

The banking industry in south africa finance essay

[Finance](#), [Banks](#)



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In the proposal I have stated that I will be using Nedbank's joint venture with the Pick n Pay group. I have stated in the proposal that will be concentrating on the cost of a branch (mini branch) and its profitability. The project is based on Nedbank opening micro branches in retail stores and why the bank embarked on this opportunity. The opportunity in this regard is to grow the bank's primary client base through an alternative distribution channel. By doing this the existing clients can have the opportunity to do their banking after normal banking hours, as this channel would have extended banking hours due to the retailer operating times. The ability to service all Nedbank customers seven days a week during supermarket hours, this improving the customer experience. Note: PnP emerged as SA's most engaging brand (Yellowwood Engager SA survey, August 2011, Johannesburg.)

The banking industry in South Africa has four major players in this environment. Absa who is the largest with approximately 14 million primary clients, followed by First National Bank (FNB), Standard bank and Nedbank, not forgetting the smaller retail banks which are Capitec, Post Bank and African Bank. All the banks are currently chasing for new clients and clients are looking at which banks are offering the best price per product and what services are on offer. With regards to what all the banks are after, it is only the big four that are prepared to spend funds to acquire new clients so that they can grow their revenue through net-interest revenue (NIR) and non-interest income (NII). This type of income is measured through the amount of sales done in each branch. e.g. number of cheque accounts, asset based finance deals or credit cards sold, etc. In order to start this project a budget is required and

to fund this project, the bank will utilise internal funding. If no funds are available the bank will then call on their share holder for more funding. Share holder funding will come at a price, e. g. if the shareholder go ahead with the approval of the role out of the micro branch, they would want to know what the return will be on the project. The same applies to the use of internal funds; the executive would want to know when they will start seeing a profit from this project. In this case the top-down approach will come into play, the board will decide on what results are to be achieved and how, this will then be transferred or filtered down the hierarchy. The norm in the banking industry would be to sell as many products and take in many investments, which will contribute to the return on investment (ROI). The opportunities from this venture will allow the bank to increase its transactional base, which will constitute in the overall mission of the organisation. The bank is currently the fourth largest bank in South Africa and through this type of initiative; they will be banking people in rural areas and Pick n Pay has branches in most of the areas. As stated by Atrill, P. & McLaney, E. (2012), the outturn of any business is based on what is required by the customer. In this case there are not many banks in rural areas and the best way to get to these potential clients is through the venture with the retail group, it not only save the bank from building a brick and mortar branch which would be more expensive than setting up operations in the retail store. The Management Accounting System in the bank is done by various staff, each looking after a part within the division, e. g. One staff member would only look after the transfer pricing in a specific division and in the bank there are various division, which has business units within each division. In the division I work

we have five business units and each have their own accounting officers. Cost and revenue at divisional level, branch level and business unit is consolidated into a group report and then distributed to the various decision makers. The cost of product in the banks has different price ranges, starting as low R5 to R167 services on a cheque account. The method used in the bank is Activity Based Costing (ABC). According to Atrill, P. & McLaney, E. (2012) ABC provides a more realistic evaluation on the overhead cost. These fees make up the gross operating income (GOI) that each region is measured on, the GOI is made of NIR and NII, each transactional product is calculated in that format. For lending on other products like Homeloans and asset based finance, the GOI is calculated on the rate that was given at that time, pending if these rates were fixed or fluctuating. The strength of ABC is that it is assign to an individual's activity, e. g. it will show the cost of what activity are associated with the processing of an application from start to finish , by using this type of costing it will show managers the most expensive and least expensive sections of the process. The disadvantage is that it could be time consuming and if rework has to be done it will cost more. There are three aspects of NPV that is stated by Atrill, P. & McLaney, E. (2012), and all three play vital role in the banks plan to roll out these mini branches: a) Interest lost - for the bank to get more value they should invest in this project as this would increase is primary client base and would generate income towards the organisation. NPV in the bank is calculated over a five year period. b) Risk is want bank takes, there is no guarantee that a client will fulfil on his commitments. c) Inflation also plays a major role in the financial industry as this is governed by the state and when rates are calculated on high inflation,

it affects the banks as clients are reluctant to go more into debt and it affects clients that are not on fixed rate contracts with banks. The project that is discussed in this assignment has been ongoing in the bank since 2001, since then the bank has opened 200 mini branches in the Pick n Pay and the group has 600 branches nationally. This gives Nedbank an opportunity to open more branches and in that process to gain growth on the current market share. Funding for these projects is done internally, if the bank will require external funds I presume they will request the funds from its shareholder and its parent company. The retail division of the bank is of vital importance for profit growth and the mini branches are part of the retail structure. During the last financial year the bank delivered a 15.3% return to its shareholder and had a R924 million economic profit from the previous year. Ref: Atrill, P. & McLaney, E. (2012) *Management Accounting for Decision Makers*. 7th ed. Harlow, England: Pearson Education Ltd. http://www.ywood.co.za/media/27753/Engager_Launch_Presentation.pdf (accessed 24 April 2013) Arshad, S (2012): Net present value is better than internal rate return, *Interdisciplinary Journal of Contemporary research in business*. Vol. 4 (8) pp211- 219 www.nedbank.co.za (accessed 24 April 2013) Interviewed : Mr Thomas Govender Head of Finance - Strategic Sales & Alliance (Nedbank) 011 294 3487 Nedbank Ltd integrated report for year end 2011