWER

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ourselves in the foot. So when people drop below R50, 00 those benefits would not accrue, but then the account would effectively not be opened. You know, generally the accounts will then be closed.

MR. BODIBE: I could not help drawing the comparisons between the costs of those services per month and the requirement of the R50, 00 minimum balance and I was asking myself is this how the bank actually finances these benefits?

10 MR. MC IVOR: No, because bear in mind that the bank does not take that R50, 00 from the customer each month and buy those benefits with it. If you put R50, 00 into your Flexi Save Account today, that R50, 00 remains there. This is over..., we do not...

MR. NAIDOO: Charge you for it...

MR. MC IVOR: Charge you for it. The fact that you have the Flexi Save account and the fact that you have got your R50, 00 in there, it remains your R50, 00. We do  
20 not charge you R50, 00 for those benefits.

MR. BODIBE: Okay...

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*Pretoria*  
*17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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MR. MC IVOR: You get them by virtue of being in the ABSA family.

MR. VON ZEUNER: We have determined a minimum balance where we thought that I mean or think, that R50, 00 equals an active account and as Keith has explained below that almost going into dormancy and not used. So it is merely a level that we have pegged down so that we can ensure that there is activity on the account.

MR BODIBE: Do you know how much these benefits costs you and how do you  
10 recover those costs?

MR. MC IVOR: It cost us to provide in this specific instance, I cannot recall the full package details, but it would not cost us significantly less than the benefits..., than the value of the benefits that we offer. In other words there is a funeral benefit in there, I think a customer, an individual would pay roughly the same price for that funeral benefit as we pay for that funeral benefit because it is on a relatively low amount that we have put across the extremely broad base and there is no  
20 underwriting at all. It is a pure risk type product.

How do we recover it? Clearly the R50, 00 that are resident within the account, we are able to effectively lend that money out into the market...(indistinct). We do pay

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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an interest due on the Flexi Save Account specifically, but we have a margin there and we believe it is part of our competitive differentiation to offer this account to the market.

At the moment I am not sure how well Louis will comment, but if you take a look at this from a pure pricing perspective, our Flexi Save Account in comparison with Nedbank, Standard Bank and FNB would be, at a pure price level, expensive. We think at the value level, it is significantly better value to than all of our competitive products because we add these types of benefits. It is that which differentiates us. Our clients seemed to be voting the same way, that account grows significantly every month because they appreciate the package of benefits they get. So it means it is a business cost in offering those value adds.

MR. BODIBE: Thank you that was my last question.

CHAIRPERSON: Okay I think I have just got one question, actually two questions. One is, just so you might help me to understand, your submission of 9 May 2007...

MR. MC IVOR: Yes?

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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CHAIRPERSON: Page 12, you give different dates for the various accounts as to when you declare them to be dormant. Is there any particular reason why there are different dates for the different accounts?

10 MR. MC IVOR: Yes there is Mr. Chairman, different products have different credit profiles so for example on the Flexi..., on the Silver Cheque account with an overdraft, when a customer is in overdraft and the account is remaining dormant, it is our experience, I think it is at about 180 days, that we have a huge problem with collectability so we try and collect the outstanding overdraft, whereas with Mzansi there was an industry agreement that it should be slightly longer, given the nature of the client profile, where you have people that very often are not regular income earners. They might be itinerant workers, contract workers that type of thing and they have a requirement for an account that they cannot always keep money in that account, so it goes to zero it remains open for longer.

20 CHAIRPERSON: Okay.

MR. MC IVOR: So it is purely the nature of the customer, their own requirements...

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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CHAIRPERSON: It is the nature of the customer. I just wanted to get clarification in my mind as to why were there different dates. Now I want to go back to page 4 of the same submission. You have set out what you consider to set prices there, there are four points you have said. Basically you confirming what the other banks have been saying, to say you are not, your charges are not based on costs. Can I read out the four elements there? You do not have any problems there?

10 MR. MC IVOR: No.

CHAIRPERSON: You say the first one is competitive environment, the second one is typical customer transaction profiles, price signals to customers, customer education objectives. Those are the four points. Now what I want to find out from you that obviously will lead to..., if these were to be the considerations by all the other banks, to banks charging different, for different products, because the considerations are different...

20 MR. MC IVOR: Yes.

CHAIRPERSON: Alright, now I want to take that you know say by....(indistinct) of reasoning that let us go back to the carriage fee, where we ended up with the same

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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fee where it was different banks so if your charges were based on those considerations, how will you then end up with the same fees?

MR. VOLKER: I think carriage fee is a...

CHAIRPERSON: I know it is a different..., I am aware of the fact that it is an inter bank discussion and I am aware of the fact that it relates to interchange but I am saying if that is what informs whatever bank or you in particular about your charges, 10 then how do you end up with the same fee?

MR. VON ZEUNER: Judge Jali I am on the customer side of business. We price of..., it is a very competitive environment. You ask Walter about the less competitive (indistinct).

MR. VOLKER: The carriage fee is a very different fee. The carriage fee is a direct cost that is directly attributable to a particular type of activity and it is based on the weighted average of the cost and risks associated with that particular transaction 20 across the industry so it is extremely generic. Obviously if you..., if a customer does an ATM cash withdrawal at another bank, there is the carriage fee plus the bank's own particular as we call it, "the issuer fee". The issuer fee would be based on those

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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considerations that we have just talked about. The carriage fee component of that price is a direct cost that is attributable to that particular activity.

CHAIRPERSON: So these factors will not be for all charges.

MR. VOLKER: Not for the carriage fees...

CHAIRPERSON: It is only for the ones which are, everything else, but the carriage fee.

10

MR. VOLKER: Correct, so interchange or carriage fee or inter bank related fees that are directly attributable to that activity, to the cost and the risk associated, whereas those factors would be the fee to a particular customer, very different considerations.

CHAIRPERSON: Okay I just want to get clarification on that so that I am sure that I understand we are reading from the same page.

MR. VOLKER: Yes.

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CHAIRPERSON: Thank you for coming today. I think this will be the last encumber with the Panel but you will be having further encounters, meetings with the technical team and then once again we have been..., we are thankful for all the help

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*Pretoria  
17 July 2007*

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PRICING BEHAVIOUR & MARKET POWER

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we have received from not only yourselves but from all the other banks as well. I know the representatives are here in trying to understand the various issues, I can see FNB, Nedbank is here and Standard.

MS NYASULU: And everyone looks happy that it is the last encounter.

(Laughter)

MR. VON ZEUNER: Even the Panel.

10

MS NYASULU: I could see the smiles...

CHAIRPERSON: So we will adjourn now for lunch. We will commence again at 14:00 where we will have the presentation of..., on the customer subject, which the technical team did.

MR. VON ZEUNER: Thank you.

***(Lunch Break)***

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**On Resumption:**

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**Pretoria**  
**17 July 2007**

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*PRICING BEHAVIOUR & MARKET POWER*

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CHAIRPERSON: Please switch off our cell phones. We do have representatives from KLA who are going to do the presentation that is Stephanie Matterson and Joannis van Schaardenburgh. If you..., then can proceed. You are on the floor, thank you.

MS MATTERSON: ... Hello everybody, I am glad that Joannis have taken (indistinct) to extent the results from Project Sentinel, I was assured that this would not be a daunting task but I can tell you that I feel fairly daunted. I think just to begin  
10 just in terms of the presentation format, I know that we do have two hours allocated. I will do my best to get through this within the first 50 minutes until our time for discussion there after.

Right, to begin with I will set out the research objectives, methodological approach adopted for the research study and some definitions before I get into the context of the presentation. So to begin, we were tasked to go and speak to consumers to understand what drives consumer choice. Now, how are they choosing which banks  
20 to use and when considering to switch, what factors are they taking into account.

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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Now obviously with any research initiative when we talk to consumers, although that is our key objective trying to understand what drives behaviour and what drives that choice fundamentally, we obviously talk about..., we go about it talking about a context and we get to understand the individual and how they behave and their attitudes and their perceptions.

10 So the presentation will go a little bit broader than the actual focused objectives of the study. How did we go about giving you this information? We had ten qualitative focused group discussions. So everything I say to you today, it is not about statistics and it is not about sizing. I cannot tell you how many people think something but I can tell you what the trends were and what the common factors were in this people, amongst the people that we spoke to.

20 We had eight banked groups and two un-banked groups and the reason for this was that we wanted to understand what the barriers were to banking just to get an understanding of the un-banked sector as well. So in respect to the eight bank groups because we also wanted to understand a little bit about the Mzansi account, we had three Mzansi account holders and we had five what we call "other" account holders and generally they were savings account across a number of banks.

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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So let me give you a little bit more of a picture about the people that we spoke to. I think the most important thing to look at when you look at the sample design, is that we designed the sample to be..., to ensure that every group was as homogeneous as possible.

We know that when we get a group of people together that are from different incomes, often-different races or different LSM's, in other words different incomes.

10 There is a discomfort to speak honestly, so we separated males and females. We separated lower LSM, LSM three to five versus LSM six to seven, so we separated it out, we separated out race and obviously we also got a regional spread. Now our regional spread included metro towns, so we went to Gauteng Metro, which was Johannesburg and Pretoria, Western Cape, Cape Town, KZN, Durban and Pietermaritzburg. And then we went to Umgababa, which is peri-urban and Pietersburg to also ensure that we got a spread of sentiment across Metro and peri-urban.

20 Right, just again a little bit of housekeeping, in order to keep the charts cleaner and not too filled with clutter, we have referred to a banked..., a banked respondent,

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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somebody who has a bank account as a BO, somebody who has a Mzansi account as a BM. We have referred to un-banked respondent as a UB.

10 So just to..., just shortenings and also we looked at share of opinion. So we will talk about the majority. What we mean by majority is that we saw it, this sentiment being expressed in most of the groups. So we are seeing it as a majority sentiment. Some sentiment we seeing it coming across in quite a few groups and limited where we see it as a more limited dynamic across the groups. LSM we referred to them as higher and lower but please do not get confused. The higher LSM is in reference to this study.

We did not access the higher LSM across South Africa, we did not access an eight to ten sophisticated individual. Our metro areas that is self and explanatory and then an older and a younger dynamic as well, so much more a less sophisticated individual that we spoke to.

20 Alright as I said in order to understand the individual and how they interact with a category, we often..., firstly just in terms of a discussion, we start off with a broader understanding of how they feel in the category.

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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What is it that these people feel and think about the category, and this will be the first section that I go through before going through our banking choice driver exploration, in other words how they choosing the banks that they choose. So to begin the discussion we threw out what we would call a “mind map.” So we say “when I say the word “banking” what comes to mind?” and really this is just to get a sense of what terminology these people are using.

10 It just gives you a little snapshot, an uncontaminated, snapshot into the mind of the consumer and quite clearly we saw some rational things coming up and also a sense of some emotional coming through. So what is positive about the banking sector? It really is a saving mechanism and these are quotes that we have taken. Now obviously there were ten groups.

20 So we have taken random selections of quotes because I do not want to put ten groups..., quotes up but it is indicative of the kind of language that we saw in the transcript. What we also have done is we have labeled it as a Group 3. Now in the actual presentation which will be available, we have labeled exactly who Group 3 is whether it was the Indian group or the coloured or the white or the black or whoever,

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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the banked other so that you can actually see exactly who said what but this is also just to give a little bit of a texture to the language that consumers use.

But very clearly a benefit of banking and banks is about the savings mechanisms and that is evident across a majority of consumers. They also talk about an access to credit quite a lot and home or car loans or credit cards. They see banking as a portal to credit. They also talked about investment opportunities, which create financial security.

10

Now here they go much broader than simply investment opportunities in terms of putting my money into a bank account. They also talk about funeral policies and they go much broader than a simple transactional account. Interestingly a very positive thing about banking is ATMs. ATMs are huge in this sector. I think it was the one thing, having done quite a lot of work in the sector that was surprising that ATMs feature very, very highly. And they..., more limited talk, a limited white group, talked about the fact that there is electronic banking which is more advanced then is available to them.

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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From an emotional perspective, we also see that they talk about the positive effect of banking, of finance on ones life. It can change your life and an understanding that it is an enabler. Banking offers a degree of security and confidence. They understand about PIN numbers and the fact that your money is safe.

They talked about desirable customer service and this was a more limited sentiment, where staff welcome you at the bank and that was..., came through quite spontaneously about the banking category. And at the core we see is the real value of banking to this consumer is the fact that banks serve as a key enabler that is for them the real core value. I mean you could see that coming through at a spontaneous level.

A negative aspect, stress encountered with long queues. Now interestingly what we see at..., obviously we have been through the status so much that I will start to tell you stuff that we see later, but there does seemed to be a time restriction on this consumer. There is a difficulty in terms of being mobile and hours accessing a bank is tricky. A lot of them are in sort of half past..., you know eight to five jobs and they do not have flexible hours. They are often receptionists or the secretary or jobs which is quite sort of office bound and there was a difficulty in terms of movement and so we saw long queues was a big stress and I think it goes beyond simply being

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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irritated as a more sophisticated consumer might be, this actually sort of starts to impinge.

Fees come up as a huge negative, expensive and inconsistent and interestingly the quote also indicates how ATM withdrawal fees are critical and top of mind for this consumer because that is how they interact a lot with banks. So when you need money you cannot get it out because of the ATM withdrawal fee. So that fee being very, very top of mind in terms of the fee structure.

10

Another negative, potential fraud, a South African reality and also financial insecurity and this we saw quite interestingly because of we have not referred to any particular bank by name so because of small bank no longer operating, I do not trust banks anymore and very interestingly in the statement there was a huge concern of the bank going under.

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The bank being robbed or too much credit or too many people pulling out money out of the bank at the same time might make the bank crumble, so quite interesting dynamic that we do not encounter that much, but interesting that financial insecurity a real concern around the bank actually collapsing.

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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And then the personal safety of being robbed, definitely a sense of and I think that we all experience, in terms of you are at your own risk when entering or leaving a bank in terms of crime in South Africa.

Another negative sentiment that comes through quite strongly for the banking category is this sentiment of not feeling comfortable or welcomed in a banking environment. So they do not care unless you own a BMW. Working with them is a mission. You are sent from pillar to post. There is no one who can really help you and we start to see a slight discomfort in the environment.

In order to understand a little bit more about how these consumers differentiate between brands and between banks, we were less interested in terms of what they were saying about particular banks, but what characteristics were they using to say this one bank is this and one bank is another. What are the factors used and again it starts to give us an indication of what is in the mind of a consumer.

They talk products. Immediately they say “I distinguish one bank from another depending on what product they offer” and these are the examples and just given time I am not going to read through them all. So they talk loans a lot and “who will

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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give me a loan. I know that if you want to buy a car or a house you can approach them,” and they were referring to a big bank. A lot of the references are to the big banks.

There was no dynamic in respect of one or the other. “So what I love about big bank is the fact that they give students loans to study.” So again that access to credit hugely coming up as who is going to give you a loan, a big thing. Accessibility, what we see for the segments or for this consumer is that they distinguish between banks based on who was most accessible in terms of ATMs and in terms of branches, hugely important in terms of differentiating between the banks.

The also differentiate between the banks in terms of charges. Please note the terminology here, they talk high and low and high and low and there is..., it is a good charge, it is a bad charge, it is a high charge, it is a low charge. They do not know what the charge is and they say that they differentiate based on charge but they also talk about savings and credit. Sorry, they do not talk about savings and credit but when we look at what they were saying in context, we can see from an analytical perspective that they were talking about savings account and credit, so both ways.

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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They also differentiate to a very limited extent, based on the value adds. The discounts, the sports events, the kind of loyalty programs, very, very limited, really a small, small play compared to more sophisticated market where we might see that coming out a bit more. So rationally how they distinct..., how they differentiating in this market?

10 It is about the product, it is about how close are you to me and the charges, how much are you charging me. And to continue with that marketing plays a huge role in this consumer, for this consumer, and we decode why a little bit later but fundamentally because it makes people aware of it while..., for them what we see is this, is that advertising is more strongly associated with the bigger banks and it emphasises their stronger sense of establishment for this particular consumer and it makes them trust in the brand or in the bank more and we see this need to trust and this need for security. They really do need it because there is this fear of financial insecurity in terms of the bank crumbling. There is also strong target market

20 perceptions, so how do I differentiate? Those banks are for the rich, those are banks is for the poor, those banks are for high earners, those bank..., that bank is for young people.

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*Pretoria*  
*17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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So they start to talk about resonance and we see marketing coming in there as well. And then they also differentiate based on service. “I think their customer service is great” or “they notify you via sms that there is a transaction on your account.” Now if you also see that that notification assists, the respondent assists them in understanding and feeling communicated with. It really does assist them in terms of interacting with these brands.

10 So quite a basic level of differentiation, we certainly not seeing innovation, some things that I think is interesting to see what is not here. They are not saying “I differentiate based on innovation” or “I differentiate based on them being able to meet all of my needs.” It is differentiation based on far more simple technical offering. We also asked them “tell me what is the difference between a big bank and a small bank,” and again this is just about us getting an understanding of factors that are important to them, factors that help them decode the landscape.

20 How are they decoding the landscape, these lower end? We see stability, stability is huge. So a big bank is seen as more stable. It has less potential of bankruptcy, at the end of the day for this consumer as opposed to a small bank. Now you might say to me or what was a small bank, I do not know. We did not ask them to define it but

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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there was a very clear sense that there were some banks that were perceived as bigger banks and there were other..., the others were seen as small and there is a sense of the smaller banks possibly going under.

This leads into financial security. The big banks offer me a greater sense of stability and financial security whilst a smaller bank there could be risk, although there is also acknowledgement that there are smaller banks to our well established and are fine.

- 10 Customer service, the big banks are perceived to do well and in terms of customer service it is not just about efficiency. It is also about the bank catering for all races. It is about embracing, feeling welcome, feeling comfortable. The small banks possibly less able to assist although the opposite having possibly offering, personal..., the personal touch.

- And then the visibility: The visibility, big banks are visible. I think that is fairly self-explanatory whilst the small bank, they would have less number of branches and therefore less visible. And to continue, the image they talk about.
- 20

Financial access: this is an interesting comment and I think it is only interesting to the extent that it shows that there is some very literal takeout in this market. So for

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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instance, there was a limited sentiment where some respondents felt that because the big banks had so many customers that this could result in more borrowing which will be a problem if everybody borrowed at the same time and then in terms of the small banks, the concern there, you know we never ever seized to be amazed by the optimistic respondents that we came across. So this particular respondent said “well if you want five mil, they would not be able to give you that amount,” so in some sense that there is a limited financial ability of the smaller banks.

10

And then products and services offered: a sense that the bigger banks would be cheaper, they would have variety and a sense that you could get your salary in the same day whilst the smaller bank might be more expensive and they will be limited to product variety.

Now again in order to try and decode all of these, how these consumers saw the category, we said “if anyone bank more honest than another” and the response was “no the majority of banks are not perceived as honest.”

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And this is some of the stuff and we felt that it was necessary to give you some texture as to why respondents say this and this is some texture:

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*Pretoria  
17 July 2007*

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PRICING BEHAVIOUR & MARKET POWER

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*“I think they are completely unethical. they are taking money from the poor; a bank is not supposed to be a profitable business; it is a service; that is my money; said one group. They are all not honest in some way; I would not say that one is more honest than the other; No bank is honest; said a third group. Where money is concerned no one is honest.”*

10 Now I feel I am thankful that I survived that little hurdle but I think when you get to understand this individual, I think it does provide a context as to where that is coming from. Because what we do see with this respondent is a huge degree of passivity in terms of challenging this category and I will take you through that in a little more detail in a while.

20 What makes a good bank, what makes a bad one: and here we start to see a very good thread that comes through. This is about a personal relationship and communication and we start to see how prejudiced or how disempowered this respondent feels. “If it is,” and they are talking about information, “if it is complicated most of us are not interested.” So we start to see this pull back from consumers and I found that “because bankers are doing it everyday, they assume the

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**Pretoria**  
**17 July 2007**

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*PRICING BEHAVIOUR & MARKET POWER*

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public knows what they want and we do not.” And another group and another quote, “it must be user friendly like the forms you have to fill in.”

So a very clear need for this assistance and this help that comes through a lot and we start to see this respondent, this consumer, pulling back and not actually engaging with a category:

10 But they look for reputation, word of mouth is very powerful. They look for being trustworthy and to a more limited extent, they want high interest rate a good bank will give you cheaper transactions and more interest. Again more limited low charges and location accessibility.

The key thrust across the ten groups was “talk to me, help me, help me decode what is bad brand, what is a bad bank,” and we saw very limited response firstly and what we do see as well, is that it is interesting to look at the terminology. High, low, good bad, again, and also there is very limited negative response and it almost like you  
20 know they were asked for it. “So what are they coming up with,” and we can see that we know from 16 years of research that there is a cultural discomfort in being impolite and criticizing blandly.

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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So we are mindful of that. But likewise it also felt like this question was posed in a way where we were not asking them to slag a particular or to critique a particular brand. We are saying “let us look at all of these banks what makes a good one, what makes a bad one” to try and assist them in citing, in providing the negative feedback and what we also felt was that they were not really informed enough to critique it. And what the critiques were referencing was long queues and business hours. “It does not stay open late,” “I cannot get there, I cannot get to my money” and hence we

10 start to understand the importance of an ATM.

So to summarise, they do perceive banks as a positive enabler. This is the summary of the beginning section. Fees do clearly pose a barrier, spontaneous awareness, very much limited or focused around the big four banks, and when we look at how they differentiating, how they are playing in this landscape what do we see? There are very key practical needs: they want access to loans or finance; they want accessibility to AMTs; we can understand that, they want charges, appropriate charges, they want

20 this linked to the product and service offerings;

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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And whilst no banks are perceived to be honest especially with respect to fees, big banks are clearly more positively perceived at an overall level and what we then start to see is, we see a whole host of what we referred to as “emotional needs:”

They want an established brand; they want advertising and visibility; they want a brand with reputation; they want stability; they want financial security and they want customer service, they want that personal speak-to-me;

10 And what that is all talking to is “help me trust. Help me trust that I am in an okay environment” and we will go through this a little bit more and this theme will be build on.

So how are they choosing the brands that they do? When we said to them “what were the first steps, what were your first steps in the process of searching a bank?”

Now obviously here we are talking about the bank consumer. The majority of the consumers that we spoke to had not shopped around with very limited number of  
20 respondents who actually did. For those who did not shop around, what did they do?

They chat to family or friends and they will follow that recommendation or alternatively what we saw is we saw them following the bank of the employer where

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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it was determined by the employer “I had to bank at X Bank because that is the bank that they use at work,” and there was a sense that it would be much easier in terms of salary slip et cetera. And on a more limited basis, we did not get a 100 bursary students, but on a more limited basis “I got a bursary and they arranged for me to have a big bank card, which was a cheque account.”

So we see that is how it is happening a lot, family, friends that is recommendation “you do it, I know you, I followed you, you tell me that it is a good place to go.”

10

Alternatively we see those who did not shopping around go straight to an established bank. Is it a good bank? “I have seen the advertisement on TV and the have been around for a very long time.” So that absolute deferment to the brand that I know and that I can trust. And then also an accessible bank. “I just went to the nearest available bank” as an example “but it was a big bank.”

20

Right for those who did shop around, it was not a comfortable experience for the majority. They were quite uncertain, they were quite unsure of what to do and they did not feel very prepared. So it was a relatively uncomfortable experience in terms of shopping around and also there was a..., you know..., yes just at..., it was not an easy sort of investigation.

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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So respondents do have some control over which banks to open an account with but recommendations is vital and it relates back to this “it is easier to trust, I defer,” and there are clear indications that the target market is either unable or unwilling to interrogate the category independently therefore consumers rely on those bigger banks and on others decisions based on “it is easy to trust.”

10 So to carry on, what were your bank choice drivers, how was it that you choose your bank for those you know carrying on if you really, really trying to prompt and probe and prod as to what factors they took into account, again established bank, safer, secure, greater exposure, accessible.

20 We saw that again and again and again come through versus the influence, the recommendation of the third party, “they were the ones that influenced me, they had good experiences with X Bank.” The lower charges, the feature attractions were spoken about but interestingly enough if you look at how they actually interact with the category and how they were following friends and how they were going to the established bank, they say that feature attractions attracted them.

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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“What attracted me was the in contact sms thing that big bank offers,” and that we saw coming through quite a lot because it was about..., it feels quite empowering for these individuals. We also saw social responsibility and community focus come in to a far more limited extent. In respect of the banks used by our actual sample, we had a very nice spread of the four big banks and one particular small bank that offers a transactional account. Drivers are similar to the spontaneous points of differentiation, So we went on and we discussed all the factors and we asked them to rate us and  
10 after quite a lot of discussion, we came up with some key factors that individuals take into account when opening an account.

And I think that it is also important to bear in mind that we were asking consumers to rationalise their behavior so there..., but it still there is insight to understand the factors that they considered important. Lower banking fees, they say that the key factor is lower banking fees. The cheapest monthly fees or clarity on how interest on debt is charged, lower transaction charges and they talk about the ability to withdraw  
20 at different ATMs. Because accessibility is so important, different ATMs is critical and ATM withdrawals are more expensive when not using your own bank’s ATM

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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and this is a key issue and we see the ATMs are a key issue because mobility is a key issue.

I got to travel to the ATM to get my money, pay the ATM fee and then keep going. So fees, spontaneously includes the ATM fees, for this market. Then consumers talk about access to money. They talk about access to money in three ways. They talk about accessibility to ATMs and branches. "It is important to me that it is close. Unrestricted access to my money, I want my money, I want to withdraw my money  
10 whenever I want it and that is about an hours..., that is about all the time."

And then they talk about access to money, somebody else's credit. It will be great to and we see this desire to build up to get home loans to get..., to be able to access money and play with money in different ways: online, cell phones. We talk about all of this quite inspirationally.

And then a very key factor is customer care. Not the critical upper LSM customer  
20 care, here what they are wanting is simplicity of process and procedures. They are saying we want effective communication. Now this is our language post analysis. This was not their language. We are saying they want frequent information or

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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contact. They want language preference. They want, language is key and method is important, they want assistance . Fundamentally if you look at all of this, it is about assistance on banking procedures, that is what they want. The floor manager to show individuals where to go and which queue to stand in and it is amazing when we see how much actually out of stress there is in terms of walking into a bank environment and not knowing where to go and feeling small in a way. And they want friendly and professional service.

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So what you want when they say friendly and professional service, they are saying you would not want someone to shout at you or to look at you like you do not know what is going on. You want someone to smile at you. He must not look at you like you are stupid.

20

So we see that this request to feel okay, quality service, acknowledgeable staff. “I do not want to go to somebody who is not going to be knowing the answer. I want straightforward answers and we see this coming through as a very continues request. Security comes through a lot, personal security, financial security in terms of..., they understand that “why I want to go to a bank in the first place is because keeping it in the house, if your house burns down you can never regain it.”

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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There was financial security in physically placing your money in the bank. And also they want a reputable bank and a sense of trust, “it is important that the bank does not go bankrupt within a short span of time preferably. It will create a sense of confidence in putting my money into the bank. So there is this sense that this bank can go under and take my cash” And they want information to be properly briefed and informed before I make my decision.

10 Now this is interesting because they are saying this is how they made their decision and this is what they want but not one respondent actually said “I went about a bank and got all the information before I choose my bank.” So I think we need to be mindful of what consumers are asking for and how they say they choose versus how they actually did behave but it indicates what they require.

20 Okay so we see this key need for trust. “I need to go in and I need to feel that I can engage with this category.” There are other factors that come in. We have discussed them so I am not going to talk about them a lot. Very limited mention of inherent customer loyalty, so whereas over here we would see that much higher and a higher LSM research initiative, we seen that much, much lower down on the scale.

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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And then we talked, they are talking inconveniency. Time efficiency inside of the bank, easy access, online, one account, easier salary payments, asking for that ease convenience, but that is really at the bottom of the list. Availability of information when choosing a bank, most of the respondents we spoke to said there was the lack of information. Our consumer's suggestions to the banks is and I think this is very interesting because I think it gives you a sense of just where the respondent is.

10 They are saying "give me no banking jargon. I would like to know about things like stop orders and debits." I found that quite surprising. When I am thinking banking charges, I am thinking like big words but stop orders and debits that is hard. We do not understand how these things work. "Explain more detail, tell me and this whole chart is giving me more information" and the information they want is very, very low down. Very simple "explain why my loan was unsuccessful"

20 So they want detailed information but it has to be communicated in the most simple transparent manner. So how do you want this information, we asked respondent. TV they say that we would expect that to be the first response from any consumer on any question in terms of what medium would you want.

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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We want TV, if you see something over and over, it sinks in but then as we discussed it more they understood, there they problems they say. It will not tell you certain information. It is only if you go into the bank and you sit down with someone who goes through the whole thing. If you are going to speak to them face-to-face, they are going to listen to you and respond there and then instead of never getting back to you and what we understood is this absolute barrier in terms of language.

10 “I do not even understand what they are talking about”. In another group and there is one in the presentation, this respondent to say “they talk about credit, I do not know this thing credit.” Even the language is too bombastic for older people to understand so there is a huge language issue. They do want one-on-one, personal interaction that is what they said. They want somebody to sit you down, if you ask questions somebody will be able to tell you the answer.

20 And we can see from what they suggest here. They want interactive workshops, career days, campus promotions. They literally are asking for education, not just a pamphlet and in fact when we go on, they say...over here, they say banks have huge number of pamphlets but they say it is too confusing “because I am not good in reading but if you explain nicely to me, I understand it the first time.”

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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“Banks use a language that confuses us. They talk about credit and then the other problem is that because the reading is so difficult, they want the pamphlet to answer just their question. They do not want to have anything else so the one respondent says “stop putting unnecessary information in the brochures about receiving loans if you open a certain account or about Internet, things I have no access to.”

10 So quite a hard ask, you know, figure out my exact question and put that in the pamphlet and then I am okay but I do not want..., it is a hard thing to do, to read a pamphlet.

Information is not engaging and we see this passivity, “I just do not look at that.”

You just want to see how bad is your overdraft, if we got a thing that will save money on your bank charges then I will read that. So very selective and we see this pull back from the consumer in respect of trying to decode this category.

20 They ask for SMS, they ask for radio, they ask for the..., a lot of different ways of get the information through to me in a way that I can hear it in my language and I can interact with it and ask the questions.

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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Okay so what we see is that they have not shopped around. They are rely on third party and established banks. It does relate back to trust. Those who did shop around had a relatively stressful time and we see that what do they want?

They want access to money, they want potential for credit, that is what they want.

10 They want lower banking fees to afford entry into the category. They want personalised customer care, which is one-on-one, simple, user friendly. They are saying “help me, respect me.” They are saying “give me security, in fact you are doing that quite well but personal and financial I need to trust that the bank is not going to go under” but at the end of the day there does appear to be a degree of passivity with respondents deferring to behaviours of others who they know, and preferring not to engage with written information that is actually available to them.

20 So what are they using and I am going to try and speedup here because I see that I am running out of time. Products used, relatively simple, I do not want to go through this, it is a relatively simple interaction. We saw very limited overdraft, vehicle finance and medical through our white group, which was a higher LSM six to seven. We saw limited credit card usage, much more about saving accounts including

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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Mzansi, which was recruitment driven and some cheque account usage, but they do not actually use the cheques mostly because of fraud.

Okay the money flow, what usually happens, the salary gets deposited either electronically or cash into the bank. That is accessed to generally in three ways. The ATM which is then to access cash to spend at the shops or to pay monthly bills, this was generally for smaller amounts. There is a convenience when acquiring, when your swipe does not mark (phrase not or indistinct) that was very limited but the majority does to use cash to pay bills. We also see debit or stop orders very limited extent and credit or debit cards for some, and that is really for larger amounts, is driven by safety. There is a huge aspirational component in terms of signing and having a card and all stores do accept the debit cards.

Okay we did ask a question “are consumers critically aware of how much they pay for cash.” I think to some extent they are. They are very sensitive to the ATM fee. There is some superficial understanding of fees and charges. Could the banks look to assist, how consumers help themselves, possibly but not in a pamphlet. Mention of debit orders very limited. It is in the presentation if anybody needs to look at it.

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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There was limited mention, we really did pull out everything that they spoke about in terms of debit orders, it was very limited. And there was some mention of dormant accounts but if very, very limited and in respect of that dormant account, they did not realise that it would carry on once they took their money out, of it.

10 So if we carry on saying usage behaviour, first time banking: “how did you feel?” For the most part they felt insecure. Communication in English was difficult, there was complicated paperwork and I was embarrassed to call someone to assist me. For some they felt really important and it was a stepping stone, they felt excited and happy.

20 “How did you dress?” I think this was just another example of just trying to get a sense of that whole experience. The majority, they did dress up quite smartly, for others it was nothing, but it was relatively uncomfortable. It was quite a big thing, it was quite an up there experience. It was not an every day thing that I sort of just did off the cuff. So how was it? For many it was quite negative. The documentation, I had my ID but not my proof of residence. I had to go all the way home to fetch it and that we did see across a number of goods where they did not have the appropriate documentation.

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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Long bank queues, dislike going to the bank, because they say they the queues are too busy and are prepared to go to the ATM. Some tellers are just there to take your money and banks are only interested in people who have a lot of money. So it is definitely a sense of being inferior within the environment versus very positive experiences as well. Has your banking experience changed? Yes for many the experience has really improved because they know where to go and staff within the banks have assisted.

10

For some it is still a negative experience for some, they are still are struggling to use the ATM and the queues are still confusing. "I do not know which queue to stand in," so for some it has not really improved. And I think really what is interesting for us was that they are not asking for a lot, they just want to know where to go and what to do. Okay what we do see is that experience improves it. The more knowledge they have, the more they feel respected, the more empowered they feel.

20

Are they aware of fees? Yes they say they do. There is limited knowledge about the fee details. At the end of the day, majority, high fees that is what they say "there is high fees" is the reason you do not want to put the money in the bank, you pay so much to get your own money out again and then there is a lot of rats and mice. The

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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fees are incredibly confusing. There is limited knowledge, quite a few people say “I just do not know how it works, I do not know how they calculate it” and there was a lot of confusion around the fees.

10 So the majority will say “I pay high fees” but when we press them and we will say well what are you paying, lots of rats and mice coming out, lots. A clear indication that they have a different perception and it does feel like there is no point of comparison. They do not actually know how to compare and there is a lack of  
interrogation actually.

They are not asking there is just..., there is this passivity that we see again coming through where it just feels overwhelming and I am not sure what my fees are. So how do banks tell you about your fees? The bank has a leaflet explaining fees or charges for some. I asked at the bank for some limited, limited versus also I just generally do not look at the charges.

20 For the majority just say “I only look at the balance on the statement, not the other information.” So for most they are saying “I do not look at the charges, I do not know, I do not look at he charges.” So how does the bank explain these fees, we

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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asked them. Banks..., the majority say “well they do not ask, they do not explain. Charges are confusing, they do not give you the information on charges, you must ask. They tell us that there will be a 12% increase via a newsletter. They talked about percentages and I understand nothing about percentages.”

10 You should be informed before the transactions is completed what will be charged. I am not too sure how one will do that, but the big bank explains new pricing at the beginning of the year. There was very clear sense that that happens at the beginning of the year that I know my charges.

The ideal is if the bank communicated charge information, it is better they tell us because we are lazy to read the brochures and again we see this need to not engage but you know I too do not read my insurance details. I do not read the small print on my insurance contract and so there is that. We as human being do withdraw from stuff we do not like, versus to some extent I was explained and gave me all the information I need.

20 Okay so they do expect charges, consumers know that there are charges but they expect the banks to inform them of charges of changes and offer an explanation of

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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those. Has the bank ever asked you for personal information and Chair I have run out of time, shall I...

CHAIRPERSON: No carry on.

MS MATTERSON: Has the bank ever asked you for personal information? Yes say the majority of our consumers, these are the documents that they asked us for and they understand for the majority that there is this..., it is positive. They are  
10 comfortable, they get it.

But for many it is also a little bit negative because they did not understand what it was and there was a hassle because every time you open a new account even if it is at the same bank, you need the information and pay slip is a problem because we do not get pay slips, they gave money in envelopes for many and proof of residence is also another big problem because my mum needs to proof, provide my proof of residence, I do not get letters if I live in the township.

20 And also there is a sense of intrusiveness in terms of the Government. I think it is a bit intrusive because if you have a big amount in the bank, they want to know too

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*Pretoria  
17 July 2007*

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PRICING BEHAVIOUR & MARKET POWER

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much about you. I do not think Government should have access to your private bank accounts.

MS NYASULU: We all agree.

MS MATTERSON: So are you aware so we asked that before we said “do you know about FICA,” so we said, we were just asking did they hear and then are they aware of FICA. We actually said those words, “are you aware of FICA,” and no, no, no, 10 no, no but they do know your customer KYC. I know KYC, I received a letter saying that my account will be frozen because they needed to update my personal details and they will need proof of residence.

So they know that there is this information they do not refer to just FICA. They are not too sure that it means, they never said bring your FICA documents, how come they did not tell everybody. It is a new thing, it is the first time I heard, for one 20 respondent it was the first time they ever heard about it at all. For some that did understand they were very positive they got it. They said fraud issues Nigerian and Zimbabweans can open an account in your name and you would be held liable.

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*Pretoria  
17 July 2007*

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PRICING BEHAVIOUR & MARKET POWER

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So they are very thankful for that and they understand that the bank needs to control the information.

MS NYASULU: In fact it is xenophobia.

MS MATTERSON: I know, the bank needs to control the information. It gives you confidence that there will be no fraud. So that is leading on there. Then also some negativity in the sense of mistrust, a hassle and it is stressful. “I do not want anyone  
10 knowing what is going on in my account.” “You feel like a criminal that the bank keeps checking on you.”

It is a nightmare. We had to get our things sorted out because they threatened you with closing the account. Big bank gave me a deadline to get our details updated. They were being audited, if you do not they freeze your account. So there was an understanding of the process and they did not like it but they got it, but they were not aware of the term FICA.

20 So to summarise, choice drivers, first time consumers entered the category with an element of blind faith what we have called “blind faith.” They..., for many it is for the first time. They admit that they are guided by recommendation, family

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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endorsement and a reputable brand. The environment is experienced as fairly overwhelming and comfortable and highly stressful but this does improve with exposure and experience. Familiarity alone improves their confidence and provides some sense of security.

10 Merely knowing which queue to stand in helps. The Achilles Heel for these consumers are the fees, the share variation with respect to fees, different for different banks and different applications is experienced as very confusing. In one of the groups, I mean there was a huge discussion about, but is it cheaper to go to the ATM inside or outside or which way over this but no but maybe to go to draw the money from the teller is it cheaper on the weekends, in the week.

20 There is no huge..., they do not know. Consumers are not able to differentiate really between right, wrong, good or bad and they cannot really make decisions and what we see is that this is resulting in a superficial reaction of dissatisfaction. They are not informed, it is not educated. They just think these fees are high but when pressed there seems to be as if “just because I think they are, I am not comparing and I am not interrogating.”

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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So they are not able to interrogate, confront or challenge the experts, the banks, due to their lack of knowledge, experience and confidence. Therefore consumers are forced to rely and trust the expert, the banks, and so we see this disempowered individual who is retreating.

10 Switching behavior: the majority of our consumers have not switched or considered switching. We did see a little bit of dormancy but majority had not switched. What did switch, those who did switch, family matters. The wife had an account at the big bank and they want to join the big bank, parents opened an X Account. A dormant account, “I did not know that when your account is dormant they keep charging you.” “Charging meant a negative balance and they did not give me notice.” “I moved to a closer branch,” so we see accessibility coming in. The friendly and more ATMs, accounts or the bank actually closed and the bank, the small bank that I was with did not had an ATM in therefore I moved.

20 Okay what will make you switch? This was a prompted question, what will make you switch. They say charges, low charges, high interest rates or if charges increase at my current bank, I might switch. Product, if I was given credit, loans. Loans will

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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make me switch or a more attractive package or product offering or general they would say bad service from my current bank.

If my current bank was robbed, bankrupt or closed, I would switch. And a lack of communication with my current bank, I might switch. Why do you not switch?

What are your barriers to switching? Now we must understand this is a probe, prompted question, we are just trying to see what is important to this individual. You know what at the end of the day it is convenience to stay where I am, they say. Also  
10 there is a huge sense from the majority of respondents that to switch you lose your credit rating, your history and there is the sense that losing this credit rating would influence them to stay. And it is also there is a huge schlep factor, the inconvenience to change debit orders. You need to notify everybody about the new banks.

Okay there is also for some a sense of loyalty to my current bank and there is another schlep factor, the paperwork which is much more limited. They are saying you  
20 having to go through the same process that you went through, I stay where I am.

And also some people saying “well I will switch maybe but I would never switch to a non-established bank to a smaller bank.” So what we see is that they are fairly

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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general, superficial factors raised very limited active interrogation of competitive products. But what we did want to understand is what role does royalty play in the mind of this consumer? We said we actually explored the sentiment of loyalty.

“Ag I will be loyal because of service because of benefits because of flexibility because of communication and also if I was given free money” said the one optimist but I will..., these are..., this is what will drive loyalty. Let me see, it is about the personal touch, it is about because of their friendliness in their service. There is also  
10 a strong sentiment of apathy and they say they talk about the fact, they I am not loyal. I just have a lack of information about other banks to be able to make comparisons for some, and others saying it is just more convenient to stay and the one guy said “I am not loyal, I am just lazy regarding the whole process of opening an account and you know to saying it as it is.”

Disloyalty, what will make you disloyal if money left my account without my  
20 knowledge and if money was lost or stolen. So again we see that that financial insecurity is something that is considered. It is not a pie in the sky and maybe, maybe thing that is far away. It really is a consideration.

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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So in brief, a couple of charts on the Mzansi account exploration. We have explored it, what is going on there? To summarise, there are about 40 slides on the Mzansi account, which I would not take you through. Mzansi products currently delivers very successfully to the functional needs to the poor entry level consumer but the current Mzansi image can be perceived as demeaning and degrading.

10 There is a clear sense that the Mzansi account brands the consumer as a poor South African. They know and they talk about it a lot. Everybody knows that you do not even have R15 000, 00. If somebody sees your Mzansi account..., your Mzansi card they can just leave you, because it is the poorest of the poor and there is this image issue and we know that in this lower LSM branding and the brands that surround me are important.

20 They start to tell community and society who I am. So we also see that there was huge value in Mzansi account in terms of the role it plays for South African patriotism. There is a sense of community. The Mzansi offering is a great thing for South Africa. It is lifting the poor so there is huge aspiration..., there is huge softer image appeal for the Mzansi account but we need something slightly more individually motivating.

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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It is motivating on a South African platform, it is mobilising the poor. It is giving banking accessibility to the poor. Consumers can recognise that. They just do not want to be one of the poor. So they understand the functional elements, they understand that there is limited transactional abilities but it is okay, they understand that but we do see that the..., there is also a little bit of a problem, we see in the last quote and we see it is coming through a little bit..., someone from “X” insurance company comes around selling a policy or something and she told him that they should arrange to have the premiums deducted from Mzansi, they say no it is not possible. Now that is quite a slap in the face when you are the Mzansi account holder. Just from a personal perspective.

Okay, so alternatives, I do not want to go through all of this because we are..., they are requesting some additions to the Mzansi account and they say remove the name Mzansi, remove the name Mzansi on the card, just take it away, I do not want anyone to know. And they understand where pretty much where you can get it, they say that a small bank would be an alternative, student savings account, other savings accounts would be alternatives.

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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So what did you do with your earnings before Mzansi? “My parents kept the money or I used my money irresponsibly or I kept it in my shoes.”

I heard about, how did you hear about it? Sorry this is very abbreviated but it is just to give you a sense, through TV and radio advertising, which seemed to be relevant. When I saw the horses in the advert I knew that I would also fit there. Post Office, promotions in schools and shopping malls, friends and family again that are making recommendation and my own bank that I was with mentioned it.

10

Deciding factors and opening Mzansi, the lower fees and the best savings.

Advantages they get that it is cheaper enable individual to access the money, daily limit allows certain agree of control on the use of my money and there is no age restriction on who can open it. Disadvantages as I have said before, is that it appears at this lower income status.

20

And also what we do see and I do not know whether it is here summarized, but there was also some desire for the ability to be able to add-on. Like once I proved my stripes, could I then have not access to credit, even if it is small but that is really why I want to join the banking sector? So could I not in time get some access to credit?

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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The un-banked perspective, very briefly, the majority receive cash, they love that okay, what is your alternatives to banking, Stokvel or a safe place in my home. They understand Stokvel is a little bit for older people and there is significant concern regarding theft, so what attracts you to banking? They understand that it is safer, they like the control and there is aspirational value but there is mistrust. They cannot afford it and personal safety is a concern. There is some lack of welcoming customers so they are quite scared of going in and so real value. So what are they using? the Stokvel, the safe location in the home and loaning money so they give their money to a mate, it earns interest and then they get it the next month.

So have you been inside a bank those who have been un-banked? Yes it is quite a serious environment, people look quite serious. If you go there with a friend you definitely whisper and you dress in formal clothes. The information needs, I will..., I want to know how much I can save it, what I need to do to get a home loan and how much I am being charged for withdrawals and debits. So we can see these common themes coming through.

What is a good bank? It is accessible, the service, it must have a reputation and there must be security. Very, very common themes to what we are seeing amongst our

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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bank sector. What is a bad bank? The bank that requires maximum personal information, a bank that is impatient again talking to that need, do not make me feel stupid and a bank that charges you.

10 So there you are, was it difficult? Is it..., do you think it is difficult to open a bank account and I put out this chart because I think it gives a very clear insight of this individual. “Their requirements are just too much. It is really difficult because they will even ask you for another person’s phone number or maybe your neighbour must sign something” and we can just see from the quotes that we get that it is incredibly daunting process, “and the bank staff will not talk nicely to you either.”

20 So it is evident that the un-banked have a grasp for them of their challenges and it is very much their barriers to entry and for many it was also some ease. Some, limited had heard of the Mzansi, they had a fair understanding of what it was. Would you consider opening a Mzansi account? Yes they say but when we say what will pull you maybe there is some over (indistinct) because a lot of them would like a party once of twice a year and some free clothes but for many they say maybe if I had a job, if I had money all the time but for many of these un-banked sector, it is not a consistent earning space.

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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So to conclude, I have two charts. Banking is definitely an enabler for this segment, trust poses a major barrier. They default to the bigger banks and the ones with the good reputations. They depend on the trusted third party recommendation. They need the stability, the financial security and the visibility. This in turn fuels this lack of knowledge and experience, which result in disempowerment because they are stepping back.

10 So what happens is that there is a lack of interrogation of information and there is inability to engage meaningfully with information and there is a passive dissatisfaction especially with respect to fees but we have said it is passive. It is this passive dissatisfaction so they do say “give me one-on-one interaction, educate me, understand my needs, help me respect me, be more transparent, help me trust you.” Therefore there is a suggestion to cater specifically for this target of market by focusing on education in..., as maybe a community forum specifically adopting respectful welcoming approach and educative approach, “we will all learn together  
20 kind of approach.”

To continue, fees and charges, we also got to realise that we may talk fees and charges, they are not just talking the direct banking fees but also critically the ATM

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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fees, “and what we also got to understand, I always say when somebody cannot see the value in the fee, what is the value of the service,” and consumers are battling or do not see the value in banks and institutions. It is my money and I shall have access to it whenever I want it free of charge. And so what we also battling with, with this individual is a difficulty with the banking concept, with the banking equation.

10 The Mzansi account does pose a useful solution to these barriers with respect to delivering to the functional needs of the poorer, entry level consumer but we must be mindful that the image of this very account offers no aspirational appeal whatsoever. It is perceived as demeaning and degrading, branding the South African or branding the particular consumer as a poor South African.

It provides no hook for the consumer into the category. In other words access to loans and credit one day. There is no real enablement that the Mzansi account is offering. Therefore possibly some thought around a stepping-stone up in time.

20 Thank you for your time.

CHAIRPERSON: Thank you.

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*Pretoria  
17 July 2007*

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*PRICING BEHAVIOUR & MARKET POWER*

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MR. BODIBE: Thank you Chair, good afternoon. Is there a specific reason you did not target rural areas?

MS MATTERSON: We did not because we felt that we could access LSM three to five in the peri-urban areas and budgetary constraints in terms of going all the way through to rural, we did not feel that it was necessary.

MR. BODIBE: Okay, there seems to be two things that stand out from the presentation and correct me if my observation is wrong: (1) Is that the consumer that you spoke to are heavily biased against small banks and (2) High consumer inertia because of a number of factors that you have mentioned. Would that be a correct observation?

MS MATTERSON: Yes I think that there is a concern around a smaller bank although they do not really know them. There is a concern and certainly there is consumer inertia.

20 MR. BODIBE: Thank you, I am done Chair.

CHAIRPERSON: Okay.

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*Pretoria  
17 July 2007*

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MS NYASULU: Sorry if I could just understand the sample designs. Of the eight groups, I think that is slide 6 if I am not mistaken...

MS MATTERSON: Sorry...

MS NYASULU: The one that says sample design.

MS MATTERSON: Yes?

10 MS NYASULU: So that I understand of the eight groups of banked, did you have four male and four female within that group?

MS MATTERSON: This slide over here, we had four..., no we had a..., how did it work? We had three Mzansi accounts...

MS NYASULU: You had ten groups in total...

MS MATTERSON: Yes.

20 MS NYASULU: Of which eight were banked and two were un-banked.

MS MATTERSON: The un-banked we had a black male un-banked and a female un-banked. We then had, so then we had an even split of banked male/female. The

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*Pretoria  
17 July 2007*

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Mzansi account holders, we had two male Mzansi account holder and one female Mzansi account holder. With the other accounts, we had three male other account holders and we had two female. There was a male bias in the sample. There were six male groups and four female groups.

MS NYASULU: And would you say there was a lower LSM bias as well or...

MS MATTERSON: We had...

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MS NYASULU: How should I read this?

MS MATTERSON: We..., well the entire sample is more or less lowest..., a lower LSM, only going up to LSM seven, but LSM three to five, we had five groups. LSM three to five and we had five six..., LSM six to seven groups, so there was an even split between the lower and the relatively higher LSM.

MS NYASULU: And can I assume that the..., each individual group would have about eight to ten people per group then?

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MS MATTERSON: Yes.

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*Pretoria  
17 July 2007*

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MS NYASULU: Just if I could understand what would be the question that was asked in getting the points of differentiation of a bank. What was the specific question that was asked? I understand you would have been using a guide because it is a focus group as opposed to having a questionnaire but...

(Caucus)

MS NYASULU: Again I do understand it is not a questionnaire. It is discussion  
10 guide because it is a focus group but...

MS MATTERSON: What makes these banks different to each other, what makes them the same?

MS NYASULU: Okay and were they prompted in terms of which banks or...

MS MATTERSON: No...

MS NYASULU: It was following an unprompted question of the facts...

20 MS MATTERSON: Absolutely...

MS NYASULU: That they...

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**Pretoria**  
**17 July 2007**

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MS MATTERSON: So in terms of the discussion, we talked about banking spontaneously and then we say please tell me all the different banks that you ever heard of...

MS NYASULU: Okay and that was spontaneous...

MS MATTERSON: So all the brands came up and then we said okay so now what make these banks different to each other, what makes them the same as each other  
10 simply to try and understand what factors they were using to decode the category.

MS NYASULU: Okay and just in terms of the points of differentiation, they seemed to have concentrated more on the extrinsic characteristics of the banks rather than the intrinsic, did you probe further on it?

MS MATTERSON: Yes we would not have lead them in anyway, so we would have said what factor than..., is there anything else, we would have..., yes but it did, so even on the banking element when we say it in terms of spontaneous banking, we  
20 write the word up and we say I am going to write a word down on the flip chart, I would like all of you to participate and tell me all the words or feelings or maybe

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*Pretoria*  
*17 July 2007*

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even pictures that come to mind. So we throw it out as wide as we can to see what consumers can generate and we try not to lead them or prompt them in anyway.

MS NYASULU: Okay and then just finally, I am trying to understand and I might have missed it when you were explaining, you put up a screen where you were talking about the Achilles Heel being the bank charges and somewhere else they were saying that they do not really look at the charges all they look at is what is my balance and that...

10

MS MATTERSON: I think what we are saying is that they just say it is expensive and...

MS NYASULU: So they have an overall perception of...

MS MATTERSON: They had a view that it is expensive and what we see when we speak to these individuals is that that is why the accessibility of the ATM is so important because "I actually have to pay a taxi to get to that ATM, then I actually got to pay the fee of the ATM and all of this to get my money that I could have actually been keeping at home." I think that is the mindset. So we do see that Achilles..., it is the Achilles heel but it is not interrogated because of that "I cannot."

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*Pretoria*  
*17 July 2007*

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MS NYASULU: And your perception of “I cannot” being because I cannot as you used the word “I cannot challenge the experts” or is there another reason that they say they cannot?

MS VAN SCHAARDENBURGH: I think it is also the diversity of the charges themselves, whether it be for, you know a particular transaction or whether it be a particular bank. So it is the lack of knowledge and awareness and understanding of how those fees actually work that contributes.

10

MS MATTERSON: Yes but going beyond that I think that there, they simply do not challenge the fees. They do not go and whether that is because they are un enable to because there is very clearly a sense of disempowerment. There is very clearly a sense of disempowerment, whether that is been thrust upon them or whether they feel that from themselves, it is there and so there is almost a..., they simply do not challenge them. They do not challenge the fees and I think that is from a number of factors because of the variety.

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So I might know what..., I might know that it cost me R1,50 to draw from an ATM but for instance when the one respondent said but it is more expensive to withdraw

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*Pretoria  
17 July 2007*

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inside the bank what is more expensive to, there was a whole “what are you talking about, are you been serious, are you true?” There was a whole..., so I might know one fee but I know that there are lots and they simply do not interrogate.

MS NYASULU: Okay.

MS MATTERSON: And I think it is because of a lot of factors.

10 MS NYASULU: Okay one final question, I found it very interesting that they have a problem with the image around Mzansi but not what Mzansi allows them to do...

MS MATTERSON: Exactly.

MS NYASULU: So they had no problem with the benefits that they derive from Mzansi, it was the association with an image of poverty?

MS MATTERSON: Yes.

MS NYASULU: Thank you Chair that is it.

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CHAIRPERSON: I want to go back to the question prior to this one, which Ms Nyasulu asked you. I think it is slide 38, if you can go back to that slide?

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*Pretoria  
17 July 2007*

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MS MATTERSON: Sorry...

CHAIRPERSON: That is the one, yes I was going to ask you on that as well because I have got difficulty with the conclusion, understanding the conclusion basing it on what has been said on top. You say they are not able to interrogate, confront, challenge these experts due to lack of knowledge, experience and confidence yet the first three bullet points on top, the image which is painted there is totally different in the sense that unless I am misunderstanding...

10

MS MATTERSON: Yes (indistinct)...

CHAIRPERSON: You say it is blind faith, they are relying on family recommendation and then generally banks are overwhelming. They are overwhelming and uncomfortable and highly stressful areas to go to. Now I then have difficulty with the conclusion because if it is stressful and difficult for people to even ask questions, it is not out of failure to challenge or to interrogate, it is just the mere...

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MS MATTERSON: Overwhelmingness.

CHAIRPERSON: Yes I am going to...

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*Pretoria  
17 July 2007*

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MS MATTERSON: I think that is what we were to...

CHAIRPERSON: To ask this question about anything.

MS MATTERSON: Yes.

CHAIRPERSON: So once you have opened your account, you are out of there?

MS MATTERSON: Yes, well I think what we were trying to say is that there is..., it  
10 is un..., it is overwhelming, it is uncomfortable and therefore because of this  
overwhelmingness and this uncomfortableness and this degree of slight stress, we see  
that they are not able to interrogate because they were overwhelmed. If they were  
not overwhelmed and if they felt at ease, they might well be able to go in and say  
“listen I am not totally comfortable with my fees, could you please sit down, spend  
ten minutes with me and chat to me” but because it is so overwhelming and  
uncomfortable, they do not..., they are not able to interrogate and challenge and for  
us we are saying that that is a follow-on.

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MS VAN SCHAARDENBURGH: And it is due to that lack of confidence...

MS MATTERSON: Yes...

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*Pretoria*  
*17 July 2007*

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MS VAN SCHAAARDENBURGH: And that lack of confidence in themselves or even been able to understand the language...

MS MATTERSON: Yes...

MS VAN SCHAAARDENBURGH: Or the jargon.

10 MS MATTERSON: And so we are saying it is overwhelming so I think we must probably say that that drives the passivity and an inability to interrogate, confront challenge because they know that they have no knowledge. They know that they do not have experience and they certainly have no confidence. I think what we are trying to say is that when individuals do..., are confidence in a particular category, we do see greater interaction and we do see greater forcefulness. So I think what we are trying to say is that these, all of these factors is what is driving the greater passivity.

20 CHAIRPERSON: Well will that explain as well the preference for ATMs? You do not have to deal with anybody. You just go to this machine and...

MS MATTERSON: I could not say that based on research that those..., because we did not ask the question. For us ATMs came through far more as...

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*Pretoria  
17 July 2007*

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MS VAN SCHAAARDENBURGH: A convenience...

MS MATTERSON: A convenience and an accessible access to my money.

CHAIRPERSON: So you did not pursue this line to find out exactly whether...

MS MATTERSON: We did not say..., No, we did not..., yes because unfortunately a lot of the stuff is covered in the analysis once the respondents have gone so we did not actually say to them do ATMs make you feel less uncomfortable. No we did not  
10 ask.

MR. BODIBE: Can it however be inferred from the concerns with business hours?

MS MATTERSON: Yes...

MR. BODIBE: The choice of ATM?

MS MATTERSON: Yes but that..., so for us the ATM did feed a sense of  
convenience based on that yes.

20 MS NYASULU: Just finally, I think it is on exactly the same slide just so that I understand we are reading it properly. The three things that are under the Achilles Heel being the fees are explained by those points that have been highlighted...

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*Pretoria  
17 July 2007*

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MS MATTERSON: Yes.

MS NYASULU: In other words the fees are the Achilles Heel because there is the shear variation with respective fees means that they experience them as confusing and that consumers are not able to differentiate between what is right, what is wrong, what is good, what is bad and therefore cannot make decisions and therefore this results in a rather superficial reaction of dissatisfaction. So all of that explains what you meant by the Achilles Heel being the fees.

10

MS MATTERSON: Yes.

MS NYASULU: Thank you that is all from me.

CHAIRPERSON: Is that all?

MS NYASULU: Yes.

CHAIRPERSON: Okay thank you very much for your presentation and yes we will take it forward from here. Thank you that then concludes our hearing for today. We will be continuing to engage the banks. We will be continuing to engage the banks on various issues and also the non-banks who are talking to us. We hope that the

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*Pretoria  
17 July 2007*

*PRICING BEHAVIOUR & MARKET POWER*

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report will be presented before the end of the current year to the Competition Commissioner who will then make it public in due course.

Thank you for participating in these hearings, once again. These slides will be Exhibit GGG. The slide, which you gave us, will be Exhibit GGG. Thank you.

(End)

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