

## NEWS ANALYSIS

# Big four worry about Capitec taking clients

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**B**ank shareholders have been approaching the four largest banks about upstart Capitec's customer numbers, worried that it is eating into their customer base and stealing market share. But customer growth across the big four has analysts wondering where the Stellenbosch-based lender, which aims to cover all of its operating costs from transactional fees by 2020, finds its clients.

Capitec reported 1.3-million new customers in the year to February, swelling the ranks to 8.6-million, 46% of whom had Capitec as primary banker.

The increase in customers, coupled with the expansion in Capitec's ATM and branch network and customers' increased use of self-service banking, has resulted in a 30% increase to R3.9bn in transaction income. This covered 72% of operating costs.

"Capitec's ability to further

grow unsecured loans and advances is constrained by their large market share, so the growth driver for Capitec has become growth in transactional revenue," says Bradley Preston, chief investment officer at Mergence Investment Managers.

Meanwhile, Absa held on to its 9.1-million customers in the year to December, unchanged on the previous period. At Nedbank's retail and business bank, customers numbered 7.4-million at the end of December, 4.8% more than the year before.

"FNB reported 5% growth in the consumer segment [to December], which is the bottom end of the market, and 8% in the premium segment," says FirstRand head of investor relations Sam Moss.

Standard Bank does not report customer numbers.

A banking insider said Capitec may be grabbing market share among people who earn less than R300,000 a year. "It would be difficult for

Capitec to take market share on the upper end. [It] just got a credit card, no home loans, no premium products... Why would customers move for a transactional account only?"

But this perhaps betrays a misunderstanding of Capitec's business model. Capitec CEO Gerrie Fourie has said that about 70% to 80% of its new customers in 2016 financial year switched from other banks, frustrated with high fees and complex products.

"Capitec's model of winning transactional clients has been through winning deposit clients with attractive rates and converting them to transactional in time. This is different to the big four, who typically have won clients by winning home-loan business, for example, and then building the transactional relationship around that," says Preston.

Still, this leaves questions about customer growth at most banks unanswered.

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