

South African Banks

Pressure building on fees [Erratum]

Equities

South Africa
Banks

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We compare fees of retail bank accounts

Our detailed analysis of bank fees shows intensifying competition especially in the mass market as incumbents are cutting fees and launching new products. New entrants such as TymeBank, African Bank and Old Mutual are having an impact on pricing while Capitec also remains competitive. The traditional banks are exposed to potential fee pressure emerging in the higher income segments where Capitec and the new entrants look substantially cheaper on a headline basis before considering rewards programmes. Discovery Bank's recently launched product range looks competitive, taking into account its substantial Vitality Money rewards programme.

Making sense of complex banking fees

We cut through significant complexity to compare key bank accounts on three transactional profiles – low, medium and high volume (please see Figure 2 inside). The proliferation of bank pricing structures of the traditional four banks remains a key weakness compared to the simpler offerings of Capitec and new entrants, in our view. Working through legacy pricing structures, we are struck by the continued complexity.

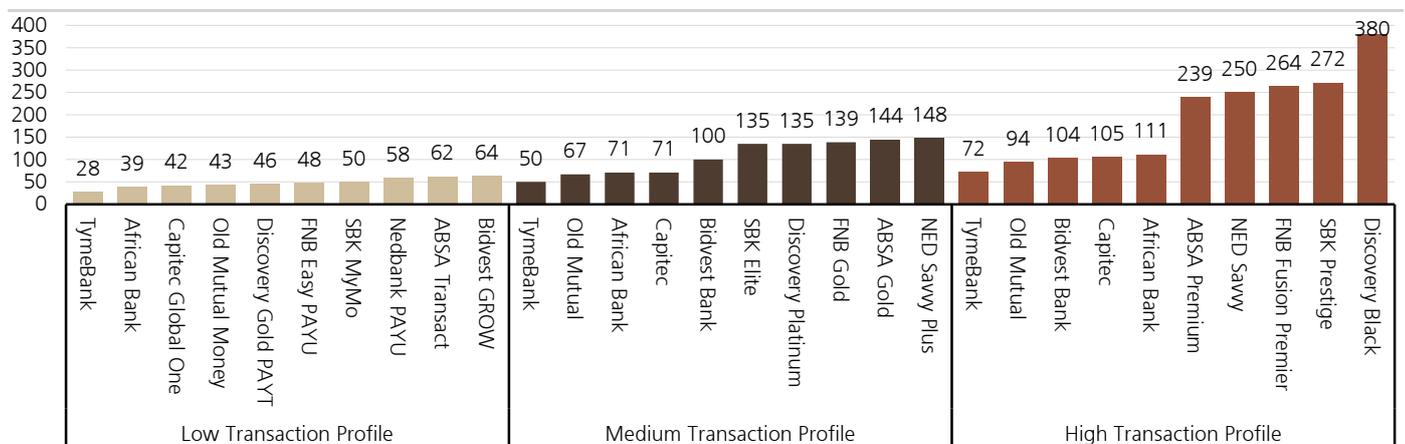
Penalty fees and ATM fees remain significant

Not included in the fee comparison in Figure 1 are penalty fees which could be substantial (Figure 8), as much as R60 for one rejected debit order. ATM fees, especially for withdrawals on another bank's ATM, are high (Figure 11) with new entrants targeting this area. Some banks are also extracting fees for ancillary services like pre-paid airtime while others provide these for free.

We see a combination of pressure on the fee pool and client market shares

As the battle in transactional banking continues to play out, we expect to see a combination of pressure on the growth of the fee pool (likely to slow from above inflation to below inflation) and losses of client share of the traditional banks to new entrants and also still to Capitec, which continues to be a net gainer of clients. *Erratum note: This report replaces an earlier version to correct cash withdrawal and deposit fees.*

Figure 1: Comparing monthly bank fees for different transaction profiles (Rand pm)



Source: Company pricing brochures, UBS estimates, Note: Excluding potential penalty fees and a credit card (not all offering this), but including rewards programme fees

Bank fees can be complicated, we keep the comparison simple

Three transaction profiles

There is a proliferation of bank account fee structures of the traditional banks while Capitec and new entrants stand out with much simpler fees. Capitec, for example, has a single transactional pricing structure (Global One) for the entire market regardless of income or life stage. To enable practical comparison of transactional fees, we estimate the total monthly fees using three transactional profiles, i.e. low, medium and high transaction profiles, typically associated with increasing levels of income, i.e. mass market, middle income and affluent. We stop short of the private bank accounts that will be above our high transaction profile.

There are typically two types of transactional pricing structures – Pay-as-you-transact (PAYT) with a small or no monthly fee and charges per transaction, and bundled offerings with a fixed monthly fee including a bundle of transactions. We chose the most relevant banking product of each bank for each transactional segment. The bank accounts are compared and key elements of the pricing structures are summarised in the [Appendix](#). The transaction profiles include cash withdrawals and deposits as indicated in Figure 2.

Figure 2: Summary of transaction profiles assumed

Transaction profile	Low		Medium		High	
Segment	Mass market		Middle market		Affluent	
Transactions	Number of transactions	Rand per transaction	Number of transactions	Rand per transaction	Number of transactions	Rand per transaction
Payments external (EFT)	2		5		8	
Stop order (scheduled payment external)	1		2		4	
Debit order (internal)	2		3		4	
Debit order (external)	2		4		7	
Card purchase at POS (swipes)	3		10		20	
Total Number of transactions	17		32		51	
Proof of payment notifications SMS	2		3		6	
SMS update notifications	15		29		47	
Cash withdrawal at retailer POS	1	500	2	500	1	500
Cash withdrawal own ATM	1	500	2	500	3	500
Cash withdrawal another bank's ATM	1	500	1	1000	1	1500
Cash Deposit at cheapest channel	1	500	1	1000	1	1500

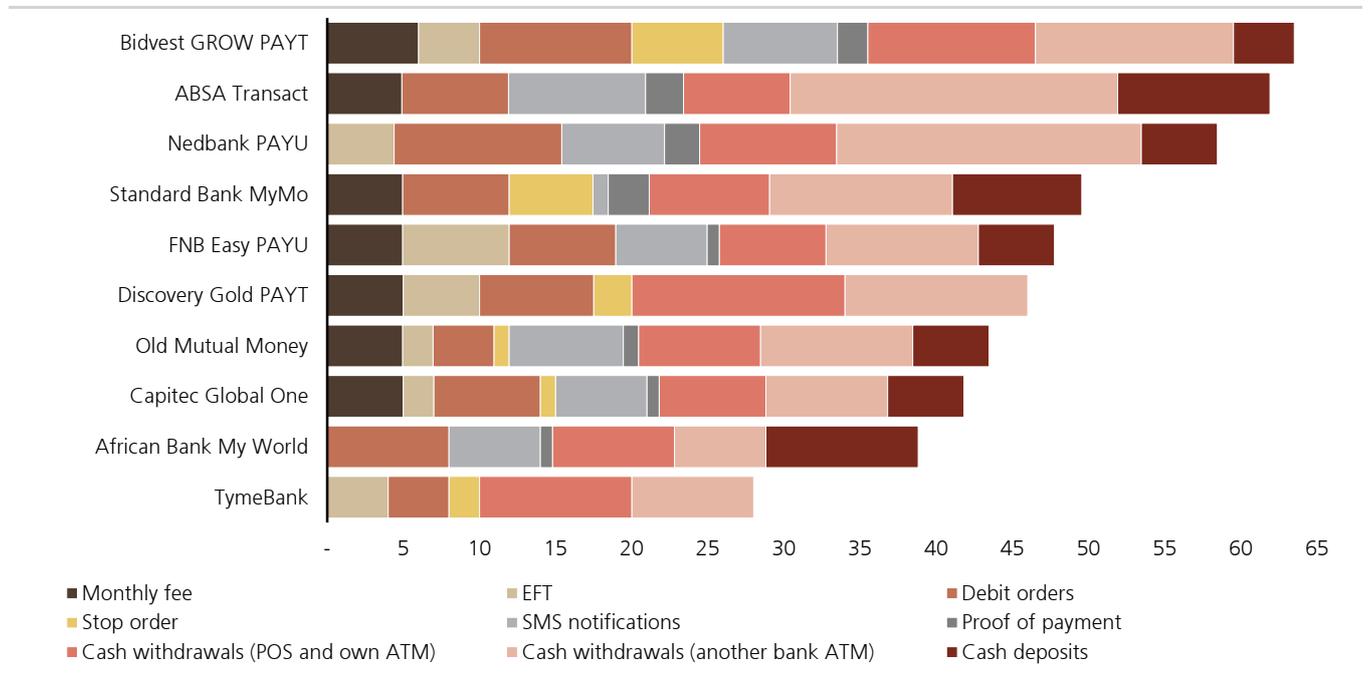
Source: UBS

Fees compared on the low transaction profile

Key products in the mass market are compared on the low transaction profile as shown in Figure 3. We are seeing the most intense fee competition in this segment with the traditional banks also experimenting with new low cost accounts, for example Standard Bank launched its MyMo account in addition to its low cost Access account while FirstRand has launched one of the cheapest accounts, FNB Easy Zero (not included in the comparison below given that it does not offer debit orders). This Easy Zero account evolved from FNB's E-Wallet product.

New entrants including TymeBank, African Bank, Old Mutual Money, together with incumbent Capitec, are substantially cheaper than the traditional banks. This fee comparison also highlights the substantial cost added by cash withdrawals to total monthly fees, especially if another bank's ATM is used. Several banks have also moved to a zero monthly fee in this segment.

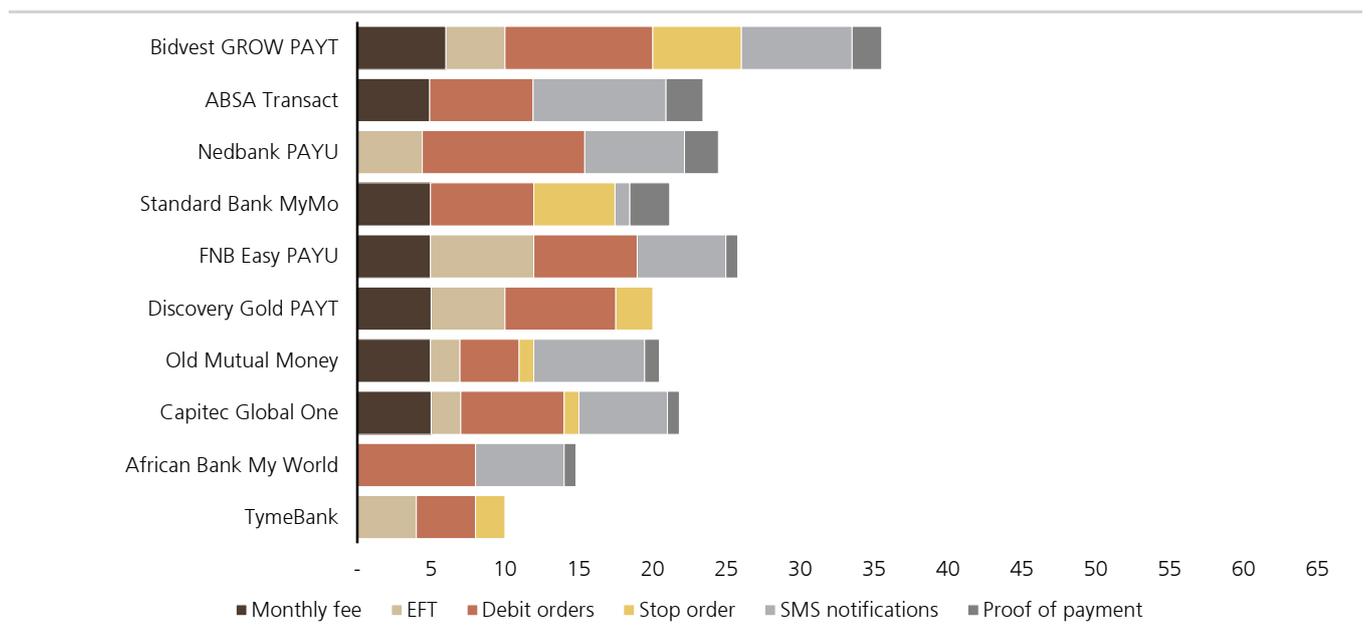
Figure 3: Monthly bank fees compared on our low transaction profile, cash is expensive, R pm



Source: Company pricing brochures, UBS estimates, Note: TymeBank, Discovery Bank and African Bank don't have their own ATMs, assume another bank's ATM

Assuming an electronic only profile, i.e. no cash transactions, the differences in fees in the mass market are quite small. SMS notifications stand out as adding a lot to the monthly cost of some accounts while others have made this free.

Figure 4: Cutting out cash transaction fees are much lower (Rand pm) illustrating impact of cash transactions



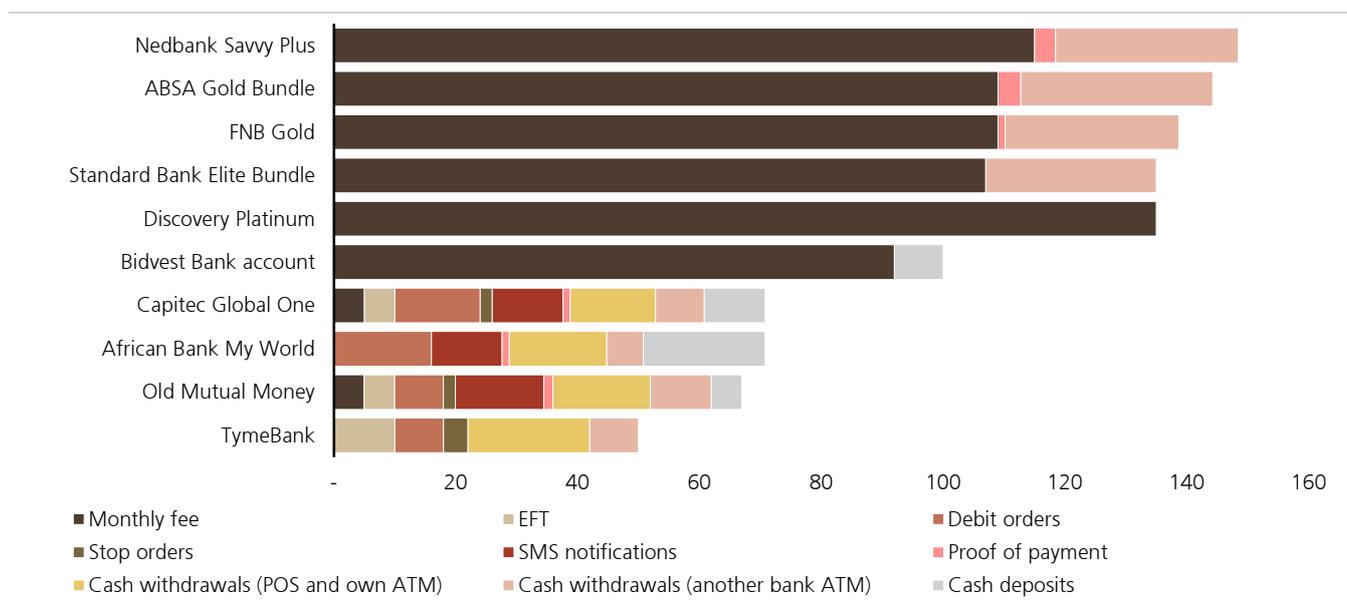
Source: Company pricing brochures, UBS estimates

Fees compared on the medium transaction profile

On this middle market profile, the traditional banks and Discovery Bank focus on a bundled offering, although out of bundle transactions (like an ATM withdrawal on another bank's ATM) could be expensive. The PAYT offerings of Capitec and some new entrants like TymeBank, Old Mutual and African Bank are less than half the price of the traditional banks on our assumed transaction profile, although their product offerings are more limited without the substantial rewards programmes of the incumbents.

Capitec remains well placed from a fee competitiveness point of view in this key segment where it also continues to gain share. Discovery Platinum looks well priced considering its substantial Vitality Money rewards programme. Bidvest Bank has an innovative product with pay-as-you transact fees, but which is capped at a maximum of R92 pm while there are some out of bundle charges including for cash deposits. A client could therefore pay lower fees on this Bidvest account should they not transact much while having the protection of an overall cap on fees similar to a bundled offering (on our transactional profile here we are above the R92 cap, hence the fixed R92 pm shown).

Figure 5: Monthly bank fees compared on our medium transaction profile (including cash transactions), R pm



Source: Company pricing brochures, UBS estimates

Fees compared on high transaction profile

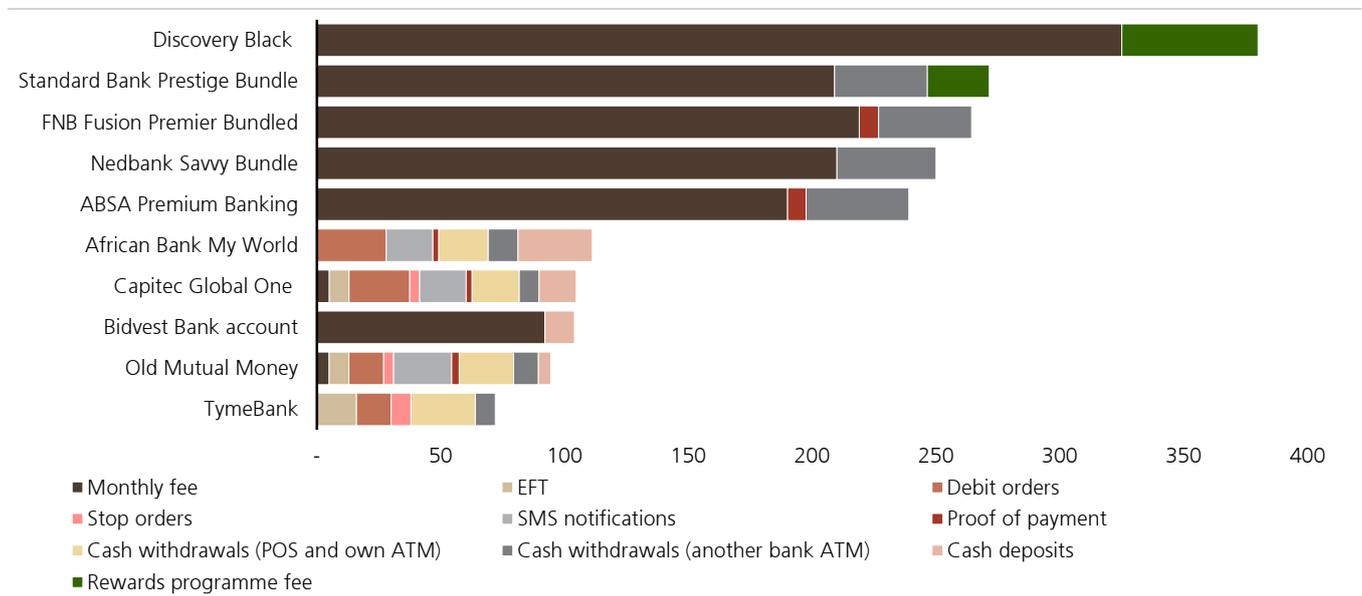
In this affluent segment, the overall product offering and rewards programmes play an important role. However, it is interesting to note that Capitec and new entrants are substantially cheaper on this high transaction profile despite charging fees per transaction.

Discovery Bank and Standard Bank also charge additionally for their rewards programmes while these are included for the other traditional banks. Capitec and the other new entrants don't offer comprehensive rewards while FNB and Discovery are leaders with their eBucks and Vitality Money programmes, respectively. The bundled offerings of the traditional banks are very similarly priced while Discovery Black's additional fee for its Vitality Money rewards programme adds substantially to the cost. However, it is rewards rich with some clients

potentially getting more rewards than fees paid. Discovery Black is arguably also competing in the private bank segment, not the focus of this report.

As shown below, SMS notifications on PAYT offerings can add up on this profile of high transaction volume, included in the bundles of the traditional banks.

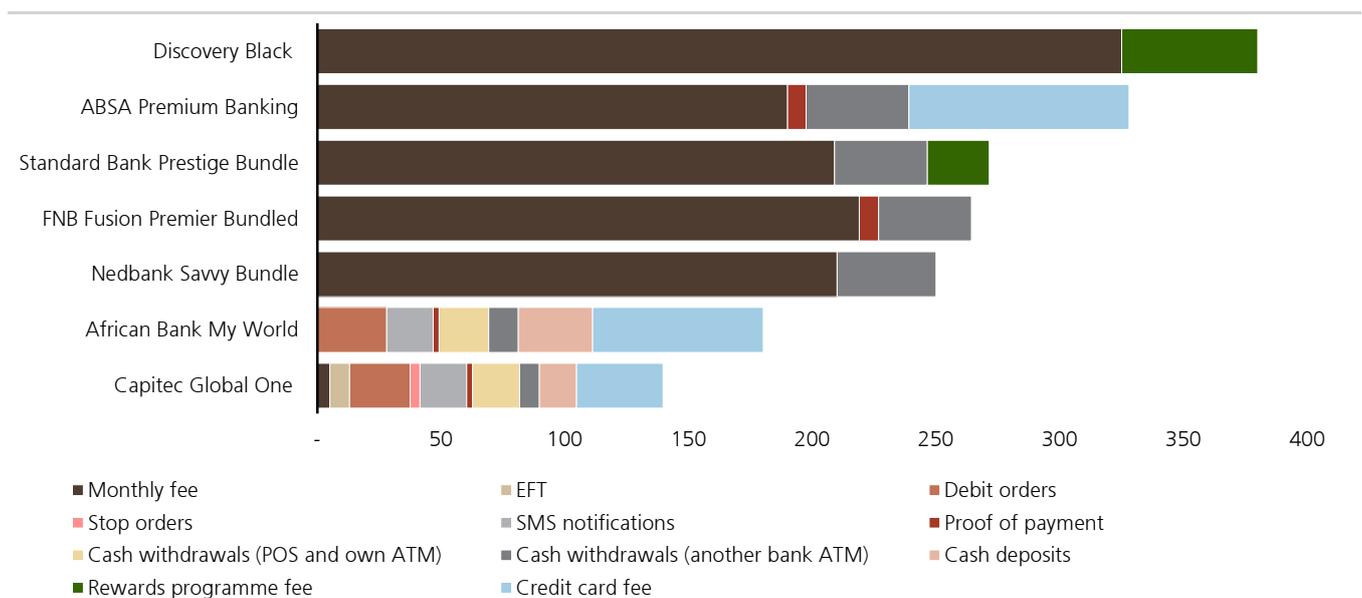
Figure 6: Monthly bank fees compared on our high transaction profile (including cash transactions)



Source: Company pricing brochures, UBS estimates

Most clients in this high transaction profile will have a credit card and we compare the overall pricing of the banks that offer a credit card product below. Most of the traditional banks include the credit card fee in their bundle while Absa stands out as still charging additionally. Capitec has also come to the fore as a serious competitor in this segment with fees (including a credit card) of about half of the traditional banks. Nedbank's Savvy Bundle competes well on price in this segment.

Figure 7: Monthly bank fees compared on our high transaction profile for those that offer a credit card



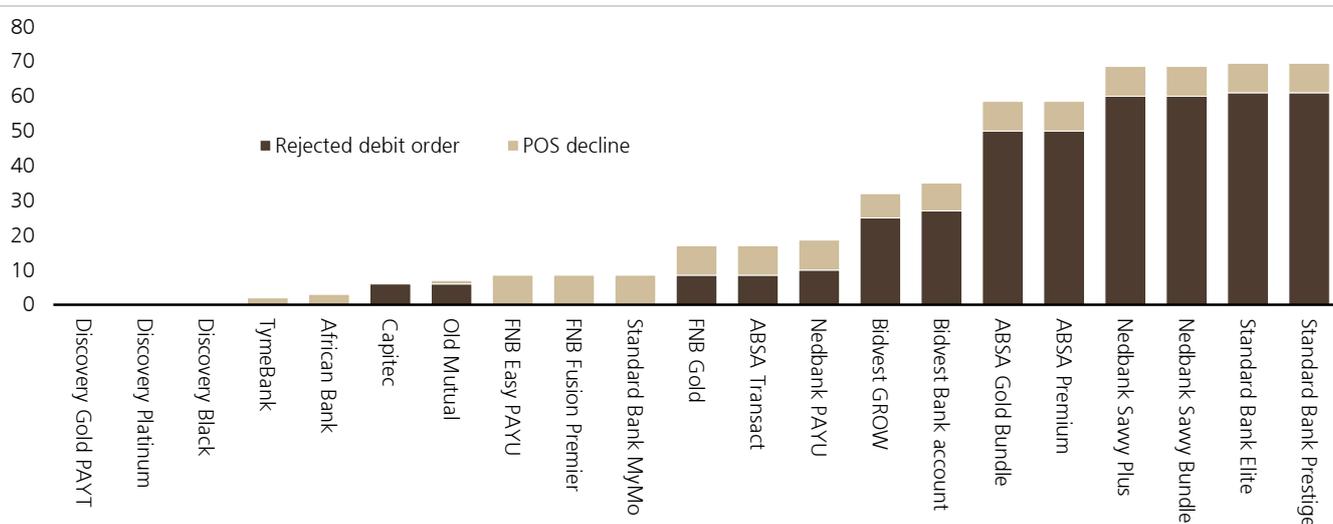
Source: Company pricing brochures, UBS estimates

As shown above, Absa's credit card fee adds quite a lot to its overall monthly fee making it less competitive than the other three traditional banks while its underlying transactional banking offering is the cheapest among traditional banks on this profile.

Penalty fees could be substantial

As shown below, the traditional banks still charge substantial penalty fees for rejected debit orders, as well as a declined POS transaction, especially on their bundled offerings targeting higher income clients. Penalty fees are much lower on products for the mass market. However, the new entrants and Capitec offer low penalty fees for the entire market. FNB, among the traditional banks, has significantly lowered its penalty fees while the other three still stand out with relatively high penalty fees, especially on debit orders.

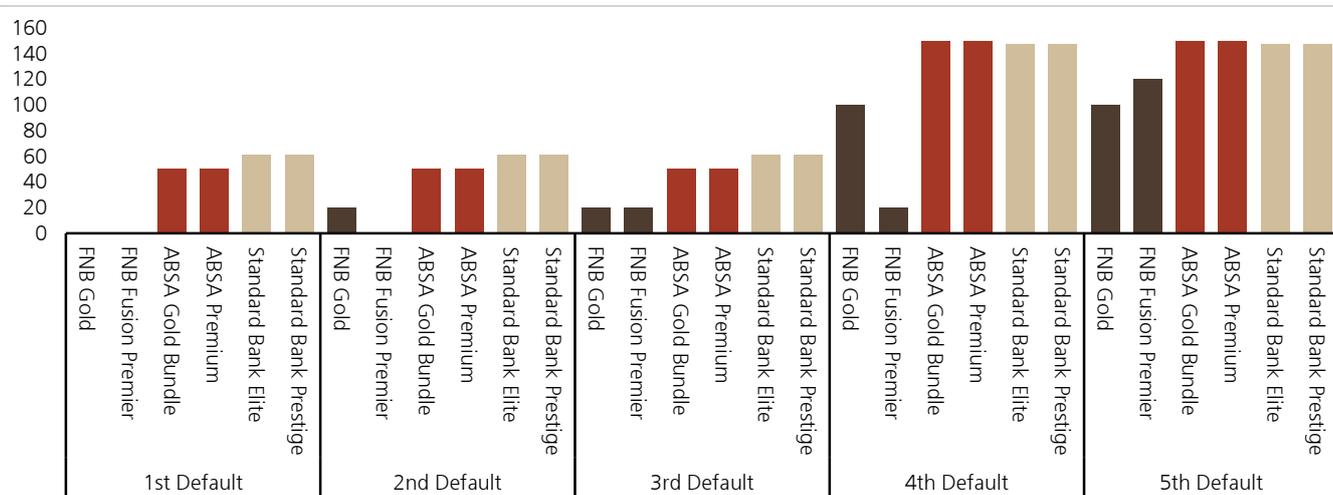
Figure 8: Penalty fees compared for one rejected debit order and one declined POS transaction (Rand)



Source: Company pricing brochures, UBS estimates

The traditional banks also increase the penalties beyond the first penalty as shown in Figure 9 and multiple penalties could quickly add up.

Figure 9: Unsuccessful debit order penalty fee escalation (within a 12 month period)

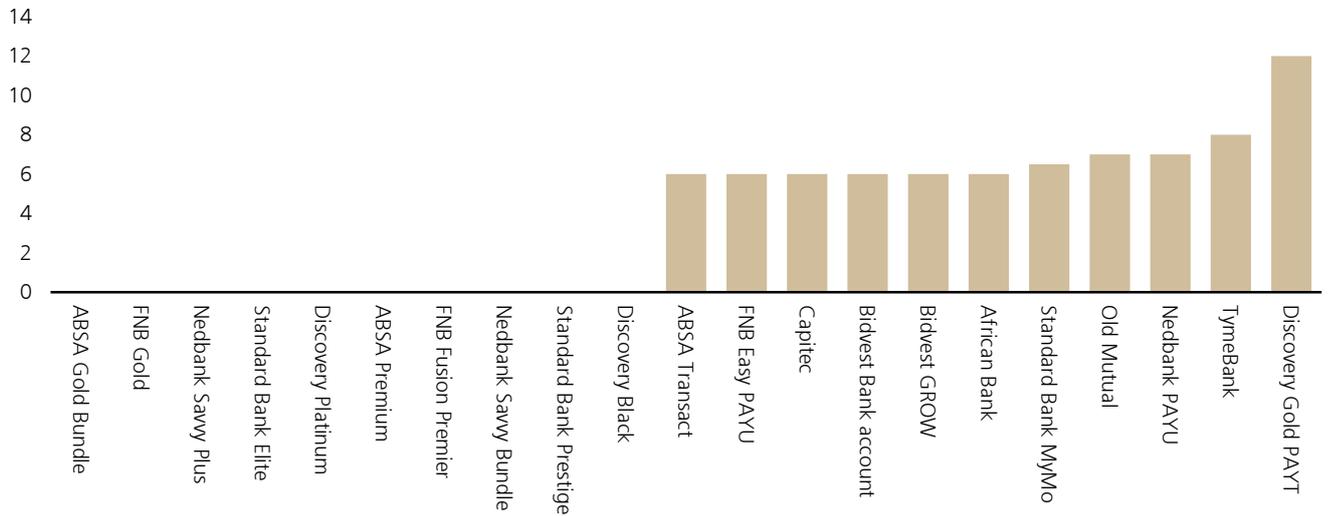


Source: Company pricing brochures, UBS estimates

High ATM fees targeted by new entrants

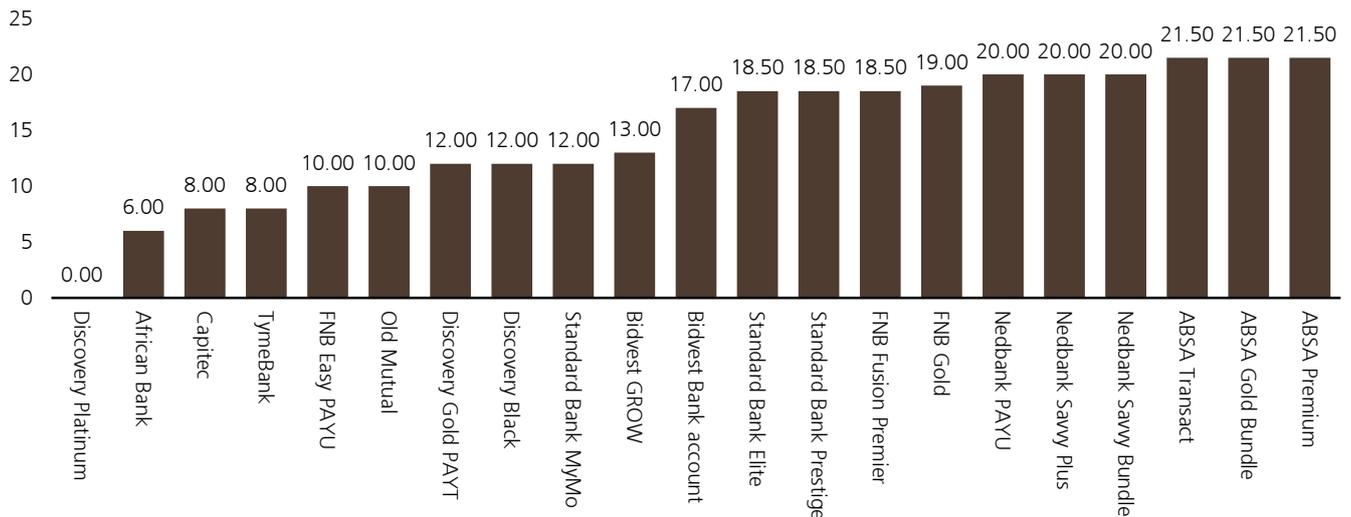
Although the bundled offerings of the traditional banks include a certain number of ATM withdrawals as shown in the Appendix, out of bundle withdrawals are expensive, as well as withdrawals on another bank's ATM (African Bank, Capitec and TymeBank are much cheaper here).

Figure 10: ATM fees for a R500 withdrawal on own ATM (Rand), included in bundles up to a limit (Rand)



Source: Company pricing brochures, UBS estimates

Figure 11: ATM fees for a R500 withdrawal on own another bank's ATM (Rand)

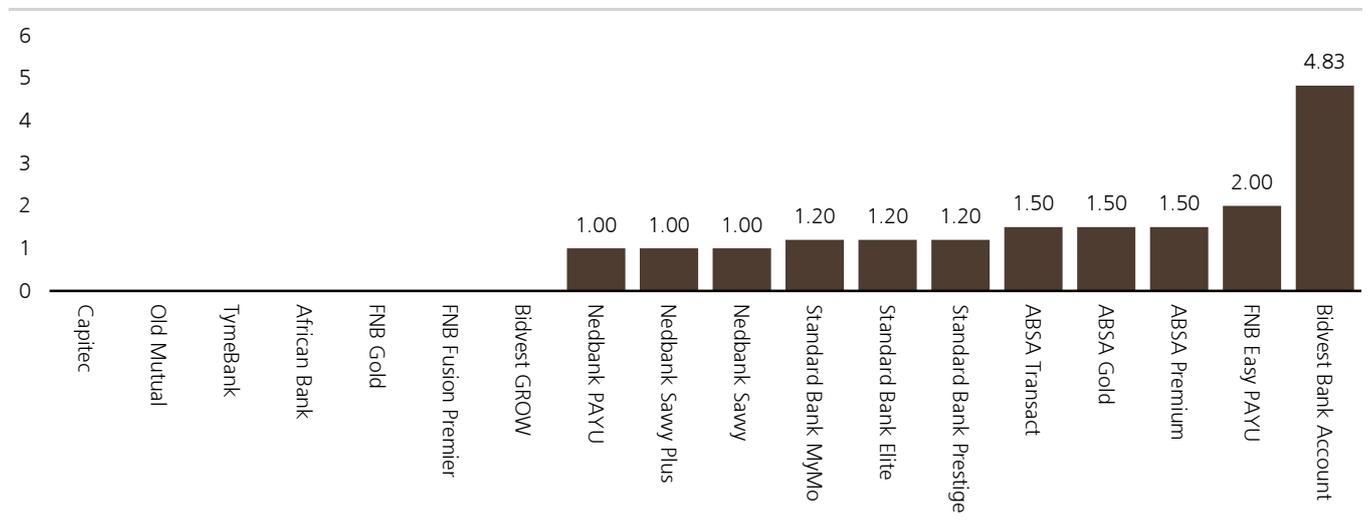


Source: Company pricing brochures, UBS estimates

Ancillary services, focus on pre-paid airtime

The banks are also increasingly providing additional services such as selling pre-paid airtime, but interestingly some are charging for this while the trend is towards providing it for free.

Figure 12: Prepaid airtime purchase (online), Rand, for a R50 airtime purchase



Source: Company pricing brochures, UBS estimates

Appendix: Summary of pricing of key retail banking packages

Figure 13: Low transaction profile bank account pricing structures, key features

Bank account	Absa Transact	FNB Easy PAYU	NED PAYU	SBK MyMo	Capitec	Old Mutual	Bidvest GROW	TymeBank	Discovery Gold	African Bank
Monthly fee	4.90	4.95	0.00	4.95	5.00	4.95	6.00	0.00	5.00	0.00
Payments external (EFT)	0.00	3.50	2.20	0.00	1.00	1.00	2.00	2.00	2.50	0.00
Stop order	0.00	0.00	0.00	5.50	1.00	1.00	6.00	2.00	2.50	0.00
Debit order (internal)	0.00	2.50	0.00	3.50	3.50	0.00	5.00	0.00	3.75	0.00
Debit order (external)	3.50	3.50	5.50	3.50	3.50	2.00	5.00	2.00	3.75	4.00
SMS update notification	0.60	0.40	0.45	1.00	0.40	0.50	0.50	0.00	0.00	0.40
Proof of payment	1.25	0.40	1.15	1.35	0.40	0.50	1.00	0.00	0.00	0.40
Rejected debit order	8.50	8.50	10.00	0.00	6.00	6.00	25.00	0.00	0.00	0.00
POS declined transaction	8.50	8.50	8.60	8.50	0.00	1.00	7.00	2.00	0.00	3.00
Cash withdrawal POS	1.00	1.00	2.00	1.40	1.00	1.00	5.00	2.00	2.00	2.00
Cash withdrawal own ATM	R6 per R1000	R6 per R1000 (up to R2000), then R9.50 + 1.9%	R7 per R1000	R6.5 up to R1000, then R13	R6 per R1000	R7 per R1000	6.00	Not offered, use another bank's ATM	Not offered, use another bank's ATM	Not offered, use another bank's ATM
Cash withdrawal another bank's ATM	R11.50+2%	R10 per R1000 to R2000, then R9.50+1.9%	R10+2.0% Per R100	R12 up to R1000, then R18	R8 per R1000	R10 per R1000	R6.00 +1.4%	R8 per R1000	R4.50+1.5%	R6 per R1000
Cash deposit	2.00%	1.00%	1.00%	1.70%	1.00%	R 5.00	0.80%	1st free then R4	In bundle to R5000, then R19.95	2.00%

Source: Company pricing brochures, UBS estimates

Figure 14: Medium transaction profile bank account pricing structures, key features

Bank account	ABSA Gold Bundle	FNB Gold	Nedbank Savvy Plus	Standard Bank Elite Bundle	Capitec Global One	Old Mutual Money	Bidvest Bank account	TymeBank	Discovery Platinum	African Bank My World
Monthly fee	109.00	109.00	115.00	107.00	5.00	4.95	92.00	0.00	135.00	0.00
Payments external (EFT)	In bundle	In bundle	In bundle	In bundle	1.00	1.00	7.00	2.00	In bundle	0.00
Stop order	In bundle	In bundle	In bundle	In bundle	1.00	1.00	7.00	2.00	In bundle	0.00
Debit order (internal)	In bundle	In bundle	In bundle	In bundle	3.50	0.00	9.00	0.00	In bundle	0.00
Debit order (external)	In bundle	In bundle	In bundle	In bundle	3.50	2.00	9.00	2.00	In bundle	4.00
SMS update notification	In bundle	In bundle	In bundle	In bundle	0.40	0.50	0.85	0.00	In bundle	0.40
Proof of payment	1.25	0.40	1.15	In bundle	0.40	0.50	0.80	0.00	In bundle	0.40
Rejected debit order	50.00	0.00	60.00	61.00	6.00	6.00	27.00	0.00	0.00	0.00
POS declined transaction	8.50	8.50	8.60	8.50	0.00	1.00	8.00	2.00	0.00	3.00
Cash withdrawal POS	In bundle	In bundle to R4000, then 1.6%	In bundle	In bundle	1.00	1.00	4.00	2.00	In bundle	2.00
Cash withdrawal own ATM	In bundle to R4500, then 2%	In bundle to R4000, then 1.9%	4 free, then 2%	In bundle to R5000, then 1.9%	R6 per R1000	R7 per R1000	R 6.00	Not offered, use another bank's ATM	Not offered, use another bank's ATM	Not offered, use another bank's ATM
Cash withdrawal another bank's ATM	R11.50+2%	R9.50 +1.9%	R10 + 2.0%	R9+1.9%	R8 per R1000	R10 per R1000	R10 +1.4%	R8 per R1000	8 free, then R4.50+1.5%	R6 per R1000
Cash deposit	In bundle to R4500, then 2%	In bundle till R3000, then 1%	In bundle	3 free, then 1.9%	1.90%	5.00	0.80%	1st free then R4	In bundle to R5000, then R19.95	2.00%

Source: Company pricing brochures, UBS estimates

Figure 15: High transaction profile bank account pricing structures, key features

Bank account	ABSA Premium Banking	FNB Fusion Premier Bundled	Nedbank Savvy Bundle	Standard Bank Prestige Bundle	Capitec Global One	Old Mutual Money	Bidvest Bank account	TymeBank	Discovery Black	African Bank My World
Monthly fee	190.00	219.00	210.00	209.00	5.00	4.95	92.00	0.00	325.00	0.00
Credit card fee	89.00	0.00	0.00	0.00	35.00	n/a	n/a	n/a	60.00	n/a
Rewards programme fee	0.00	0.00	0.00	25.00	0.00	0.00	0.00	0.00	55.00	n/a
Total monthly fee	279.00	219.00	210.00	234.00	40.00	4.95	92.00	0.00	440.00	0.00
Payments external (EFT)	In bundle	In bundle	In bundle	In bundle	1.00	1.00	7.00	2.00	In bundle	0.00
Stop order	In bundle	In bundle	In bundle	In bundle	1.00	1.00	7.00	2.00	In bundle	0.00
Debit order (internal)	In bundle	In bundle	In bundle	In bundle	3.50	0.00	9.00	0.00	In bundle	0.00
Debit order (external)	In bundle	In bundle	In bundle	In bundle	3.50	2.00	9.00	2.00	In bundle	4.00
SMS update notification	In bundle	In bundle	In bundle	In bundle	0.40	0.50	0.85	0.00	In bundle	0.40
Proof of payment	1.30	In bundle	In bundle	0.40	0.40	0.50	0.80	0.00	In bundle	0.40
Rejected debit order	0.00	60.00	61.00	6.00	6.00	6.00	27.00	0.00	In bundle	0.00
POS declined transaction	8.50	8.60	8.50	0.00	0.00	1.00	8.00	2.00	In bundle	3.00
Cash withdrawal POS	In bundle	In bundle to R6000, then 1.6%	In bundle	In bundle	1.00	1.00	4.00	2.00	In bundle	2.00
Cash withdrawal own ATM	In bundle to R6500, then 2%	In bundle to R6000, then 1.9%	In bundle	In bundle to R10000, then 1.9%	R6 per R1000	R7 per R1000	6.00	Not offered, use another bank's ATM	Not offered, use another bank's ATM	Not offered, use another bank's ATM
Cash withdrawal another bank's ATM	R11.50+2%	R9.00+1.9%	R10.00+2.0%	R9.00+1.9%	R8 per R1000	R10 per R1000	R10 +1.4%	R8 per R1000	In bundle	R6 per R1000
Cash deposit	In bundle to R6500, then 2%	In bundle to R6500, then 1%	In bundle	3 free, then 1.9%	1.0%	5.00	0.80%	1st free then R4	In bundle to R5000, then R19.95	2.00%

Source: Company pricing brochures, UBS estimates

Valuation Method and Risk Statement

Investing in South African banks exposes investors to the following key risks: 1) Macroeconomic conditions that affect the outlook for revenue and earnings, 2) the level of interest rates that drive net interest margins and credit losses, 3) regulatory risks with the banking sector being highly regulated, and 4) competitive dynamics as new entrants launch in retail banking. The macro outlook in South Africa continues to remain weak, which could impact earnings delivery going forward.

Valuation methodology: Using a two-stage economic profit model for the big four banks, a three-stage EP model for Capitec and a sum-of-the parts model for Investec (Gordon growth model for Bank & Wealth and forward PE basis for AM).

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12-Month Rating	Definition	Coverage ¹	IB Services ²
Buy	FSR is > 6% above the MRA.	44%	32%
Neutral	FSR is between -6% and 6% of the MRA.	41%	29%
Sell	FSR is > 6% below the MRA.	15%	20%
Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 31 December 2019.

1: Percentage of companies under coverage globally within the 12-month rating category.

2: Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3: Percentage of companies under coverage globally within the Short-Term rating category.

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UBS AG London Branch: Stephan Potgieter, CFA. **UBS South Africa (Pty) Limited:** Michael Christelis, FIA CFA.

Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Absa Group ⁷	ABGJ.J	Neutral	N/A	RCnt13,800	28 Jan 2020
Capitec Bank Holdings Ltd	CPIJ.J	Neutral	N/A	RCnt137,000	28 Jan 2020
FirstRand Ltd ⁷	FSRJ.J	Neutral	N/A	RCnt5,920	28 Jan 2020
Investec ⁷	INVP.L	Buy	N/A	429p	28 Jan 2020
Nedbank Group Ltd ^{4, 7}	NEDJ.J	Neutral	N/A	RCnt19,938	28 Jan 2020
Standard Bank Group Ltd ⁷	SBKJ.J	Neutral	N/A	RCnt15,990	28 Jan 2020

Source: UBS. All prices as of local market close.

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