



**Central Bank of Lesotho
July 2003**

**The Comparative Analysis of the Cost of banking services in SACU countries
Research Department, Supervision Department,
Central Bank of Lesotho
Kingdom of Lesotho**

Abstract

The purpose of the paper is to evaluate the cost of banking services in Lesotho. This is done by comparison with the rest of SACU members. The survey of the costs of ten commonly used banking services was undertaken in the region. The identified services were Cash withdrawals at the Automatic Teller Machine (ATM) and Over the Counter (OTC) withdrawals, cost of cheque book, cash deposit, stop order, bank statements at the ATM and OTC and special clearances. The paper found that generally the charges by Standard Bank Group (Lesotho Bank 1999 and Standard Bank Lesotho) in Lesotho were slightly higher than Nedbank Lesotho and Standard Banks Group in South Africa, Swaziland and Namibia. However, Stanbic Botswana was generally the more expensive in the region. The average banking charges were found to be most expensive in Botswana in comparison with South Africa, Lesotho, Namibia and Swaziland. However, excluding South Africa and Botswana, Lesotho was found to be more expensive than Swaziland and Namibia. Lesotho charges were also found to favour the low-income earners compared to other SACU countries.

Keywords:

JEL classification:

Email address: Research@centralbank.org.ls

Table of Contents

1. Introduction	1
2. Background	1
3. Banking costs in Lesotho	4
4. Analysis of the banking costs in the SACU countries by banks	7
5. Analysis of the banking costs in the SACU Countries	10
6. Important points about South African Banking services	15
7. Policy Options/Recommendations and Implications	16
8. Conclusions	17

1. Introduction

The Financial Institutions Supervision Technical Committee (FISTC), following some complaints in some quarters of the society about the high cost of banking charges in Lesotho, requested a deeper analysis of the costs in relation to the region. The purpose of this paper is threefold; the first is to describe the state and nature of services provided by banks in Lesotho. The second is to undertake a comparative analysis of the bank charges on commonly used products and services in the Southern African Customs Union (SACU) countries. Lastly, it draws conclusions on the Lesotho position relative to other countries particularly Common Monetary Area (CMA) countries.

The paper is divided into eight sections including this introduction. Section two provides the background on banking charges. Section three provides the comparative analysis of banking costs in Lesotho. Section four presents the comparative analysis of the banking costs in the SACU area. Section five provides the comparative analysis by country. Section six highlights some important points about South African banking services. Section seven provides the policy options and recommendations. Section eight provides the conclusions.

2. Background

Commercial banks in their role of financial intermediation provide a variety of services to their customers. These include provision of bank statements, cheque books, stop orders and special clearances. Commercial banks normally place a levy on the services. These charges constitute what are called transaction costs. The study will consider the costs in the following identified frequently used banking services.

- ❑ Cash withdrawals at the ATM and Over the Counter (OTC)
- ❑ Cost of cheque book
- ❑ Cash deposit
- ❑ Stop order
- ❑ Bank statements at the ATM and OTC
- ❑ Special clearances

Why do we have banking costs?

The charges on the banking services to a large extent reflect the non-interest cost to the commercial banks for providing the service. As the CBL paper titled 'Impact of Commercial Banks Requirement of M500.00 Minimum savings deposits' (1999) pointed, the minimum balance on the passbooks was increased to M500 citing the escalation in the cost of processing withdrawals and deposits in the now phased out passbooks.

Implications of High Banking Costs

- ❑ They discourage the public from utilizing the banking system. The costs act as a barrier for the un-banked to join the banking system.
- ❑ They discourage savings mobilisation, which is important for economic growth.
- ❑ High costs set a platform for the development of alternative means of banking. The mushrooming of burial societies (Mpate Sheleng) and retail credit schemes are used as vehicles for saving and avoiding banking costs. The schemes allow for the costs to be shared.
- ❑ High costs are likely to stimulate capital flight, in particular, in Lesotho where there is access to the developed banking facilities in the neighbouring South Africa.

Structure of Banking in SACU Area

The banking industry in the region is characterized by relatively small number of commercial banks per country. There are 3 banks in Lesotho compared with 5 in Botswana, 4 in Namibia and Swaziland. RSA is rather different due to its development stage compared to the other SACU members. There are four main banks referred to as the “big four”. In addition, there are several smaller banks in RSA. The “big four” banks dominate the industry in the whole region. Standard Bank operates in all of the SACU countries; Nedbank also used to be in all but seems to have left Namibia in the last few months. FNB is also found in all but not Lesotho. Thus, one can expect that the banking pricing models in the region would have some strong similarities. The Table I below presents the number and the names of Banks in the member countries.

Table I: The number and the names of banks in the SACU countries

Botswana	Lesotho	Namibia	Swaziland	South Africa
5	3	4	4	4 main
1.Stanbic 2.Baclays 3.FNB 4Standard Chartered 5.Bank of Baroda	1. Standard Bank 2. Lesotho Bank(1999)Ltd 3. Nedbank Lesotho	1. Standard Bank 2. FNB 3. Bank of Windhoek 4. Commercial Bank of Namibia (formerly Nedbank)	1.Standard Bank 2.FNB 3.Nedbank 4.Swazi Development Bank	1.Standard Bank 2.Nedbank 3.ABSA 4.FNB

Data sources

Data used in this analysis was collected from the individual banks in the case of FNB Swaziland, Standard Bank Swaziland, Standard Bank Namibia, FNB Namibia, Nedbank Lesotho, Stanbic Botswana and FNB Botswana. Data for Standard Bank Lesotho, Standard Bank South Africa and Nedbank South Africa were obtained from the published tariff information for 2003/2004. Data from Botswana was converted from pula to rand at the exchange rate M1.52 per pula. The exchange rate is the April - June 2003 quarter average.

3. Banking costs in Lesotho

This section evaluates the costs of banking in Lesotho. For ease of analysis, the Standard Bank Lesotho and Lesotho Bank 1999 Ltd. would be treated as Standard Bank Group because they use the same pricing structure. Thus the comparison will be between Standard Bank Group Lesotho and Nedbank Lesotho. Table 1 shows the bank charges by Banks in Lesotho while Table 2 shows how these charges have grown between 2002 and 2003.

Withdrawals

Cash withdrawals attract a fee regardless of the type of account held as well as the size of the transaction. However, the cost depends on whether it is conducted through the ATM or over the counter (OTC). As shown in the Table 1, Standard Bank Group's current account cash withdrawal at the ATM is more expensive than Nedbank's. The cost of the transaction is M2.25 at Standard Bank Group compared with M2.00 at Nedbank. On the same account cash withdrawal OTC is M12.00 at Standard Bank Group compared with M8.50 at Nedbank.

For the Savings account, cash withdrawal at the ATM is M2.10 at Standard Bank Group compared to M2.00 at Nedbank. However, the same transaction over the counter is M12.00 at Standard Bank Group compared with M5.00 at Nedbank. It can be seen that it is more expensive to undertake the transaction over the counter in Lesotho regardless of the type of account. The commercial banks argue that the operational costs associated with the over the counter transactions exceed those of installing and maintaining the ATM technology. (CBL: Research Department: 1999)

Bank statement

The provision of bank statements to the customers is also an essential service of the commercial banks. The commercial banks normally provide free monthly bank statements. However, it seems that operationally this is not sufficient for the customers or the statements by post take a long time. The cost of bank statement inquiry differs if it is done over the counter or at the ATM. Nedbank charges M2.00 for a statement over the counter compared with M10.00 charged by Standard Bank Group. For the ATM statement, Nedbank charges M1.00 while Standard bank Group offers the statement at the ATM free of charge.

Cost of Cheque Book

Current account holders are normally issued with cheque books in addition to the ATM cards. This allows them to effect withdrawals both over the counter and using the ATM. The cost of the standard 40 forms chequebook is M30.00 at Standard bank Group compared with M24.00 at Nedbank.

Cash deposit

The cash deposit at the ATM is claimed to be free. The cash deposit over the counter (OTC) is 0.75 per cent of the value at Standard Bank Group while Nedbank is 0.75 per cent with a minimum of M10.00. This fee is applicable to amounts over M200.00. Thus a cash deposit of M1000 will cost M7.5 at Standard Bank compared with R10.00 at Nedbank.

Stop orders

The bulk of the transactions undertaken by commercial bank customers are done through stop orders. The bank undertakes payment on behalf of the client. This is normally the case in insurance payments. A stop order at Standard Bank Group is M12.50 compared to M25.00 at Nedbank.

Special Clearances

The normal clearing period for a cheque drawn on another within Maseru is 3 days. The waiting period can be reduced to 1 day or even few hours by effecting a special clearance. The process by-passes the normal bulk clearing procedures. Special clearance cost M100 in both Standard bank and Nedbank.

The analysis shown in Table 2 shows that the average growth rate in the bank charges in 2003 is 29.32 and 29.67 per cent in Standard Bank Group and Nedbank respectively. This is roughly about 17 percentage points above the average inflation in 2002 of 11.9 per cent. The greatest growth rates were registered in services like cost of cheque book (140%) and bank statement OTC (66%) in the case of Standard Bank Group and in current account OTC cash withdrawals (70%), cost of cheque book

(60%) and ATM bank statement (100%) at Nedbank. Out of the 10 identified services, Standard Bank Group has the highest cost in 7 while Nedbank in 5 services. The sum is not 10 because some services are priced the same.

4. Analysis of the banking costs in the SACU countries by banks

The section intends to compare the banking costs in Lesotho against other SACU members. Ideally this analysis should compare the similar banks in the Region. As discussed in section one, Standard Bank Group and Nedbank are found in all SACU countries. Commercial Bank of Namibia is considered Nedbank as the name only changed in the last four months. However, due to low response the analysis will only be done for Standard Bank. See Table 3.

The comparison with South African products may be a bit tricky because of the diversity of their products. For example, a savings account in South Africa has a lot of features not available in Lesotho.

Withdrawals

The savings account equivalence in South Africa is what is called the E-plan. However, it should be noted that the E-plan is more diverse than a Lesotho savings account. The cost of withdrawing cash from the savings account in the ATM is more expensive in Standard Bank Namibia at R4.83 compared with R4.15, R3.34, R3.00 and R2.10 in Standard Bank South Africa, Botswana, Lesotho and Swaziland respectively. The cash withdrawal from the savings account over the counter (OTC) is more expensive in Standard Bank South Africa and Namibia at R25.00 compared with R22.00 and R12.00 per transaction in Swaziland and Lesotho respectively. The service is free in Botswana down from R22.80

in 2002. It can be noted that the levy in Lesotho is cheaper than in all countries.

The current account equivalence in South Africa at Standard Bank is what is called the classic cheque. In South Africa, the formula for calculating the cost of withdrawal combines the flat rate of R2.75 and the certain (0.85%) percentage of the value of the amount. For comparison in this regard, the paper uses R250 as a benchmark. For example, the cost of withdrawing R250 at the ATM in South Africa is R4.88 compared with R4.83 in Namibia, R3.34 in Botswana, R3.00 in Swaziland and R2.25 in Lesotho. The cost of withdrawing the same amount over the counter (OTC) is R13.50, R12.00, R10.00, R9.12 and R4.88 in Namibia, Lesotho, Swaziland Botswana and South Africa respectively. Lesotho is the 2nd most expensive after Namibia.

Bank statements

All banks provide a free statement once every month. The bank statement OTC is most expensive in Stanbic Botswana at R50.16 compared with Lesotho Standard Bank Group at M10.00 per statement and R6.50 and R6.00 in Swaziland, Namibia and South Africa. The same facility cost R1.75, R2.00 and R2.75 in FNB Swaziland, Nedbank Lesotho and Nedbank South Africa respectively. At the ATM, the statement is free in all Standard Bank branches in the sample.

Cost of cheque book

The cost of the 40-leaf cheque book is expensive in Stanbic Botswana at M30.40 compared with Standard Bank Lesotho at R30.00, R28.75 in Namibia and R15.50 in Swaziland and South Africa. The cost of a

chequebook rose from M12.5 in 2002 to M30 in 2003 in Standard Bank Lesotho.

Cash deposit

The banks normally place a levy for receiving cash deposits from the public. There is normally the threshold for the charge. Nedbank Lesotho places the threshold of R200. The cost is 0.75 % in both Standard Bank Swaziland and Lesotho compared with 0.85 % plus the transaction fee of R2.75 in South Africa and 1.092% in Namibia. For demonstration, the simulation of R1500 cash deposit was done. The cost of depositing R1500 is R11.25 in Standard Bank Lesotho and Swaziland. In Standard Bank South Africa the cost is R15.25 while in Namibia is R16.35. Stanbic Botswana is the cheapest with R5.85.

Stop order

Stop orders are most expensive in Standard Bank South Africa at R18. This compares with R15.20, R12.50, R9.25 and R6.35 in Stanbic Botswana, Standard Bank Lesotho, Swaziland and Namibia respectively.

Special clearances

The cost of special clearance is R100 at Standard Bank Lesotho. This represents 25 per cent, 122.2 per cent and 100 per cent above Standard Bank South Africa, Namibia and Swaziland respectively. However, Lesotho rates are still below Stanbic Botswana at R167.20. Nedbank South Africa special clearances cost R45 while FNB Swaziland is R55.

As shown in the Table 3, Standard Bank Lesotho is more expensive than Standard Bank Swaziland, South Africa, and Namibia but not against

Stanbic Botswana. The sum of percentage deviations was used as an indicator. If the sum is positive Standard Bank Lesotho is more expensive and the opposite is also true for the negative. The sum is for Standard Bank South Africa (172%), Standard Bank Swaziland, 262%), Standard Bank Namibia (115.5%) and Stanbic Botswana (-85%). The infinity number in savings account OTC cash withdrawals against Botswana was adjusted for. Thus where Standard Bank Lesotho is expensive, it is by a bigger magnitude. For instance in the comparison, the percentage deviations are as follows: for the cheque book is 93% against Standard Bank Swaziland and South Africa, Bank statement OTC is 53.8% and 66.6% against Standard Bank Swaziland and both Namibia and South Africa respectively. Special clearances are 25%, 122% and 100% against Standard Bank Swaziland, South Africa and Namibia respectively.

5. Analysis of the banking costs in the SACU Countries

The section intends to compare the costs in the SACU area at the country level. This is done by using country averages. That is, an average of Standard Bank Group and Nedbank Lesotho represents Lesotho, Standard Bank Swaziland and FNB Swaziland represents Swaziland, Standard Bank South Africa and Nedbank South Africa represents South Africa, Standard Bank Namibia and FNB Namibia represents Namibia and Stanbic Botswana and FNB Botswana represents Botswana. This section discusses the costs and then provides an evaluation of the most expensive.

Table II: Banking charges in SACU countries

	Lesotho	Swaziland	South Africa	Namibia	Botswana
Current Account					
Cash withdrawals-ATM (R250)	2.13	4.13	4.83	3.98	3.00
Cash withdrawals-OTC (R250)	10.25	7.38	10.44	9.04	27.36
Savings Account					
Cash withdrawals-ATM (R250)	2.05	3.75	4.45	4.97	9.27
Cash withdrawals-OTC (R250)	8.50	18.50	20.50	19.13	7.60
Cost of Cheque book	27.00	16.50	15.25	19.85	26.60
Cash deposit (R1500)	10.88	13.13	15.88	16.05	4.80
Bank statement-ATM	0.50	1.00	0.83	0.96	1.25
Bank statement-OTC	6.00	4.13	4.38	4.26	28.88
Stop order	18.75	14.63	26.50	6.83	15.20
Special Clearances	100.00	67.50	45.00	44.99	148.20
Total	208.55	150.63	148.05	130.04	272.17
Average cost	18.61	15.06	14.80	13.00	27.22
Average cost excl. special clearances	9.56	9.24	11.45	9.45	13.77
Number of highest charged services	1.00	0.00	3.00	1.00	5.00

Withdrawals

The average cost of a current account cash withdrawal of R250 at the ATM is more expensive in South Africa at R4.83 compared with R4.13, R3.00, R3.98 and R2.13 in Swaziland, Botswana, Namibia and Lesotho respectively. The same transaction OTC is R27.36 in Botswana, R10.44 in South Africa, Lesotho (R10.25), Namibia (R9.04) and Swaziland (R7.38).

As relates to savings account cash withdrawals of R250 at the ATM, the transaction is most expensive in Botswana at R9.27 compared with R4.97 in Namibia, R4.45 in South Africa, R3.75 in Swaziland and R2.05 in Lesotho. The same transaction OTC costs R20.50 in South Africa, R19.13 in Namibia, R18.50 in Swaziland, R8.50 in Lesotho and R7.60 in Botswana.

Cost of cheque book

The average cost of a 40-page chequebook is more expensive in Lesotho (R27.00) compared with Botswana (R26.60), Namibia (R19.85), Swaziland (R16.50) and South Africa (R15.25).

Cash deposit

The average cost of depositing cash to the value of R1500 is more expensive in Namibia at R16.05 compared with R15.88 in South Africa, Namibia and R10.88 in Lesotho and R13.13 in Swaziland. Botswana is cheapest at R4.80. The R1500 benchmark was used because different banks have differing pricing structures.

Bank statement

The average cost of the bank statement at the ATM is more expensive in Botswana (R1.25) compared with Swaziland (R1.00), Namibia (R0.96), South Africa (R0.83) and Lesotho (R0.50). The same statement OTC is more expensive in Botswana at R28.88. It costs R6.00 in Lesotho, R4.38 in South Africa, R4.26 in Namibia and R4.13 in Swaziland. All banks provide free statements once a month.

Stop order

The average cost of the stop order is more expensive in South Africa at R26.50 per transaction followed by Lesotho (R18.75), Botswana (R15.20), Swaziland (R14.63) and Namibia (R6.83).

Special Clearance

The average cost of special clearance is more expensive in Botswana at R148.20 compared with Lesotho at R100.00, Swaziland (R67.50), South Africa (R45.00) and Namibia (R44.99).

Where are Banking costs high?

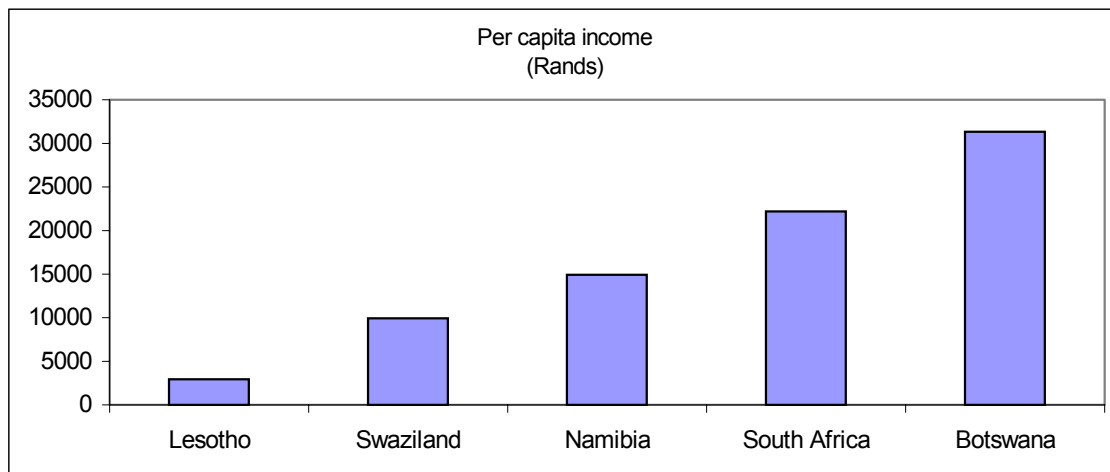
In order to undertake the analysis two criteria were used. First, the ranking criterion was used. According to the criteria, there are only two points 1 and 0; a country that has the highest cost scores 1 and others get 0. Second, the average cost was calculated for each country. The analysis first compared all SACU countries. As shown in the Table 7 below, out of the ten identified services, Botswana scored the highest mark of 5 compared with 3 for South Africa, 1 for Lesotho, 1 for Namibia and 0 for Swaziland. Thus, when all countries are compared Botswana is more expensive than all SACU countries.

However, since Botswana is not a member of the Common Monetary Area (CMA) and has a different exchange rate to other SACU members it is eliminated from the analysis. Thus when Botswana is removed from the analysis, out of the ten identified services South Africa scored the highest mark of 4 compared with 3 for Lesotho, 2 for Namibia and 1 for Swaziland. Therefore, excluding Botswana South Africa was found to be expensive in more services than Lesotho, Swaziland and Namibia.

Again, since the South African Banking industry is more robust than that of Namibia, Lesotho and Swaziland and hence comparing to it without any qualifications may be misleading. To address this problem South Africa was removed from the analysis and Table 9 was produced. The results show that out of the 10 selected banking services, the cost in Lesotho is highest in 5 services compared with 3 for Namibia and 2 for Swaziland. Lesotho average costs are high in current account OTC cash withdrawals, cost of cheque book, bank statement OTC, stop order and special clearances. Namibia average costs are high on savings account cash withdrawal at ATM and OTC and cash deposit while Swaziland average costs are high in current account cash withdrawal at ATM and ATM bank statement. Therefore, on average banking costs are high in Lesotho compared with Namibia and Swaziland.

Using the average cost criterion, as shown in Table II above the average cost of undertaking the ten most used banking services is highest in Botswana at R27.22 compared with Lesotho (R18.61), South Africa (R14.80), Swaziland (R15.06) and Namibia (R13.00). Excluding Botswana the average cost is more expensive in Lesotho than in other SACU countries. Thus, although South Africa is highest in many services the average cost is higher in Lesotho. This may be because deviations are much wider in cases where Lesotho is more expensive. Excluding special clearance, Lesotho average costs are ranked second at R9.56 compared with South Africa and R11.45. However, it should be noted that Lesotho bank charges are cheaper in savings account cash withdrawals in the ATM and OTC. Thus because this facilities are mostly used by low-income group of the society, the low-income earners are better off in Lesotho.

Several reasons can be advanced for the higher banking costs in Lesotho, First, the low interest rates on deposits by commercial banks may be influencing the public to visit the banks more regularly hence increasing the operating costs of the banks. Hence the charges are in response to the increasing operating costs. Second, given that the commercial banks lend a small portion of their deposits, they may be increasingly relying on non-interest income. The ratio of their non-interest income to total income was recorded at 22.4 per cent in 2002. Third, the high OTC service charge is due to manpower included in managing the service. Last, since all Lesotho towns have the corresponding South African towns, which are very close, unlike in Namibia and Swaziland. Thus it should be expected that Lesotho charges should be closer to those prevailing in South Africa.



6. Important points about South African Banking services

The analysis tried to compare the banking charges in the four SACU countries, however it is important that we highlight the salient points in the countries that may influence the charges. First, as shown in the graph below per capita income in the countries show some marked differences. Lesotho had per capita income of M2958 in 2001 compared

with M9912 in Swaziland, R14910 in Namibia, R22173 in South Africa and 31341 in Botswana. Second, South African banking products are more robust than similar products found in other SACU countries. This is due to the higher technological advancement in that country. So their costs may to some extent reflect the advanced quality of service provided. For instance, Standard Bank South Africa's E-Plan, which is a savings account equivalence, has more features than those available in a savings account in Lesotho.

7. Policy Options/Recommendations and Implications

The high banking charges in Lesotho compared with Swaziland and Namibia poses some challenges to the Central Bank as the regulator in the industry. Several options are available to the bank. The section presents three options in their order of preference. First, the Central Bank may consider persuading through moral suasion, the commercial banks to place justifiable charges on the banking services and improve the quality of service. From the study, it is clear that where Lesotho charges are more expensive they are by a large percentage. For instance, Lesotho average is above the second ranked country in the CMA by 48.15% in Special clearances, 36.99% in bank statement OTC and 36.02% in cost of chequebook. The study of this nature can be useful in indicating the most expensive areas. Although moral suasion is the most preferred option it may not 'bite' since commercial banks may feel that their charges are reasonable.

The second option relates more to the medium term. The Central Bank may continue its efforts towards improvement of financial intermediation and increasing competition in the banking industry in Lesotho. These efforts include increasing the number of market participants to enhance

competition. These would provide the consumers with the freedom to choose the cheaper bank.

Last, the Central Bank may consider introducing some direct controls on the charges levied by the commercial banks on the services provided. This measure may signal a policy reversal by the Central Bank of Lesotho particularly following the implementation of financial sector reforms since 1998. The reforms include interest rate liberalisation, the use of indirect instruments of monetary policy and the recent easing of capital controls. Furthermore, it may be difficult for the Central Bank to verify the applicable charges and necessary annual increments. This may introduce a distortion in the pricing of banking services and the banking industry as a whole.

8. Conclusions

The paper has shown that in comparison to other CMA countries banking charges are more expensive in Lesotho. This was shown by calculating the average cost of the ten identified commonly used banking services. Furthermore, it has been shown that out of the ten identified services, South Africa scored the highest mark of 4 compared with 3 for Lesotho, 2 for Namibia and 1 for Swaziland. In addition, it has been shown that banking charges in Lesotho rose by 29 per cent from 2003. Bank charges in Lesotho were also found to favour the low-income earners. Lesotho charges are cheaper in services mostly used by the low-income group. For example, savings account withdrawals in Lesotho attract a much lower fee. The paper recommends that the Central Bank persuade commercial banks to reduce the banking charges levied on services and contain further increases. Otherwise risks of capital flight and low investment induced by low savings would occur thus hampering economic growth.