

COMPETITION COMMISSION OF PAKISTAN

ENQUIRY REPORT

(Under the provisions of Section 37(1) of the Competition Act, 2010)

IN THE MATTER OF FIXING OF ATM CHARGES BY 1-LINK (GUARANTEE) LIMITED AND ITS MEMBER BANKS

BY

Shaista Bano/Nadia Nabi/Muhammad Qasim Khan

Dated: 09/12/2011

I. BACKGROUND

1. This Enquiry Report is prepared pursuant to an enquiry conducted under the provisions of Section 37(1) of the Competition Act, 2010 (the “Act”) by the Competition Commission of Pakistan (the “Commission”) against, *prima facie*, fixing of ATM charges by 1- Link Guarantee Limited (“ 1- Link “) and its member banks.
2. The Commission took *suo moto* notice of ATM cash withdrawal charges implemented by banks in Pakistan. It was observed that majority of banks are charging uniform amount of Rs.15 for ATM cash withdrawal transaction despite having non uniform business dynamics regarding the aforesaid service.
3. During preliminary fact finding it was found that in Pakistan ATM cash withdrawal service is provided by two ATM networks/switch namely: 1-Link and Mnet. The State Bank of Pakistan has mandated that all commercial banks in Pakistan, both foreign and domestic, have to become members of one or the other switch to provide ATM services to their own customers as well as customers of other banks. Additionally, these two switches have been interconnected since 2006, which means that a consumer holding an ATM or debit card issued by any bank in Pakistan may use any ATM located throughout the country.
4. 1-Link carries out e-banking services through shared ATM network and owns and operates the largest representative shared financial services network of Pakistan. It is a consortium of 11 major banks of the country and operates through a Chief Executive Officer. The company has a Board, consisting of 11 Directors, one from each founder member bank. The banks represented on 1-Link’s board are.
 - i. National Bank of Pakistan
 - ii. Allied Bank Limited

- iii. Habib Bank
- iv. Bank Al-Falah Limited
- v. Askari Bank Limited
- vi. Soneri Bank Limited
- vii. NIB Bank Limited
- viii. United Bank Limited
- ix. Standard Chartered Bank Pakistan Limited
- x. Faysal Bank
- xi. Bank AL Habib Limited.

The other 20 banks are not represented on 1-Link' Board of Directors. Instead they have become members of 1-Link by signing a memorandum of accession.

- 5. On the other hand Mnet switch another ATM switch hosted by Muslim Commercial Bank (MCB), has approximately 15 members. Interestingly, 8 member banks of Mnet are also members of 1-Link. So there are only 7 banks that are exclusively using Mnet ATM network/switch services.
- 6. State Bank of Pakistan (SBP) was contacted to enquire if the exercise of a uniform charge on ATM cash withdrawal services on the part of banks was under a regulation/directive/circular or guidelines issued by the SBP regarding ATM service charges. SBP informed that it does not monitor and regulate banks at such micro level and that these rates in respect of this service are entirely the discretion of banks. SBP's reply dated 24 August 2011 is reproduced below for sake of reference:

As per BPRD Circular No.33 dated October 2, 2003 banks are free to determine the rates of charges of various services they provide to their customers. However, it is mandatory for each commercial bank to fix its rates of charges on half yearly basis in advance for the half year January-June and July-December.

- 7. In the absence of any guideline from the State Bank, chargeability of ATM cash withdrawal services in a similar manner raised a suspicion of collusion among banks. The suspicion of collusion was strengthened by the fact that 31 banks are

members of 1Link, while 11 leading banks are on its board of directors that, *prima facie*, offered a forum to members of 1-Link to decide on matters of common interest.

8. To further assess the matter and seek the rationale for uniform ATM cash withdrawal charge among the various banks, a letter was sent in the name of select banks representing large and small banks from the '1-Link' network.
9. One of the banks in its response explained that to enable its customers to use the ATMs of all banks country-wide it joined the '1-Link' network and that after joining '1Link' they had to comply with the schedule of charges devised by '1-Link'. According to the schedule of charges on an on net transaction by a customer an amount of Rs 15 is debited from his/her account and then credited to the acquirer bank for making its ATM available, 1-Link for switch service and Faysal bank for settlement in the pre-determined amounts of Rs 11.61, Rs 2.00 and Rs 1.39 respectively.
10. The scenario that 11 major banks constitute the Board of directors of 1-Link, while others are 1-Link's members who after joining '1Link' have to comply with the schedule of charges devised by '1-Link' implied, *prima facie*, lead role of 1-Link in this collusive activity of member bank to fix ATM cash withdrawal charges in violation of Section 4 (2)(a) of the Act.
11. Keeping in view the foregoing, the Commission deemed it appropriate to authorize a team of officers for inspection of the premises in use of 1-Link in exercise of powers granted to under Section 34 of the Act in order to collect any further evidence regarding the suspected violations of the Act. Accordingly, a team of officers were authorized by the Commission to search and inspect the office of 1-Link in Karachi. The officers conducted the search on 07 September 2011 and impounded valuable materials and documents from the offices of 1-Link.
12. Documents impounded during the course of search and inspection required

detailed scrutiny and examination. Therefore, pursuant to the powers contained in Section 28(2) of the Act, the Commission appointed Shaista Bano (Director), Nadia Nabi (Senior Joint Director) and Muhammad Qasim Khan (Junior Executive Officer) (hereinafter collectively the ‘Enquiry Committee’) to conduct an enquiry as to whether 1-Link and member banks are involved in collusive activities to fix the rates of services provided by them, thereby violating Section 4 of the Act, and to prepare a detailed Enquiry Report under Section 37 of the Act.

II. UNDERTAKINGS

13. **1-Link (Guarantee) Limited** is a registered company, incorporated under the company law, by Security and Exchange Commission of Pakistan. 1-Link provides the largest shared ATM network of the country and is engaged in e-banking services. Hence 1-Link is an undertaking in terms of the definition of Undertaking provided under Section 2(1)(q) of the Act.

14. **1-Link Member Banks:** Members of 1-Link are banking companies which transact the business of banking in Pakistan, hence are undertakings in terms of the definition of Undertaking provided under Section 2(1)(q) of the Act. Followings are member of 1-Link:

Board Members

- i. Habib Bank Limited
- ii. National Bank of Pakistan
- iii. Allied Bank Limited
- iv. Bank Al-Falah Limited
- v. Askari Bank Limited
- vi. Soneri Bank Limited
- vii. NIB Bank Limited
- viii. United Bank Limited
- ix. Standard Chartered Bank Pakistan Limited
- x. Faysal Bank
- xi. Bank Al Habib Limited

Other Member Banks

- i. Albaraka Bank
- ii. Burj Bank
- iii. Meezan Bank
- iv. Bank Islami
- v. Dawood Islamic Bank
- vi. Khadim Ali Shah Bukhari Bank
- vii. Habib Metropolitan Bank
- viii. The Bank of Khyber
- ix. Dubai Islamic Bank
- x. JS Bank
- xi. Silk Bank
- xii. Bank of Punjab
- xiii. Citi Bank
- xiv. Samba Bank Limited
- xv. Sind Bank
- xvi. Barclays Bank
- xvii. Tameer Microfinance Bank Limited
- xviii. Summit Bank

III. RELEVANT MARKET

15. Relevant market is defined under clause (k) sub-section (1) of Section 2 of the Act in the following words:

“relevant market” means the market which shall be determined by the Commission with reference to a product market and a geographic market and a product market comprises of all those products or services which are regarded as interchangeable or substitutable by the consumers by reason of the products’ characteristic, prices and intended uses. A geographic market comprises the area in which the undertakings concerned are involved in the supply of products or services and in which the conditions of competition are sufficiently homogenous and which can be distinguished from neighbouring geographic areas because, in particular, the conditions of the Competition are appreciably different in those areas;

16. From the above definition it is clear that the relevant market has to be defined in two dimensions (i) Product market and (ii) Geographic market. In the following paragraphs the product as well as the geographic market has been defined:

17. In order to determine the relevant product market under this enquiry it would be relevant to first identify the relevant product/service. The Respondents are engaged in the business of banking and offer electronic banking services among many others. Electronic banking services include but are not limited to:

- a. Cash withdrawal and balance inquiry facilities through ATMs;
- b. Utility Bills Payment Services (UBPS);
- c. Inter-bank Fund Transfers (IBFT).

18. Automated Teller Machine (ATM) is a computerized telecommunications device that provides the customer/clients of a bank in Pakistan access to financial transactions (cash withdrawal), non-financial transactions (balance enquiry) and other electronic banking transaction (UBPS or IBFT) in a public space without the need for a cashier, human clerk or bank teller. All that a customer/client has to do is to insert a plastic ATM card that contains a unique card number and some security information and enter a personal identification number for the processing of a transaction to be carried out.

19. Transactions made on ATMs are distinct in nature as compared to cash withdrawal through a cheque by virtue of following characteristics/advantages:

- ATM is a self-service equipment with simple and quick operations. With the use of a bank card and typing in password and other relevant information with the keyboard, one can easily accomplish transactions with complete confidentiality;
- ATMs provide round the clock service. The customer can carry out a transaction up to a certain limit during any time of the day;
- ATMs provide convenience to the customers. These are located at convenient places and not necessarily at the bank's premises. They provide mobility in banking services;

- ATMs reduce the work pressure on bank's staff and avoid queues in bank premises;
- ATMs provide service without error. The customer can obtain exact amount. There is no human error as far as ATMs are concerned;
- ATMs are of great help to travelers. They need not carry large amount of cash with them. They can make transactions across the country with the help of ATM;
- Most of all, ATMs provide privacy in banking transactions of the customer.

20. For the above-mentioned features and characteristics, the number of ATMs and the volume of transactions on ATMs is increasing in Pakistan. In particular, consumers prefer to carry out cash withdrawal up to a certain limit or perform balance enquiry through ATMs rather than taking the hassle of driving to their concerned bank and queuing in to encash their cheque which is only possible during banking hours. It is pertinent to mention here that ATM cash withdrawal service is not limited to bank's own customers rather customers can also make transactions on an ATM of a bank that is not their own by means of a switch/network that provides interconnectivity between acquirer and issuer bank.

21. Similarly, IBFT is a service that facilitates online inter-bank payments between the customers of two different banks. IBFT is a new way of transferring funds to any account on the switch/network directly and instantly through ATMs. IBFT facility is available also through other means of internet, mobile, call centre, IVR and branch. This service enables card holders of a bank to transfer funds from their account to any of the millions of accounts of other banks on the switch/network across the country and eliminates the hassle of writing cheques, making demand drafts etc. and also reduces the cost of transaction significantly. The IBFT service is available round-the-clock.

22. Further, UBPS is an electronic bills presentment and payment system that enables banks to deploy bill presentment and payment service through their

electronic delivery channels. UBPS eliminates the inconvenience encountered during the bill payment procedure by submitting bills in traditional banking hours, or standing in long queues, as the service will enable the customers to pay their utility bills from the nearest ATM. UBPS is also available through delivery channels like internet, mobile, IVR, Call Center and Branch.

23. In view of above, services of ATM cash withdrawal, balance inquiry, UBPS and IBFT have distinct features and traditional banking services are not comparable to them in terms of interchangeability and substitutability. Therefore, the relevant product market for the purpose of this Enquiry Report consists of ATM cash withdrawal and balance enquiry, IBFT and UBPS services provided by 1-Link member banks, through a switch/network.

24. All the services relevant for the purpose of this enquiry report are provided depending on the availability of service through the medium of ATM or banks' online branches established across the country or internet or cellular phone facilities all over the country. All of the banks providing these services have to follow the regulations and directives of their regulator i.e. State Bank of Bank, therefore, conditions of competition are homogenous for all the banks. Hence, the relevant market is ATM cash withdrawal and balance enquiry services, IBFT and UBPS services provided by banks, through a switch/network in Pakistan.

IV. MEETING WITH 1-LINK

25. The Enquiry officers held a meeting with 1-Link on their request in October 2011. Chief Executive Officer of 1 Link, Mr Faisal Ijaz Khan, gave a presentation to the Enquiry officers. In the presentation 1-Link gave an overview of the purpose of 1Link, the services it renders and how it evolved.

26. Next it was discussed how an ATM transaction is carried out, who are the actors and how the transaction fee of Rs. 15 is distributed among them. To a question regarding the selection of Faysal bank as a settlement bank, CEO 1 Link

explained that any other member of 1Link can become the settlement bank for ATM transactions by making a bid that is less than the settlement rate being charged by Faysal bank currently.

27. 1- Link representatives claimed that they are not involved in any anti-competitive activity as they do not require banks to charge PKR 15 to their customers and that it is entirely the member banks' prerogative to do so.

28. 1-Link claimed that the average cost of an ATM transaction amounted to PKR 35 and that PKR 15 charged by its banks is a subsidized rate maintained by them to facilitate their members.

29. The main reasons for maintaining a universal switch fee as per 1-Link's arguments are as follows:

- i. In the absence of a universal switch fee ATM usage charges will become higher.*
- ii. In the absence of a universal switch fee, banks with a large ATM network may abuse their market share thereby earning large profits skewing the deposit market and small banks will exit the market.*
- iii. Banks with a high fee have free rides off the banks with lower fee.*
- iv. Universal switch fee creates a certainty for customers who have to pay the same fee for transactions across the country.*
- v. There are no hidden costs, the banks do not charge additional costs in the form of card subscription fees.*
- vi. In the absence of universal system, bilateral agreements between all the banks will be extremely time consuming, costly and result in duplication;*
- vii. In the absence of universal system, prohibitive transaction costs would deter smaller banks from entering the ATM service market.*

V. ISSUES AND THEIR ANALYSIS

30. Following issues will be dealt in this Enquiry Report:

- i. Whether 1-Link has taken any decision to fix the inter-change fee (ATM cash withdrawal and IBFT) and bill payee bank fee (UBPS) and whether 1-Link has taken any decision to fix the price of ATM cash withdrawal, and UBPS services provided by its member banks which has object or effect of restricting, preventing or reducing competition in the relevant market in contravention of Section 4 of the Act?
- ii. Whether the member banks of 1-Link have entered into an agreement to fix interchange-fee (ATM cash withdrawal and IBFT) and bill payee fee (UBPS) and whether they have agreed to fix the price of ATM cash withdrawal and UBPS services provided by them which has the object or effect of restricting, preventing or reducing competition in the relevant market in contravention of Section 4 of the Act?

SECTION 4 VIOLATION, IF ANY

31. Term of collusive activities is applied to a wide range of practices whereby competitors coordinate among themselves to prevent, restrict or reduce competition in the market. In most of the collusion cases coordination among the competitors is carried out in terms of fixing the price.....Such anti-competitive agreement gives incentives for no price competition, raise price or effect price in a favorable way for the undertakings involved and certainly has the object and effect of reducing competition in the market.

32. Agreements and arrangements made in respect of the production, supply, distribution of goods which have as their object or effect to prevent, reduce, restrict or distort competition within the relevant market are representative of

restrictive practices explicitly proscribed under Section 4 of the Act. Section 4 in relevant parts is reproduced here:

*4. **Prohibited Agreements.**-(1) No undertaking or association of undertakings shall enter into any agreement or, in the case of an association of undertakings, shall make a decision in respect of the production, supply, distribution, acquisition or control of goods or the provision of services which have their object or effect of preventing, restricting or reducing competition within the relevant market unless exempted under section 5 of this Ordinance.*

(2) Such agreements include, but are not limited to-

(a) Fixing the purchase or selling price or imposing any other restrictive trading conditions with regard to the sale or distribution of any goods or the provision of any service;

33. Our enquiry reveals that 1-Link is guarantee limited company incorporated to provide the services of a switch/network to carry out e-banking services through shared ATM network. It is owned by the consortium of 11 major banks of the country and operates through a Chief Executive Officer. The company has a Board, consisting of 11 Directors, one from each founder member bank. The banks represented on 1-Link's board are; (i) National Bank of Pakistan, (ii) Allied Bank Limited, (iii) Habib Bank, (iv) Bank Al-Falah Limited, (v) Askari Bank Limited, (vi) Soneri Bank Limited, (vii) NIB Bank Limited, (viii) United Bank Limited, (ix) Standard Chartered Bank Pakistan Limited, (x) Faysal Bank, and (xi) Bank AL Habib Limited. While other banks join 1-Link as members through an accession agreement and are bound to follow the terms and conditions of 1-Link.

34. A master agreement has been found in the documents impounded from the premises of 1-Link which was executed in 2003 among the founding members of 1-Link who actually own it. Followings are excerpts taken from the said agreement which lay down the mechanism to become a founding member

(owner) of 1-Link and also provide for a new institution to join 1-Link as a member. Schedule 'B' to agreement provides a form of accession memorandum for a founding party whereas Schedule 'C' to this agreement provides a form of accession memorandum wherein any bank who becomes member of 1-Link will be bound by the terms and conditions given in the master agreement.

Annex-A

1Link Agreement Executed at Karachi Dated: 25th April 2003

By and among

ABN AMRO Bank N.V., Allied Bank of Pakistan Limited, Askari Commercial Bank Limited, Bank Alfalah Limited, Bank Al-Habib Limited, Habib Bank Limited, National Bank of Pakistan, PICIC Commercial Bank Limited, Soneri Bank Limited, United Bank Limited and Union Bank Limited

WHEREAS

- (A) *The founding parties are jointly owners of an internet switch server ("1-Link Switch") located at ABN's principal office.*
- (B) *Subject to terms of this agreement the founding parties may from time to time induct new founding parties.*
- (C) *Subject to terms of this agreement the founding parties may from time to time induct a new institution within 1-Link network (defined below) "New Institution" shall mean any bank or financial institution that in the future becomes a party to this agreement in accordance of the terms hereof.*

Clause 2.5

Upon execution of the Accession Memorandum (New Institution) between each Founding Party and an incoming New Institution, each of the Network Parties agree and confirm that the New Institution shall become bound by the terms of this Agreement; whereupon such New Institution shall have the benefit of all rights of a New Institution under this Agreement and shall also be subject to all obligations of a New Institution hereunder. It is clarified that the consent of New Institution (other than the incoming New Institution) shall not be required for such purpose.

Schedule 'B' to 1-Link Agreement

[Name of bank/financial institution] hereby agrees with each other person who is or who becomes a party to 1-Link agreement that with effect from date of this memorandum it will become a party to 1-Link agreement and will be bound by the same terms as a founding party;

where upon [Name of bank/financial institution] shall have the benefit of all rights of a founding party and shall also be subject to all obligations of founding party institution as provided in I-Link agreement. It being clarified that upon induction, a new founding party shall have equal rights along with the existing founding parties with regard to ownership of I-Link Switch.

Schedule 'C' to I-Link Agreement

[Name of bank/financial institution] hereby agrees with each other person who is or who becomes a party to I-Link agreement that with effect from date of this memorandum it will become a party to I-Link agreement and will be bound by the same terms as a new institution; where upon [Name of bank/financial institution] shall have the benefit of all rights of a new institution and shall also be subject to all obligations to new institution as provided in I-Link agreement.

35. The master agreement also appears to fix the “Service Fee” and “Settlement Fee” in respect of ATM cash withdrawal transactions carried out at member banks’ ATMs in the following words:

Clause 2.2

*(f) For each transaction conducted at the ATM of a Network Party through ILink Network, a service fee of Rs. 13/- (Rupees Thirteen), (the “**Service Fee**”) shall be payable to the said network party by the network party whose customers use such ATM. The corresponding debits and credits relating to the Service Fee shall be posted by ABN directly to the Settlement Accounts of the relevant Network Parties.*

*(g) For each transaction settled by ABN in terms of this clause ABN shall be entitled to a settlement fee of Rs. 2/- (Rupees Two) (the “**Settlement Fee**”). The Settlement Fee shall be debited by ABN directly in the Settlement Account of the Network party, being the issuing bank. The Settlement Fee shall become payable by the Network Party, being the issuing bank. The Settlement Fee shall become payable by the Network Parties from the date on which their customers’ accounts become accessible through the ILink Network.*

36. In respect of UBPS, I-Link has signed Bills Payment Agreements with different DISCOs, Telecom Companies and Sui Sothern Gas Company on behalf of its member banks. These bill payment agreements determine the terms and conditions between the utility company and each bank that accedes to the said agreement from time to time by executing the Participation Memorandum attached at in Schedule 1-A to the agreement. Among other terms and conditions

the most important is the fixation of fee of Rs.8 paid by the utility companies to 1-Link members as a commission for each UBPS transaction. A sample Bill Payment Agreement along with a Participation Memorandum is given at **Annex B**.

A Sample Bill Payment Agreement

BILLS PAYMENT AGREEMENT between 1 LINK (Guarantee) LTD & Hyderabad Electric Supply Company entered into on 23 Feb, 2011.

8. Responsibilities of HESCO

*8.1 HESCO shall pay a Commission of Rs. 8/- per transaction ("**Commission**") for each Transaction that is validly executed by Customers, to Acceding Parties (see article 11 below for Commission details).*

9. Responsibilities of Acceding Parties

9.1 Each Acceding party shall be responsible, inter alia, for ensuring that;

- i. It pays a Switch fee of Rs.1/- per Transaction to 1LINK and Settlement Fee of Rs.2/- per Transaction to FBL for each Transaction that is validity executed by Customers.*

11. Commercial details

11.1 HESCO shall pay Rs. 8 per transaction to Acceding Parties as Commission amount for each validly executed transaction;

37. Similarly, in respect of IBFT there is an agreement signed among 1-Link, TPS Pakistan (Private) Limited and ABN AMRO Bank N.V. which lays down the basic terms and conditions in respect of IBFT transactions carried out by 1-Link member banks. This agreement also provides for a Participation Memorandum for each bank that accedes to the main IBFT agreement from time to time by executing the participation Memorandum. A sample of a Participation Memorandum is attached at **Annex C**.

38. Other documents impounded from the premises include evidence in the form of meetings of Board of Directors, emails and letters which contain discussions and decisions by directors of 1-Link regarding, *prima facie*, fixing of rates for cash withdrawal transactions as well as UBPS and IBFT transactions. It is pertinent to mention here that fixation of rates is done at two levels. Firstly, fixing the

different components of fees charged by the banks participating in a transaction and secondly fixing the rates to be charged to the customers carrying out the transactions.

39. First, we will deal with the fixation of components of fees. The extracts from the following sources found after a thorough examination of impounded documents clearly reveal the role of 1-Link in fixing the various components of ATM cash withdrawal fee, UBPS fee and IBFT fee.
40. In case of ATM cash withdrawal transaction the fee has three components of (i) interchange fee; (ii) settlement fee; and (iii) switch fee. Switch fee is charged by 1-Link for its switch services, settlement fee is charged by Faysal Bank for settlement of amounts due as a result of switch operations. Interchange fee is a component which is paid to acquirer bank (the bank whose ATM is used for transaction) by the issuer bank (the account holder's bank). Similarly, in case of IBFT interchange fee is a component which is paid to beneficiary bank by the sending bank.
41. Further, in case of UBPS transaction the fee has three components of (i) bill payee bank fee; (ii) settlement fee; and (iii) switch fee. Switch fee is charged by 1-Link for its switch services, settlement fee is charged by Faysal Bank for settlement of amounts due as a result of switch operations.
42. Interchange fee (ATM cash withdrawal and IBFT) and bill payee bank fee (UBPS) are purely commercial decisions of banks providing inter-bank banking services to their customers (account-holders or utility companies), however, in this instant case these decisions, *prima facie*, are taken by the Board of Directors of 1-Link.
43. The following evidence reveals that these components of ATM cash withdrawal fee and also UBPS fee and IBFT fee are determined by the committees of 1-Link and finally decided and fixed by 1-Link's Board of Director.

Annexure D

Email From: Khayyam Mahmood Butt (CEO 1-Link)
To: Mohammad Sohail
Cc: Karim Jindani, Khurram Sikander, Mobushir Rahim, Shabbir Baxamoosa, Shahzad Shahid, Zia Ansari
Sent: May, 02, 2005
Subject: 1Link Charges with effect from 1-7-2005

We are pleased to inform you that the Board of Directors of 1Link (Guarantee) Limited, in their Board meeting held on 8th April 2005, has decided to create a regular income stream for the company by way of charging a fee on each cash withdrawal transaction passing through 1Link. The charges for the transaction which are Rs. 15.00 at the moment will remain the same. However, the Acquirer bank will now get Rs. 11.00 instead of Rs. 13.00 and the settlement bank and 1Link will get Rs. 2.00 each.

The new distribution criteria are to be implemented with effect from 1-7-2005.

Annex E

1-Link Board Meeting, September 29, 2005

The Board of Directors also discussed the Inter-Switch operations and noted that the Inter-Switch transaction charge of Rs. 15.00 per transaction was applicable up to December 31, 2004 as per decision with the State Bank of Pakistan (SBP). The Board after deliberations, recommended and resolved that “ the charge be increase from Rs. 15.00 to Rs. 20.00 on the Inter-Switch transaction with effect from July 01, 2005 and asked 1Link to take up with MNet and SBP for its implementation.

Annex F

1 Link Board Meeting, September 29, 2005

To seek approval/confirmation of charges
Schedule of Charges

Shared ATM Network

Following flat cash withdrawal transaction charges from ATMs have been mutually agreed among all member banks.

- **Intra-switch Transactions**
The member bank (or member bank's customer) will be charged for Rs. 15/= per transaction, the charges distribution details are as follows:

Acquirer Bank	Rs. 11
Issuer Bank	Rs. 0
1 LINK	Rs. 2
Settlement Bank	Rs. 2
TOTAL	Rs. 15

Utility Bill Payment Service

Following flat transaction charges have been mutually agreed among all member banks in 1-Link Steering Committee Meeting held on 27th June 2005

– Own ATM (Phase-I: Own Card on Own ATMs)

The member bank (or member bank's customer) will be charged for Rs. 10/= per transaction, the charges distribution details are as follows

Acquirer Bank	Rs. 8	← Acquirer & Issuer are same bank
1-link	Rs. 2	
<hr/>		
TOTAL	Rs. 10	

– 1 LINK (Phase-II: 1 LINK Card on 1 LINK ATMs)

The member bank (or member bank's customer) will be charged for Rs. 10/= per transaction, the charges distribution details are as follows

Issuer Bank	Rs. 5
Acquirer Bank	Rs. 3
1-link	Rs. 2
<hr/>	
TOTAL	Rs. 10

Annex G

1 Link Board Meeting, October 10, 2006

To seek approval/confirmation of charges Schedule of Charges

ii.) UBPS Project

Commission from Utility Company

Flat commission rate of Rs. 8 per transaction

Distribution of the Commission

The distribution of the commission amount (Rs. 8 per transaction) from the utility companies is proposed below:

▪ Own ATM (Phase-I: Own Card on Own ATMs)

Following are the proposed rates:

Issuer Bank	Rs. 6	← Issuer and Acquirer are same
1LINK	Rs. 2	
Settlement Bank	Rs. 0	
<hr/>		
TOTAL	Rs. 8	

▪ 1LINK ATM (Phase-II: 1 LINK Card on 1 LINK ATMs)

The distribution of commission for Phase-II will be discussed at the later stage after the successful implementation of Phase-I.

Note: The settlement of the transaction would be done individually by respective member banks therefore no share of settlement bank from commission amount. However the settlement bank will be compensated for handling operations of UBPS.

Annex H

1-Link Board Meeting March 28, 2007

To discuss and finalize UBPS financials and transactions charges Commission from Utility Company

11) To discuss and finalize UBPS financials and transaction charges.

Commission from Utility Company

Flat commission rate of Rs. 8 per transaction

Distribution of the Commission

The distribution of the commission amount (Rs. 8 per transaction) from the utility companies is proposed below:

▪ **Own ATM (Phase-I: Own Card on Own ATMs)**

Following are the proposed rates:

Issuer Bank	Rs. 6	<- Issuer and Acquirer are same
1LINK	Rs. 1	
Settlement Bank	Rs. 1	
<hr/>		
TOTAL	Rs. 8	


▪ **1LINK ATM (Phase-II: 1 LINK Card on 1 LINK ATMs)**

The distribution of commission for Phase-II will be discussed at the later stage after the successful implementation of Phase-I.

Annex I

1-Link Board Meeting, September 29, 2005

To seek Approval/Confirmation of Transaction Charges



Board Meeting
September 29, 2005

Inter Bank Funds Transfer

Following flat transaction charges have been mutually agreed among all member banks in 1-Link Steering Committee Meeting held on 27th June 2005

– **Own ATM (Phase-I: Own Card on Own ATMs)**

The member bank will be charged for Rs. 4/= (Rs. 2/= for 1 LINK and Settlement Bank respectively), where as the member bank's customer will be charged as per their standard schedule of charges, the charges distribution details are as follows:

Acquirer Bank	Rs. TBD*	<- Acquirer & Issuer are Same bank
1 LINK	Rs. 2	
Settlement Bank	Rs. 2	
<hr/>		
TOTAL	Rs. TBD*	

– **1 LINK (Phase-II: 1 LINK Card on 1 LINK ATMs)**

The member bank will be charged for Rs. 7/= (Rs. 2/= for 1 LINK and Settlement Bank and Rs. 3 for Acquirer Bank respectively), where as the member bank's customer will be charged as per their standard schedule of charges, the charges distribution details are as follows:

Issuer Bank	Rs. TBD*
Acquirer Bank	Rs. 3
1 LINK	Rs. 2
Settlement Bank	Rs. 2
<hr/>	
TOTAL	Rs. TBD*

TBD* = Charges to be decided by respective 'Issuer Bank'
Note: No Charges for Beneficiary Bank

Annex J

1-Link Technical Committee Meeting, October 05, 2009

To discuss and review the recommendations of IBFT committee pertaining to limits, charges, delivery channels and fee distribution for various IBFT products

The IBFT Committee meetings were held on July 2, 09, Sep 17, 09 and Sep 25, 09 respectively.

The recommendation of the Committee is as follows:

- The controls regarding IBFT limits will be managed at Source Bank.
- Delivery Channels for any IBFT product will be the discretion of the Source bank.
- There will be separate limits for Individual, SME and Corporate Customers. The inputs from the respective Committee Member are as follows:

Banks	Customer Type	Per day Limit in PKR	Fee Structure in PKR			
			Source Bank	RBS	1LINK	Destination Bank
NIB	Individual Customer	500,000	Bank's Discretion	1.0	1.0	NIL
	SME Customer	10,000,00	Bank's Discretion	1.0	1.0	NIL
	Corporate Customer	25,000,00	Bank's Discretion	1.0	1.0	NIL
Allied Bank	Individual Customer	250,000	Bank's Discretion	1.32	2	11.68
	Corporate Customer	10,000,00	Bank's Discretion	1.32	2	11.68
HBL	Individual Customer	250,000	Bank's Discretion	1.32	2	11.68
	Corporate Customer	500,000	Bank's Discretion	1.32	2	0.1 % of txn amount
SCB	Individual Customer	500,000	Bank's Discretion	1.32	2	NIL
	Corporate Customer	25,000,00	Bank's Discretion	1.32	2	NIL
UBL	Individual Customer	250,000	Bank's Discretion	1.32	2	11.68
	Corporate Customer	10,000,00	Bank's Discretion	1.32	2	11.68

Annex K

IBFT Diversification Business Committee Meeting Link Board Meeting, September 17, 2009

To finalize the business scope of different IBFT products

Meetings Minutes

Following points were discussed in the meeting:

- The Committee agreed that all the controls regarding IBFT limits will be managed at Source Bank.
- The Committee agreed that Delivery Channels for any IBFT product will be the discretion of the Source bank.
- The Committee agreed to separate the limits for Individual, SME and Corporate Customers. The input from the respective Committee Member are as follows:

Banks	Customer Type	Per day Limit in PKR	Fee Structure in PKR			
			Source Bank	RBS	1LINK	Destination Bank
NIB	Individual Customer	500,000	Bank's Discretion	1.0	1.0	NIL
	SME Customer	10,000,00	Bank's Discretion	1.0	1.0	NIL
	Corporate Customer	25,000,00	Bank's Discretion	1.0	1.0	NIL
Allied Bank	Individual Customer	250,000	Bank's Discretion	1.32	2	11.68
	Corporate Customer	10,000,00	Bank's Discretion	1.32	2	11.68

- Habib Bank informed the committee that they still need to review the business parameters for IBFT products and will revert back in the next meeting.

— Points to discuss

— Input from remaining banks.

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— Priority product for IBFT diversification

— Fee structure finalization for priority product like

— Credit call Bill Payment

— Corporate cash

Annex L

Letter to Mr. Aijaz Ahmed Junior Joint Director, Payment System department, SBP from two of the directors of 1Link, Date: July 25, 2008

Dear Mr. Aijaz Ahmed

We refer to your letter No. PSD/DIR/ATM/12/2008 dated July 12, 2008, addressed to the Directors of 1Link (Guarantee) Limited. As you may be aware that 1Link was established by eleven major banks of the country after Approval/Registration from the Securities and Exchange Commission of Pakistan in September 2004. The company operates through a CEO, who reports to the 1Link Board of Directors, consisting of eleven Directors, one each from eleven founding Member Banks. It is important to point out that all decision, including those pertaining to products and services, their design/technical specifications as well as the applicable costs/charges are discussed and approved by the Board of Directors of the Company.

44. Second aspect of, *prima facie*, fixation of fee is shown in the extract of evidence quoted below and also Annex 'F' quoted above. It appears that I-Link not only fixes the components of different fee charged but also makes it mandatory for its member banks to charge from its customers the amount fixed by 1-Link in respect of ATM cash withdrawal and UBPS. Once the rate of ATM cash withdrawal is determined and fixed by the Board of Directors of 1-Link, the member banks are issued a schedule of charges to comply with and are also instructed to reflect such fixed rate in their own schedule of charges updated after every six months on their websites and brochures. Similarly, utility companies are bound to pay a commission of 8 rupees to its member banks as fixed by 1-Link as reflected in Annex 'G' quoted above.

Annex M

Email From: Najeeb Agrawalla (member Board of Directors 1-Link)
To: Khayyam Mahmood Butt (CEO 1-Link)
Subject: Minutes/Resolution of the Board Meeting held on 8th April 2005
Sent on 29 April, 2005

Dear All,

I concur to the minutes of the meeting attached.

Reference to the section highlighted in yellow regarding the increase of inter switch charge for M-NET & ILink from Rs. 15 to Rs. 20/- all member banks should remember to make it a part of their schedule of charges for the period Jul-Dec 2005. Therefore, CEO ILink to ensure all approvals /information to regulator and MNET are in place by May 15.
Reference to the section highlighted in pink on page 6 regarding the justification for charging a higher fee to the customers for using an offsite ATM, we will provide a proposal within a week in light of the feedback given by ILink Member Banks.

Annex N

Minutes of the meeting of the Board of Directors- Business Development Committee held on July 27, 2011 at 9:30 AM, Park Towers, Clifton Karachi.
To Discuss and Review the Status of Various Projects

1. 1LINK PRICING

The chairman presented before the committee the current schedule of charges including one time membership fee, monthly fee and per transaction fee of various services offered by 1-Link to its member banks.

The committee was informed that these charges have been in place since 2000 and now a review of pricing is required related to the significant cost incurred to enable these services.

The committee discussed and reviewed the pricing and argued that balance inquiry charges for both intra-switch (1-Link on 1-Link) and inter-switch (MNET on 1-Link) may be revised as these transactions utilize the same infrastructure as that of cash withdrawal transaction. The committee was informed that MNET is also charging Rs.5.00 on balance inquiry on their network.

After some discussion, the committee recommended that Rs. 5.00 may be charged on both intra-switch (1Link to 1Link) and inter-switch (MNET on 1Link) balance inquiry transaction.

The chairman also informed the committee that the standard fee of Rs.15.00 per cash withdrawal may also be revised to Rs. 20.00 from Jan 2012. The committee discussed and noted that SBP approval is required to make this revision. The committee advised to discuss this issue with MNET and once finalized both switches may go to SBP for the necessary approval.

Annex O

Meeting 1-Link Board – Business Development Committee, July 27, 2011

Agenda Item-1, General 1-Link

Agenda Item-1

PER TRANSACTION DISTRIBUTION

Product	Particulars	Debit(Rs.)	Credit(Rs.)	
Intra Switch	Cash Withdrawal	Issuer Bank (Customer Account)	15	
		Acquirer Bank (ATM Used)		11.61
		Switch Fee (1LINK)		2
		Settlement Fee (Faysal Bank)		1.39
	Balance Inquiry (1LINK on 1LINK)	Issuer Bank (1LINK Customer Account)	No Charge	
		Acquirer Bank (ATM Used)		No Charge
Settlement Fee (Faysal Bank)			No Charge	
Inter Switch	Cash Withdrawal	Issuer Bank (1LINK Customer Account)	15	
		Acquirer Bank (ATM Used)		15
	Balance Inquiry (MNET on 1LINK)	Issuer Bank (1LINK Customer Account)	5	
	Acquirer Bank (ATM Used)		4	
	Settlement Fee (Faysal Bank)		1	
IBFT	Sending Bank	15		
	Beneficiary Bank		11.61	
	Switch Fee (1LINK)		2	
	Settlement Fee (Faysal Bank)		1.39	
Credit Card Bill Payment	Source Bank	3.39		
	Switch Fee (1LINK)		2	
	Settlement Fee (Faysal Bank)		1.39	
UBPS	Utility Company	6		
	Bill Payee Bank		5.61	
	Switch Fee (1LINK)		1	
	Settlement Fee (Faysal Bank)		1.39	

**1LINK does not charge any membership fee for UBPS. However TPS may charge for their licensing.

***1LINK does not charge any per transaction fee for VISA Debit Service. Please note Faysal Bank charges 0.2% for the settlement.

3/1/2011

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45. In view of above, it appears that '1-Link Agreement' entered among the founding members of 1-Link provides for a contractual arrangement for a bank to join 1-Link network either as a 'founding member' or a 'member bank'. Further, 1-Link agreement also, *prima facie*, fixes interchange fee paid by the issuer bank to acquirer bank and the final rates of ATM cash withdrawal charges paid by the customers. Similarly, it appears that 1-Link has entered into agreements on behalf of its member banks with utility and other service provider companies to fix the rates of UBPS and IBFT services provided by its member banks.

46. It also appears that all decisions taken by 1-Link in respect of interchange fee and rates of ATM cash withdrawal, UBPs and IBFT transactions are taken after

deliberations and correspondence among the members on the Board of Directors and officials employed by 1-Link consortium mainly the Chief Executive Officer. Interestingly, members of Board represent the banks that own the 1-Link consortium.

47. As per its own admission, 1-Link is a technology company. It then does not fall in its mandate to decide on commercial aspects such as fixing of rates among its member banks. However, it appears that in terms of its activities 1-Link acts as association of its member banks and provides a forum, particularly to those who represent on its Board, to discuss, review/revise and decide on all matters of common interest including the rates of services offered by the 1-Link member banks. By providing a forum to banks to fix the rates of services provided by them it appears that one of the primary objectives of 1-Link is to safeguard the mutual interest of banks, in particular, those who own it.

48. The remaining members of 1-Link that are also referred to as 'user banks' are followers in this entire process as they are not involved in the decision making process. However, by virtue of their agreements with 1-Link they have to abide by the terms settled by 1-Link and implement the schedule of charges issued by it.

49. In addition to above, evidence has been found in the impounded material which explicitly reveals that in the absence of fixation of rates by 1-Link, banks can easily compete with each other to offer competitive rates for the services provided by them. Following excerpts of evidence of PTCL's individual agreements with banks bring forth this crucial aspect of competition by the banks in respect of UBPS services:

Annex P

**Minutes of the Meeting of the Board of Directors of the Company,
Apr 27, 2010**

UBPS

On the issue of PTCL, the Chairman informed that the company was still reluctant to pay an account of Rs.8.00 per bill, as a number of banks have signed agreements with PTCL at Rs. 4.45 per bill.

It appears that 1-Link has taken a lead role to fix the terms and conditions in respect of services provided by its member banks by signing master agreements on their behalf which banks become bound to follow through their acceding agreement. In the light of the evidence given above regarding PTCL, if individual banks had the option of bargaining with their customers, a competitive environment might have landed.

GROWTH IN BUSINESS OPERATIONS

50. Now we come back to the assertion made by 1-Link in their meeting with the Enquiry Committee. In the meeting, 1-Link emphasized that the cost per transaction in ATM cash withdrawal is so high that with a charge of PKR 15 the banks are absorbing most of it. Keeping in view the cost absorption by the member banks of 1-Link, we calculated the cost absorbed by banks in six months period which is based on the cost per transaction submitted by the banks. Difference in cost and charges collected by the banks is shown in following table:

Number of transactions, cost and revenue in last six months shown in PKR

Bank	Cost per transaction`	No. of inter bank transactions in 6 months (Millions)	Charges collected in 6 months (Millions)	Cost incurred in 6 months (Millions)	Difference (Millions)
Askari Bank Limited	31	.877	10.18	27.19	-17.01
Bank of Khyber	72.9	.048	.56	3.51	-2.95
Bank of Punjab	14.93	.283	3.29	4.23	-.940
Bankislami Pakistan	34	.405	4.70	13.78	-9.07
Barclays PLC	83	.090	1.05	7.48	-6.43
Faysal Bank Limited	25.74	.806	9.37	20.77	-11.40
JS Bank	65	.1800	2.10	11.70	-9.61
Meezan Bank	14.39	.888	10.31	12.77	-2.47
NIB Bank	37.03	.368	4.28	13.65	-9.37
Samba Bank	47.56	.111	1.29	5.30	-4.00

Silk Bank	25	.239	2.78	5.98	-3.20
Soneri Bank Limited	31.44	1.01	11.76	31.85	-20.10
Standard Chartered	16.56	.838	9.73	13.87	-4.15
United Bank Limited	28	1.77	20.59	49.66	-29.07
Allied Bank of Pakistan	21.34	2.25	26.17	48.10	-21.93

The above table shows that banks have suffered loss in terms of millions but it is still surprising to note that with so much loss absorbed by the banks, they are still adamant to have more ATMs and encouraging their customers to use ATMs.

51. In this respect we would like to refer, particularly, to business growth in the relevant market. Below is an excerpt taken from the impounded material that shows increasing trends in every aspect.

Annex Q

Report of the Directors, December 31, 2010)

Business Growth:-

The year 2010 proved to be the best years in terms of revenue and profitability since the establishment of the organization. This year 1 Link emerged as a complete EFT switch which not only connects ATMs but also allow member banks to use alternate delivery channels like internet, mobile and branch for different financial services. The total number of ATMs, connected to the 1Link network, has increased from 3,645 in December 2010. A total of 563 ATMs were deployed by the member banks during the year 2010. There has also been a significant increase in the 1Link card base. The card has reached 11.71 million cards in Dec 2010 as compared to 7.2 million cards in Dec 2009. This has resulted increase in the volume of transactions also. From a figure of 3.38 million transactions in the month of Dec 2009, it has risen to 5.8 million transactions in Dec2010.

52. To further verify this assertion of 1-Link, analysis was carried out to see growth that took place in the relevant market at various stages since its inception. For that purpose following statistics prepared by 1-Link which were available in the impounded documents have been used

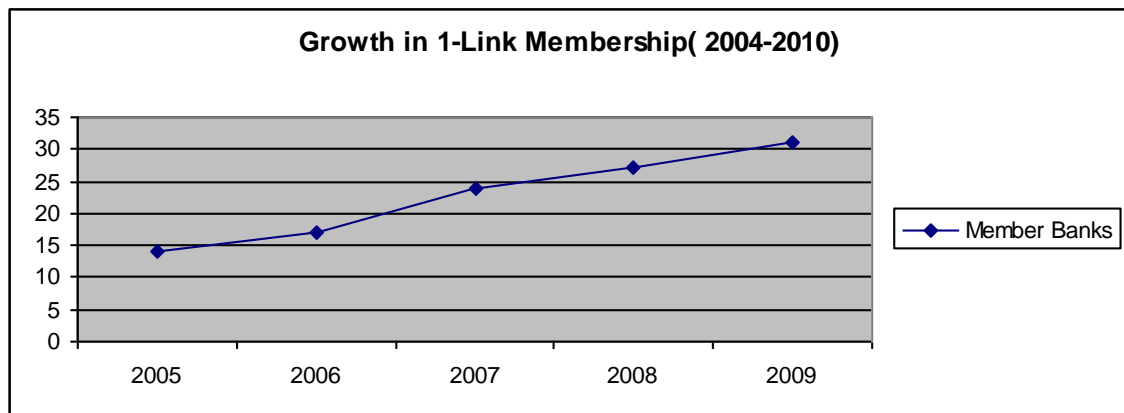
Annex R

1Link Statistics Yearly Progress from Dec 04 till Nov 2010

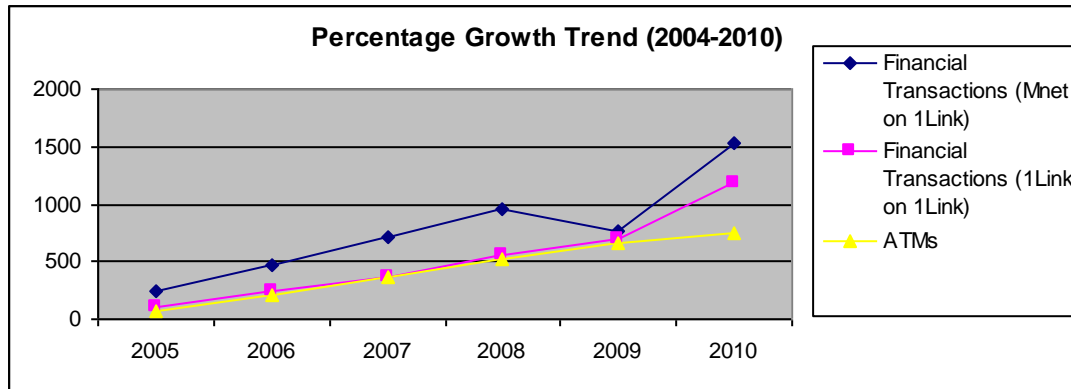
1Link Statistics Yearly Progress From Dec '04 till Nov '10

Years	2004	2005	2006	2007	2008	2009	2010
Member Banks	14	14	17	24	27	31	31
ATMs	475	804	1426	2180	2991	3645	4040
Financial Transactions (1Link on 1Link)	243347	481275	827175	1125295	1612579	1917158	3137213
Financial Transactions (Mnet on 1Link)	39145	133100	221618	319639	412016	336124	641473

53. Analysis shows an exponential growth in business operations in the relevant market.



% Growth From December 2004 to November 2010						
Years	2005	2006	2007	2008	2009	2010
Member Banks	0	21.42857	71.42857	92.85714	121.4286	121.4286
ATMs	69.26316	200.2105	358.9474	529.6842	667.3684	750.5263
Financial Transactions (1Link on 1Link)	97.77314	239.9158	362.424	562.6665	687.8289	1189.193
Financial Transactions (Mnet on 1Link)	240.0179	466.1464	716.5513	952.538	758.6639	1538.71



54. The graphs provided above demonstrate the immense growth that has taken place in the relevant market at various stages since its inception. Between the period of December 2004 and November 2010, the membership of 1-link grew from 14 banks to 31. The number of ATMs increased from 475 to 4040 showing a remarkable growth of 741% since 2004. The intra switch (1Link on 1Link) interbank financial transactions showed a remarkable growth of 1200% and the inter-switch (Mnet on 1-Link) interbank financial transactions grew 1538%. Why is there such an increasing trend in membership of 1-Link, number of ATMs, number of card base, volume of transactions, if there are no attached profits? These afore-mentioned figures imply that the cost effectiveness of a financial transaction on a 1-Link ATM and accruing benefits must have increased significantly over this period.

55. Considering that the purpose of a business is to maximize share holders' wealth and not provide public welfare it appears that there are hidden monetary gains for banks in the ATM business otherwise 1-Link would not have enjoyed a remarkable growth in acquiring membership of banks. Also the number of ATMs that operate in the country and the number of inter-bank ATM cash withdrawal transactions would not have grown so remarkably if it were a loss making venture for banks investing in them. Therefore, the assertion of 1 Link that banks absorb most of ATM costs does not stand the test of logic.

56. This idea that there are other gains to be made from having a foothold in the ATM business that cannot be monetized in the traditional sense is also reinforced in the reasoning provided by State Bank of Pakistan in a meeting between 1-Link and State Bank of Pakistan on April 15, 2006 to discuss the proposed increase in inter switch transaction charges from Rs. 15/- to Rs, 20/- by 1Link member banks. The relevant parts of the minutes of the meeting are provided below:

Annex S

Payment Systems Department: Minutes of Meeting with 1-Link Member banks on 15-04-2006 (Annex k-19(3))

After detailed deliberations between the regulator and 1-Link it was decided by Director PSD State Bank of Pakistan to continue with the standardized charges of Rs. 15/- for inter and intra-switch local currency transactions on all ATMs of both the switches.

A few of the reasons given by the regulator for not allowing an increase in the charges are as follows:

- *ATM transactions have registered a growth of 254% in the last two years. This growth has made the transactions cost effective and as such there is no need for enhancement in the transaction charges for the present.*
- *The quality of services of switch operators is far from satisfactory and requires further improvement. The downtime of ATMs also needs immediate attention of banks management.*
- *ATM transactions minimize the load on the counters thereby resulting into saving for the bank*

In the same meeting representatives of the 1Link member banks provided the following feedback:

- *Two banks are also absorbing Rs. 15/- inter switch charges since they were saving the cost of servicing customer at their counter as well as enhancing the customer loyalty.*
- *The smaller banks are not investing at all in ATMs and they are using the large ATM network of other banks which is resulting*

*into additional financial income for smaller operations
(additional financial income for banks like summit or silk).*

- *The charges should be uniform for both the switch operators in order to avoid confusion among the customers.*

57. The reasons given by SBP are self explanatory and strengthen our analysis done in preceding paras to demonstrate immense growth in the relevant market. Further, 1-Link's assertion that banks are absorbing the cost for ATM transaction falls apart. It is interesting to note that 1-Link accepts the reasoning given by the regulator regarding saving the cost of servicing customer at banks' counters. 1-Link clearly states that smaller banks are not investing in ATM infrastructure and using the ATM network of other banks that is resulting into additional financial income for them. SME bank is an example of a bank that does not have a single ATM at present and yet it is able to offer its customers the privilege to use ATMs of any of the other banks out there.

58. Moreover, the evidence given below leaves no doubt that profit margin for stake holders is the prime consideration in ATM and other e-banking services provided by banks to their customers through the 1-Link switch.

Annex T

Minutes of the meeting of the Board of Directors- Business Development Committee held on July 27, 2011 at 9:30 AM, Park Towers, Clifton Karachi.

UBPS Phase-2

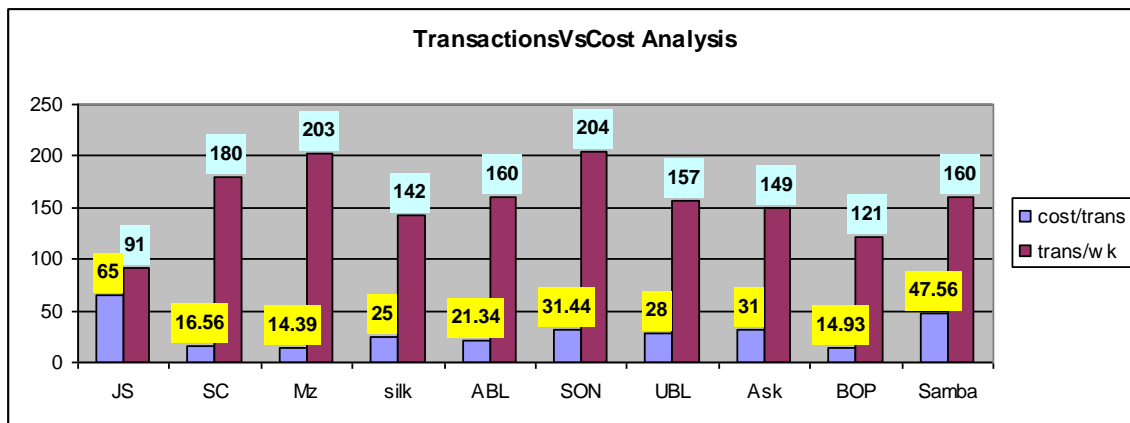
The committee discussed the challenges associated with the implementation to UBPS phase 2 and noted that the cost and implementation time for the project is not justifiable with respect to the profit margin for all the stakeholders.

59. Banks with higher returns can offer their services at lower rates than those with low returns and that is what brings about competition. However, analysis carried out reveals that there are banks with considerably lower number of transactions per ATM in reference to atleast one other bank and despite that they have reported lower cost per ATM cash withdrawal transaction. Considering that the

cost of running and maintaining the ATM network infrastructure is not to the advantage of smaller operations and that these costs should be more or less uniform across the spectrum, banks with greater number of transactions per ATM should also have lower cost per transaction. However, this is not the case here as demonstrated below:

Correlation between number of Transactions per week and Cost per transaction

Banks	cost/trans	trans/6months/Atm	trans/week/ATM
JS Bank	65	2168.578313	91
Standard Chartered	16.56	4340.823834	180
Mezan	14.39	4877.692308	203
Silk	25	3415.885714	142
ABL	21.34	3846.631399	160
Soneri	31.44	4917.708738	204
UBL	28	3773.557447	157
Askari	31	3565.252033	149
BOP	14.93	2888.836735	121
Samba	47.56	3838.724138	160



60. Fixing interchange fee, bill payee bank fee and maintaining uniform rates to be charged from customers in respect of inter-bank ATM cash withdrawal, UBPS, IBFT services offered by 1-Link member banks deprives banks to individually bargain or negotiate these rates based on their own business dynamics. Such arrangement appears to have the object or effect of restricting competition in the

relevant market by leaving no option for the consumer to choose between services in the wake of uniform rates despite varying dynamics among the banks in terms of volumes, number of ATMs, diversity of services offered on ATMs, variation in cost on installation of every new ATM.

61. Besides charging fixed rates in respect of inter-bank electronic services such as cash withdrawal, UBPS, banks also gain monetarily by saving on costs of teller services for performing the said functions. A growth of nearly 1200% in intra-switch (1Link on 1Link) transactions and 1538% in inter-switch (M-net on 1Link) transactions where 1-Link banks are beneficiary (acquirer) from December 2004 to December 2010 has to have the effect of making the transactions a lot more cost effective along with accruing benefits from such services. This also means that banks have margin to compete with each other under the maximum ceiling of 15 rupees.

VI. OTHER JURISDICTIONS

62. In UK, virtually every cash machine is connected to LINK, and LINK provides the only route through which ATM card issuers can offer their customers reliable nationwide access to cash. However, more important is that almost 97% of all ATM cash withdrawals by UK cardholders in the UK are made free of charge. Even in UK, the level of the Multilateral Interchange Fee (MIF) payable in an ATM transaction has been the matter of greatest concern to the Office of Fair Trade (OFT). The OFT has considered the rules of LINK under the Competition Act. The existence of an agreed MIF means that there is little or no competition exerted on the level of the interchange fee. Setting of MIF can restrict competition by removing the incentive for bilateral negotiations between parties. It can also adversely affect competition by reducing the incentives for members to compete for each others' final customers. The OFT found, in its LINK Competition Act decision, that the LINK MIF agreement had the effect of restricting competition between LINK members. However, later on exemption was granted on fulfilling the criteria.

63. In case of Canada, a different model works for ATM shared network. There is only one switch/network in Canada with the name of Interac Association that is a not-for-profit organization and operates on a cost-recovery basis- fee sufficient to cover operating costs. Issuer banks charge their card holders for inter bank transactions. Fees charged by Issuers are proprietary; however, financial legislation regulates the setting and notice of these fees. Acquirer bank may also charge fees called ‘surcharge/’ convenience fee’. Chargeability of ATM fees on both ends i.e. issuer and acquirer leaves no margin for setting interchange fee, therefore, in Canada the interchange fee is zero. Interac Association maintains strict rules to ensure that these surcharges are properly disclosed on ATMs (ABMs). A cardholder must always be informed of the amount of the surcharge before authorizing the transaction, and must have the option of cancelling the transaction without cost, should he or she not wish to pay the additional fee. It is pertinent to mention here that in addition to Canada ATM switch model, interchange fee on ATM transactions is set at zero by Interplay in Netherlands.

VII. CONCLUSIONS/FINDINGS

64. In view of foregoing, it appears that ‘1-Link Agreement’ executed by the founding members of 1-Link provides for the contractual arrangement for any bank to join the 1-Link network. The ‘1-Link Agreement’ also, *prima facie*, fixes the charges in respect of ATM cash withdrawal transactions that are announced by 1-Link through schedule of charges issued by it periodically. Similarly, it appears that 1-Link has entered into ‘UBPS Agreement’ and ‘IBFT Agreement’ on behalf of its member banks with utility and other service provider companies to fix charges for UBPS and IBFT services provided by member banks. Therefore, it appears that 1-Link has entered into agreement/collaboration on price fixing which has the object or effect of restricting, reducing or preventing competition within the relevant market, *prima facie*, in contravention of Section 4(1), in particular, Section 4(2)(a) of the Act.

65. In view of foregoing, it appears that 1-Link has provided a forum acting as an association of undertakings to its member banks, particularly those who are represented on its Board, *inter alia*; to meet, discuss, review/revise and fix the charges for ATM cash withdrawal, IBFT and UBPS. Further, it also appears that 1-Link has issued schedule of charges periodically to its member banks and has taken decisions acting as an association of undertakings to fix interchange fee paid by issuer bank/sending bank to acquirer bank/beneficiary bank (ATM cash-withdrawal and IBFT) and bill payee bank fee (UBPS) and also the rates of ATM cash withdrawal and UBPS charges to be paid by the customers of member banks. Such decisions of on price fixing by 1-Link, *prima facie*, have object or effect of restricting, reducing or preventing competition within the relevant market, *prima facie*, in contravention of Section 4(1), in particular, Section 4(2)(a) of the Act.

66. In view of foregoing, it appears that banks have become members of 1-Link network by signing an Accession Memorandum to '1-Link Agreement' executed by the founding members of the 1Link and are bound to follow the terms and conditions including fixed ATM cash withdrawal chares. Further, it appears that all members banks have option or have acceded to 'UBPS Agreement' and 'IBFT Agreement' entered into by 1-Link with utility or other service provider companies to fix UBPS and IBFT charges. Further, it appears that the member banks have implemented the schedule of charges issued by 1-Link. Therefore, member banks have, *prima facie*, entered into agreements on price fixing which have object or effect of restricting, reducing or preventing competition within the relevant market, *prima facie*, in contravention of Section 4(1), in particular, Section 4(2)(a) of the Act.

67. Inter-bank ATM transactions in the form of Cash Withdrawal at the rate of 15 rupees, IBFT at the rate of 15 rupees and UBPS at the rate 8 rupees carried out on the switch of 1-Link have huge economic impact. 1-Link provides services to its 30 member banks on 4,572+ ATMs in 200+ cities nationwide. Card base of its

member banks has exceeded 11.71 million in the year 2010. Whereas number of transactions during the last six months (**Jan-Jun 2011**) only in respect of cash withdrawal is 17.52M resulting into total revenue for member banks of around **203.36M PKR** with the interchange fee of Rs.11.68. Only six banks namely; ABL, Alfalah, Al-Habib, HBL, Soneri, UBL (who are also among founding members of 1-Link and sit on its Board) collected **122.38 M PKR** which is **60.2%** of total revenue generated in afore-mentioned six months. Similarly, 19 member banks are offering IBFT services and the total number of transactions during the period of Jan-Jun 2011 is 1.4 Million resulting into revenue of **16.25 Million PKR** with the interchange rate of Rs.11.61. In respect of UBPS, 14 banks are offering this service. Total 1.04 M UBPS transactions were carried out from Jan-Jun 2011 that generated a revenue of **5.83 Million PKR** with the interchange rate of Rs. 5.61 for the participating bank.

68. In view of above, we are of the opinion that it is in the public interest to initiate proceedings under Section 30 of the Act against 1-Link, 11 banks represented on 1-Link's Board of Directors and other member banks of 1-Link for, *prima facie*, violation of Section 4(1) read with Section 4(2) (a) of the Act.

Shaista Bano
Director

Nadia Nabi
Senior Joint Director

Mohammad Qasim Khan
Junior Executive Officer