

Bank Charges, Competition and Access to Banking

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Structure of Presentation

- Bank charges in Botswana
- Access to Banking
- Bank profitability and competition
- Possible new competition/new banking models to extend access

Botswana's Bank Charges

- Are they high by regional/international standards?
- Recent studies – Southern Africa
 - Bank of Botswana (2001)
 - BIDPA (2003)
 - Central Bank of Lesotho (2003)
 - FinMark Trust/Genesis (2005)

Studies on Bank Charges

- Bank of Botswana, 2001
 - Botswana bank charges higher than in SA and Mauritius
- BIDPA
 - Botswana more expensive than SA
- Central Bank of Lesotho
 - Botswana banks most expensive in SACU

Studies on Bank Charges

- FinMark / Genesis
 - Botswana banks most expensive in SACU
- Four studies
 - can be criticised on grounds of methodology
 - but consensus of conclusions is striking

World Retail Banking Report 2005

- Analysis of charges for 19 core commercial banking services (cheques, credit/debt cards, money transmission, direct debits)
- Weighted by "average" use
- Mostly in developed markets; some emerging
- Range: €25 to €137 a year; average of €78
- equivalent of P14 to P76 per month; avg. P43/month

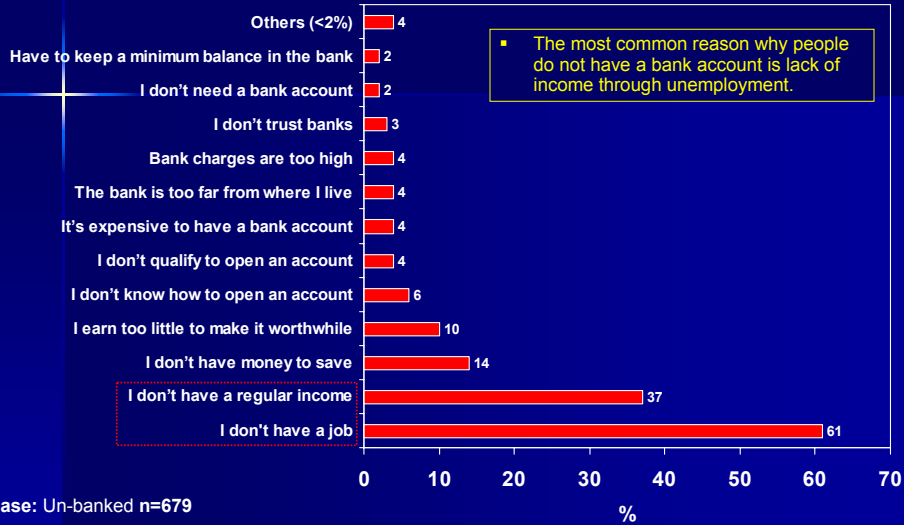
World Retail Banking Report 2005

- Relative costs higher in less mature markets
 - 0.2% - 0.6% of GDP in developed markets
 - 1% - 3.5% in emerging markets;
- Emerging markets average of 2% of GDP
- Applied to Botswana, would give a “benchmark” price of P43/month for bank charges
- Equivalent (coincidentally) to average of international price range

Are Bank Charges a Barrier to Access to Banking?

- FinScope 2004 survey results suggest other factors more important

Reasons for not having a bank account



Bank choice drivers – Q10

- If you were to open an account and had to decide which bank to have an account with, what is the main consideration that you would take into account? What other considerations would you take into account?
- Bank charges and fees, and interest rates are by far the people's main considerations when deciding with which bank to open an account, ahead of the location of the bank/branch.

Bank Choice Drivers (%)	Main Consideration	Total Considerations
Bank charges and fees	32	63
Interest rates	29	65
Location of branch/bank	10	29
Flexibility in transactions	6	21
Personal services	5	20
Accessibility to loans	5	24
Attitude of staff	1	14
Minimum balance required	1	2
ATM close to where I live	1	7
Safety of money/Reliability of bank/Trust in bank	1	2
Technology available	1	4

Base: Total n=1200

Are Bank Charges a Barrier to Access to Banking?

- Benchmark 2% of GDP = 6% of household disposable income
- Banking unaffordable for adults on incomes of less than P718/month
- Equivalent to P1639/month for the average sized household
- Includes 45% of national population (HIES 2002/03)

Are Bank Charges a Barrier to Access to Banking?

- FinScope 2004
 - 43% of population are “banked”
 - approximately in line with expectations given parameters elsewhere
 - most of employed population use banks
 - suggests charges are not a major barrier to employed people
- NDP9 MTR emphasises need to extend banking services to the unbanked

Why are bank charges higher in Botswana than in other SACU countries?

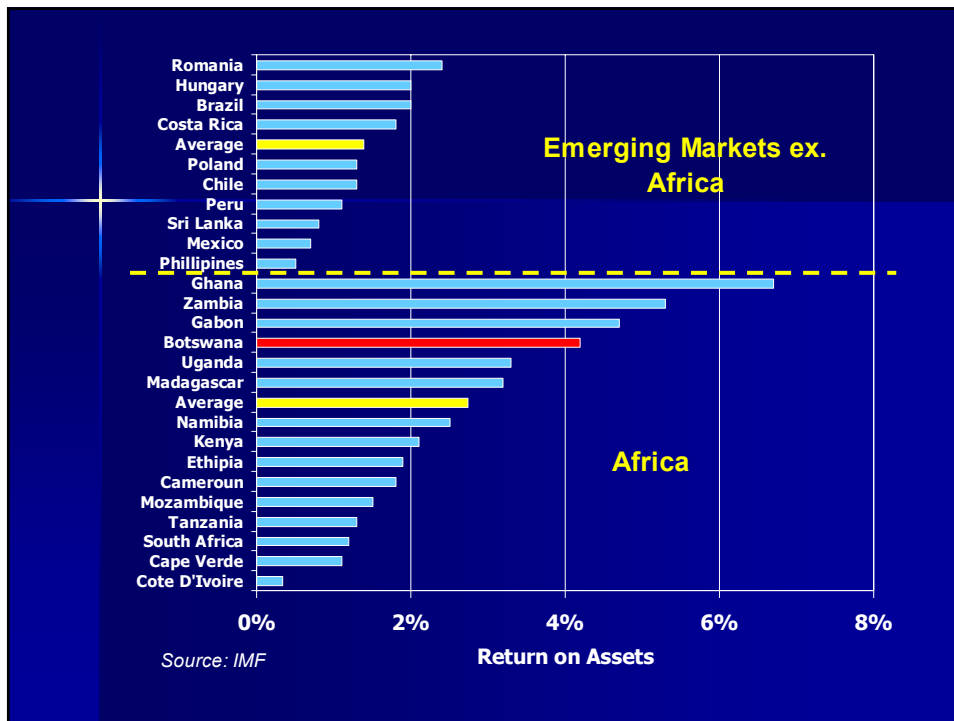
- Bank costs
 - High costs (size, population density)
 - Lack of economies of scale
 - Small population to spread fixed costs
- Bank profits?

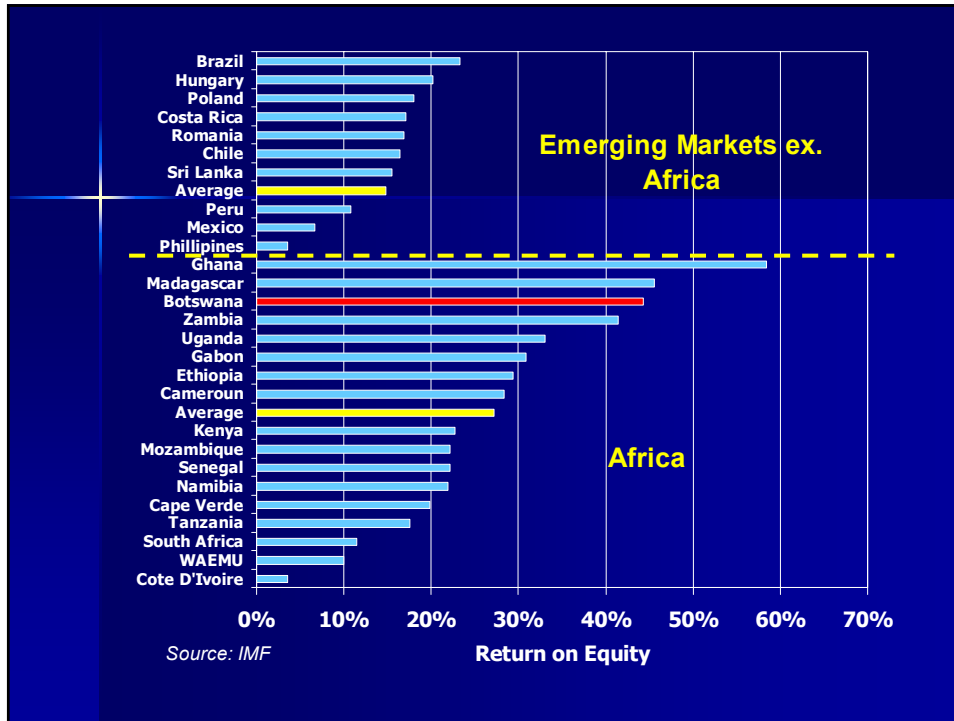
Sources of Bank Income

- Non-interest income (fees) 36%
 - 12% forex dealing
 - 24% other fees, commissions
- Net interest income 65%
- Bank charges not the main source of bank profits

Bank Profitability

	RoA	RoE
Emrg mkt excl. Africa	1.4%	15%
Africa	2.7%	27%
South Africa	1.4%	30%
Botswana	4.2%	44%





Reasons for High Profits

- Lack of Competition?
- Market Concentration Ratios (HHI)

Botswana	0.25
SA	0.17
Namibia	0.26
Europe	0.15 – 0.25
Hong Kong	0.12

- Over 0.18 considered uncompetitive

Barriers to Entry

- Small market
- Conventional banking market saturated
- Dominance of existing banks
- Regulatory barriers - licencing

New Banking Competition

- New conventional banks unlikely to change picture – costs would be similar
- Would compete for existing market - not fundamentally change access
- Effective competition would have to come from new types of banks with different (low) cost structures

New Banking Competition

- New banks
 - not based on dedicated branches
 - use technology rather than bricks & mortar & people/tellers
 - probably cellphone/smartcard/ATM based for mass market
 - use existing infrastructure (post offices, shops)

New Banking Competition

- Would be helped by a change in bank licensing law/regulations
- Permitting limited-scope banking operations with more lenient entry requirements
- But may only be room for one new mass-market bank – SA experience with cellphone banking indicates min. scale of 300,000 customers

Conclusion

- Botswana's bank charges are high by regional standards
- More thorough analysis needed for proper comparison against international benchmarks
- High charges due to both high costs and high profits
- New competition needed to extend access and bring down charges and profits

Conclusion

- Access to banking is a complex issue – much more than just bank charges
- Charges not perceived as the main barrier to access for the unbanked
- Significant extension of access to banking requires low cost-low charge model meeting the needs of those without regular incomes
- Would be helped by regulatory and policy changes

Thank You



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