The Vision for Financial Inclusion

National Treasury

March 2009

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1. Introduction

What role should National Treasury play in ensuring that market-led growth of the financial sector addresses the problem of widespread financial exclusion and leads to the availability of affordable, accessible and appropriate financial services for all?

Introduction

- South African context; the first and second economy problem
- SA has a well developed financial sector
- *On the other hand poverty, unemployment and inequality coincide with widespread financial exclusion*

SA Financial Sector Landscape

Banking Sector

Key Financial Soundness Indicators for the SA banking sector

Years	2002	2003	2004	2005	2006	2007
No. of banks (Excl mutual banks)	45	37	36	34	34	34
Total assets on balance sheet (Rbn)	1 100.8	1 377.6	1 498.1	1 611.5	2 075.1	2 547.0
Herfindahl Index	0.175	0.170	0.182	0.184	0.184	0.190
Market Share of top 4 banks (%)	80.0	80.9	83.7	83.8	84.1	85.1
Return on equity of banking sector (%)	4.6	9.8	14.7	14.7	18.3	18.1
Return on assets on banking sector (%)	0.4	0.7	1.2	1.1	1.4	1.4

Source: South African Reserve Bank, Banking Supervision Report 2002-2007

SA Financial Sector Landscape
Insurance Sector

Insurance Industry growth

Years	2002	2003	2004	2005	2006	2007
No. of registered long term	73	75	78	78	81	85
No. of registered short term	96	96	97	100	105	110
Total assets – Long term insurers (R billion)	802.8	822.1	906.9	1 085.8	1 302.1	1 420. 3
Total assets – Short term insurers (R billion)	37.0	40.6	47.7	54.6	59.3	66.0

Source: Financial Services Board, 2002-07

2. SA Financial Sector Landscape Formal sector

Finscope indicators of uptake for formal financial services ----------	-------
A1: Transaction services: percentage of the adult population that receives money regularly through a formal financial instrument	**52%**
A2: Savings: percentage of the adult population that keep money in formal financial instruments that allow them to safeguard and accumulate money	**51%**
A3: Loans and credit: percentage of the adult population that have obtained or have outstanding a loan or credit facility from a formal financial institution now or over the last 12 months	**24%**
A4: Insurance: percentage of the adult population that have an insurance policy (short- or long-term) from a formal financial service provider *Source: Finscope 2006*	**30%**

SA Financial sector landscape
Informal sector

- Sizeable informal sector indicates appetite for financial services but inappropriate formal provision:

  - Finscope (2006) indicates that ***26% have some informal product, 9% have informal products only***

- Exemplified by popularity of stokvels ***(Finscope, 2006, 2 mn members)*** and burial societies ***(Finscope, 2006, 5.8 mn members)***

Current landscape of financial inclusion

FINSCOPE 2008 DATA	
A1: Banked: Percentage of the adult population with a bank account	**63%**
A2: Formally included: percentage of the adult population that use any type of formal financial product	**66%**
A3: Financially served: percentage of the adult population that use any formal or informal financial service	**77%**

Reasons for financial exclusion

Access Drivers (Porteous 2005)

- **Proximity** - Distance to service, quantified in terms of cost and time taken
- **Affordability-** Cost is a key factor.
- **Appropriate product features-** One example is transaction accounts which impose limits on activity and therefore inappropriate for the trader who must make daily deposits
- **Appropriate terms or eligibility requirements** - Contractual terms may inappropriately exclude specific categories of users from utilising the service.
- **Regulation-** Financial Intelligence Centre Act (FICA) example

Reasons for financial exclusion

Usage Drivers (Porteous 2005)

- **Monetary Value-** Net returns after fees may not be sufficient to induce demand
- **Relative cost-** The mattress may prove a superior value proposition than a savings account
- **Hassle factor-** Informal product may be more convenient
- **Resistance to documentation-** Consumers may be sceptical of presenting official documentation because they prefer to remain below government's radar

Financial inclusion vision

The Vision

To facilitate greater financial access and usage for all South Africans, especially the currently financially excluded.

What is financial inclusion?

- a continuous process of expanding access and usage of financial services and products to previously excluded population segments

- Our strategy also focuses on exclusion of both SMMEs and retail financial services consumers

Why financial inclusion matters

SA context

Impact on economic growth

- Apartheid-era legislation restricted black ownership of businesses. Furthermore, ***unemployment has fluctuated between 20-31% from 1996-2007 (StatsSA)***, indicating critical role for access to SME finance to plug the gap

- Disinvestment and government policy pre-1994 entrenched highly concentrated industrial sector SMEs can play a role in enhancing competition

Why financial inclusion matters

SA context

Reducing poverty and inequality

- Beck et al (2007) link financial development to greater income equality. Suggests that inclusion-focused financial development will reduce inequality
- Credit reduces intergenerational inequality, through borrowing for business and education
- Insurance cushions against adverse shocks, ex. burial societies in SA
- Bank account allows for savings and safe storage

Financial sector milestones

i. **Financial Sector Charter (FSC):**

-A forum between government, financial sector and civil society to determine the framework for Black Economic Empowerment (BEE) and financial inclusion in the sector

- Comprehensive targets for 2004-08 established, including access to financial services, ownership and human resource development

- Mzansi basic bank account launched Oct 2004. Reduced regulation and fees. 5.5***mn active accounts as of December 2008, excl 760,000 closed accounts***

Financial sector milestones

- **Financial Sector Charter targets (for 2008 reporting year):**

- 80% LSMs 1-5 to have effective access to transactional products and services within 10 km

- 1% of LSMs 1-5 plus 250,000 consumers to have effective access to formal collective investment products by 2008

- 6% of LSMs 1-5 to have effective access to short-term risk products and services

- 80% of LSMs 1-5 to have effective access to long-term insurance within a 40km radius

Financial sector milestones

ii. Tiered banking legislation:

- Co-operative Banks Act (2008);

  -The registration of deposit taking financial services co-operatives, village banks, community banks as cooperative banks

  -Co-operative Banks Development Agency to provide support and capacity-building

  -Creation of a deposit insurance fund

- Amendment to Banks Act (for Dedicated banks);

  -Separate license for Savings banks and Savings and Loan banks
  -Permits retailers to provide basic banking functions
  -Rationale to enhance physical access and competition

Indicators of financial inclusion

- Financial Sector Development Unit (FSDU) will develop and annually publish indicators of financial inclusion (IFIs)
- Track five key products; bank account, retail credit, remittances, insurance (micro), savings.
- IFIs will:
  - Chart progress and quantify goals
  - Explain financial behaviour, leading to policy responses
  - Provide research aid, flagging up key trends

4. Towards financial inclusion

Principles of engagement with the financial sector

- Catalyse and facilitate market mechanisms but intervene where market failures persist, whilst crowding in the private sector
- Provide an enabling environment for financial innovation, healthy competition, and confidence in the financial system
- Balance policy for development of the financial sector with the objectives of financial sector stability, consumer protection and efficiency

4. Towards financial inclusion

Principles of engagement with the financial sector

- Acknowledge the current role of the informal sector and support the transition to formality where desirable
- Build synergies across government departments, private sector players and agencies

Towards financial inclusion

Goal 1

"To develop an enabling legal and regulatory framework"

- **Implementing legislation to support a tiered banking system**

→ Establishing Co-operative Banks Development Agency for supervision of Co-operative banks

→ Establish deposit insurance fund for all banks

→ Pass legislation on Dedicated banks

→ Negotiate accommodation of 2nd and 3rd tier banks within national payment system

Towards financial inclusion

Goal 2

"To catalyse private sector innovation"

- **Increase SMMEs access to finance**

→ Support the establishment of a comprehensive SME credit bureau

→ Explore accommodation of reverse factoring in government contracts

- **Encourage private sector to develop affordable and accessible products:**

→ Key products include cellphone banking, micro-insurance, micro-savings and the Mzansi account

Towards financial inclusion

Goal 3

"Support the setting and implementation of standards for financial service providers"

- **Continuing to promote transformation of the financial sector through the Financial Sector Charter process**

→ As Charter enters second phase from 2008-14 ensuring all participants remain committed to agenda of broadened transformation and financial inclusion

Towards financial inclusion

Goal 4

"Programmes to support growth of the co-operative banking sector "

- **Building sustainable and self-sufficient co-operative banks**

→ Using the Co-operative Banks Development Agency to develop and monitor financial and other management skills of co-operative banks

Towards financial inclusion

Goal 5

"Set standard for state interventions designed to address market failures"

- **Regularising Postbank**

→ Postbank currently operating under Exemption to Banks Act and must be properly regulated

- **Monitoring Development Finance Institutions (DFI)**

→ Several DFIs in the SMME policy space, which require monitoring and in some cases capacity-building

→ Develop performance indicators for DFIs

Towards financial inclusion

Goal 6

"Provide leadership and coordination in respect of policy on financial inclusion"

- Develop financial inclusion framework and microfinance policy
- National Economic Development and Labour Council (NEDLAC)
- Financial Sector Charter
- Overarching governmental strategy for SMMEs

5. Challenges moving forward

1. Socio-economic circumstances

→ Usage of formal products may be unsuitable for reasons including unemployment and irregularity of income

→ Finscope (2006); ***45% declare that "lack of money to save" is reason for unbanked status, 25% that "no regular income" is the main cause***

→ Upper limits to formal services uptake must be considered at some stage

Challenges moving forward

2. Regulation-access trade offs

→ Areas where regulation may compromise access (ex. Basel II (Beck et al 2007), FICA regulations)

→ Porteous (2006); ensure that regulation doesn't stifle new innovations (ex. e-money regulation in SA)

→ Ensure that access-enhancing regulations do not compromise fundamental goals such as stability and efficiency

Challenges moving forward

3. Financial literacy

→ Problems exist on several levels; inter-related are consumers' lack of awareness, understanding and experience

→ Current provision is highly fragmented amongst government bodies and service providers

Thank You