

Input: Competition Commission October 27th 2006

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**Bench Marks Foundation of Southern Africa for Corporate Social Responsibility
(BeFSA CSR)**

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Profile of the Bench Marks Foundation

The Bench Marks Foundation of Southern Africa for Corporate Social Responsibility was launched in 2001 constituting 5 Christian bodies and was officiated over by Archbishop Desmond Tutu and an office was established in 2003.

The project is made up of the following partners in Southern Africa. The South African Council of Churches (SACC); CDT Foundation; Industrial Mission of South Africa; Ecumenical Service for Socio-Economic Transformation (ESSET); and the Southern African Catholic Bishops Conference. Bishop Dr. Jo Seoka of the Anglican diocese of Pretoria chairs the Board of the Foundation.

Its international partners are:

- The Interfaith Center on Corporate Responsibility (ICCR)-USA.
- The Taskforce on Churches & Corporate Responsibility (TCCR) - Canada.
- The Ecumenical Council for Corporate Responsibility-UK.
- The Christian Centre for Socially Responsible Investment- Australia.

Corporations play an important role in society, shaping government policy and structural relations in society. Business has a specific responsibility to ensure that its practices are not harmful to the broader environment and people. This requires that business incorporate responsible practices into their core business model taking into account the broader needs of society.

A study on the Financial Sector

This financial sector study follows the Bench Marks, Principles for Global Corporate Responsibility: Bench Marks for Measuring Business Performance report. The Bench Marks Framework is a comprehensive set of social and environmental criteria and business performance indicators drawn from a body of internationally recognised human rights, labour and environmental standards and principles.

In this study we pay particular attention to two Bench Marks laid out in section 2.5 of that report which focus on financial integrity. These principles of financial integrity form the basis of the evaluation of the current status of equitability in banking.

2.5. C.4

The financial institution has clearly stated policies and practices to promote community reinvestment schemes that include provision for the full range of financial services to the local communities in which they operate or upon which they have an impact.

2.5. B.4

Financial services, including micro-financing, discounted loan services and other fair lending practices are made available to local communities, including those under-served, on a fair and equitable basis

In order to look at this we developed further questions that would give some indication on the above, they are:

- To investigate what, if any, varying approaches commercial banks adopt in awarding credit and interest rates and banking fees between rich and poor clients
- To investigate banking fees and discriminatory practices regarding banking fees, where low and middle income earners seem to subsidise richer clients.
- To investigate whether banks support the building of community-owned, community-controlled business ventures and enterprises, like Stokvels and burial societies and whether such access in relation to banking fees encourage participation. Or do banks prefer supporting financing of ‘safer’ partnerships ventures with established white capital.

Executive summary:

Complexity and multiple dimensions

1. Financial/Banking sector is the driving sector of the economy and is able to influence all other sectors and can act as a catalyst for change. It can increase access of people to banking services, direct investment into socially responsible adventures, infrastructure development and meet community needs.
2. By keeping large portions of the population out of it, the financial sector currently excludes a potentially large growth sector from economic prosperity
3. Discriminatory rates in terms of banking fees and lack of access to finances and financial services are still pervasive.
4. Mutually agreed exclusionary fees perpetuate poverty and inequality.
5. There is need to mainstream micro lenders into formal banking and/or to for banks to offer these services to ‘regulate’ financial access.
6. Banks need to incorporate stokvels, and other community saving schemes by agreeing to not only focus on the individual but on communities There is a need to mainstream banking practices to promote equity. While much is being done in this regard, banks need to understand the existing inequalities, particularly in accessing loans and private savings, as well as the growth of medium and small enterprises and how banking fees encourage or discourage access.
7. Some comparison of bank practices regarding the above is needed and best practices highlighted as a benchmark.

Service and banking fees

1. Exclusionary banking fees that prevent access and transaction and other costs where the low and middle income earners subsidize bigger players and those with assets.
2. SA is caught between international competitiveness and a national crisis and a more balanced approach between banking fees and access to banking accounts is warranted.
3. Banks have to share in the risk if we want a more prosperous and equitable society.

Transparency

1. There is need for banks to be more transparent in costs of operating different accounts, from savings to cheque accounts, to transaction fees, service fees, other charges, and hidden costs.
2. Education is needed for specific sectors, like Taxis for example.
3. Banks should not use monies in one account to pay another account without prior consent.
4. There is a need to mainstream banking practices to promote equity. While much is being done in this regard, banks need to understand the existing inequalities, particularly in accessing loans and private savings, and how banking fees impact on the growth of medium and small enterprises.
5. Some comparison of bank practices regards the above is needed and best practices highlighted as a benchmark

Background to our Submission

The financial services sector operates in a very challenging environment in South Africa. In the past the major banking institutions were set up to respond to particular challenges of both political and socio-economic nature. It is a fact that banks account for the bulk of the economic power of the whites, while they played a significant part in the impoverishment of the black majority. This was done through lending policies, including risk assessment mechanisms, service charges through which the rich are subsidized by the poor, creating limited or no access for the majority to financial services etc. Now that we have transited from the apartheid era wherein banks and other financial institutions colluded with the political order of the day, there is an expectation that they will play a constructive role as agents for socio-economic change. This sector has the potential to act as a catalyst for economic growth across sectors of a society, private and public, and thereby contribute constructively to the eradication of poverty and the elimination of inequalities. The financial sector can play a leading role in transforming a society that is characterized by extreme inequality into one which is more equitable, facilitating societal participants' access to sustainable, dignified livelihoods.

It is vital in a country such as South Africa that the power of financial institutions be harnessed to contribute positively to the eradication of poverty, job creation and skills development.

In order that this aim be achieved, a number of critical conditions and contributions are required of this financial sector. These include:

- An understanding of the existing inequalities that need to be addressed;
- A commitment on the part of the financial sector not merely to engage in philanthropic activity but to alter its core business and practice such these are responsive to existing inequalities and for expansive financial access and economic growth;
- Involvement of insurance, both of banks for its shareholders as well as its customers, who stand to lose their entire savings in scams if they are not insured, and so are dissuaded again from investing in banks, and of the insurance industry to engage with and to alleviate instead of only avoiding risk;
- A synergy between the financial sector and broader society, in order to create an enabling environment for the equitable development of dignity of all its members.

These goals and aspirations can be achieved. In fact, the continued economic stability and success of South Africa, financially and socially, depends upon the commitment of the financial sector to sustainable livelihoods of all people of South African society.

As already said, the financial sector operates as a catalyst. It is, or can be, the driving force behind economic growth across sectors of a society, private and public, and thereby contribute constructively to the alleviation and eventual elimination of inequalities. Thereby, the financial sector can play a leading role in transforming an unequal society into one which is more equitable, facilitating societal participants' access to sustainable, dignified livelihoods.

It is vital in a country such as South Africa to harness the power of the financial sector to catalyze such transformation of inequality into opportunity of and for economic growth. It is

important to take the current conditions into account, including both local and global pressures, and from there to intervene to promote progressive trends toward greater socio-economic equality through access and opportunity to finance and sustained livelihoods.

In order that this aim be achieved, a number of critical conditions and contributions are required of this financial sector. These include:

1. An understanding of the existent inequalities that need to be addressed;
2. A commitment on the part of the financial sector not merely to engage in philanthropic activity but to alter its core business to cater against existing inequalities and for expansive financial access and economic growth;
3. Involvement of insurance, both of banks for its shareholders as well as its customers, who stand to lose their entire savings in scams if they are not insured, and so are dissuaded again from investing in banks, and of the insurance industry to engage with and to alleviate instead of only avoiding risk;
4. A synergy between the financial sector and broader society, in order to create an enabling environment for the equitable development of dignity of all its members.

These goals and aspirations can be achieved. In fact, the continued economic stability and success of South Africa, financially and socially, depends upon the successful catalyst of the financial sector for sustainable livelihoods of all of South African society. This report will illustrate the viability of interventions to promote the development of dignity. In particular it will focus on access to banking services for previously disadvantaged individual and businesses and on discriminatory banking fees.

Sociological Background

South Africa's entrenched history of inequality makes redress and equity in the banking sector an imperative. This is particularly important on three fronts:

1. Firstly, in order to spur economic growth and development, individuals as well as small and medium and micro enterprises require access to financial services and capital on a non-discriminatory and affordable manner.
2. Secondly, such multi-level financial investment and growth is vital for social sustainability and ultimately for both personal livelihoods and business profits, cycling back into economic growth and development.
3. Thirdly, discriminatory fees prevent redress of inequalities and in a country like South Africa with its discriminatory history, where the poor and low income earners subsidized the rich, and where continued inequities can only lead to further divisions and exacerbate the class divide, widening the gap between rich and poor, and contributing to unsustainable livelihoods that contribute to theft and violent crime as the only way of redress.

In order to further understand this, it is necessary to assess South Africa, financially, as caught between international competitiveness and national crisis. The country's "Big Four" banks, ABSA, Standard Bank, First National Bank and Nedcor perform according to international practices and standards. These banks and the formal financial sector that they represent, cater to 16 million customers. They are world-class.

The “Big Four” adhere to the principles set by the Basel Committee on Banking Supervision, and rank among the best banks in the world. Through them, South African customers have online, real-time, nationwide access to bank accounts 24 hours a day, everyday of the year. Today South Africa finds itself with a more mature banking sector, a moderate level of private-sector indebtedness, and a respectable and first-rate regulatory and legal framework.

South African banks are well managed and utilize sophisticated risk-management systems and corporate-governance structures in conducting their business. South Africa’s political transformation, together with the relaxation of exchange controls and the liberalization of African economies, has resulted in South Africa becoming an increasingly important world financial centre. South Africa is also now well positioned to provide global services through the international offices of her banks and the presence of international banks in South Africa.

However, within the same world, the remaining potential 14 million potential South African banking customers are unbanked. That is, they are without access to savings or insurance services. The majority of these are poor, black South Africans, who deserve redress through and in a still discriminatory system.

Currently, these citizens and potential banking customers rely on the informal sector for financial services. These include rotating saving and credit associations, called “stokvels”, savings and credit cooperatives, burial societies and village banks. More innovation and action to increase financial access is necessary.

Presently, such access is severely impaired. In addition to lack of access to savings and insurance services, redlining policies denying people access to housing and commercial loans; high service rates, such as set-up fees, transactions and transfer fees, and also lack of infrastructural access or the costs of transport to such infrastructure inhibits people’s ability to use financial services. Consequently, people turn to micro-lending loan sharks and informal finance service providers, which often cost more than if they were able to participate in the formal banking sector.

Yet the very lack of these customers’ participation in the formal banking sector exerts exorbitant costs in unrealized economic potential.

Our Submission

1. Complexity and multiple dimensions

The South African financial sector is caught between local and global pressures. While global competitiveness is not in itself a bad, this is often done at the expense of local needs. In order to be competitive, South African banks exercise monopoly over the National Payment System, resulting in the marginalization of smaller actors in the sector. The other consequence of the pursuit for global relevance is the fact that a significant section of the population is excluded from banking services.

It is a fact that the financial sector has the potential set a precedent wherein by increasing access to financial services to its currently unserved, unbanked, the banks could engender an enabling environment for transformation of inequality into greater equity and into increased economic growth and prosperity of the people of South Africa. Should is the operative word here; a number of obstacles impede this progress in the complex arena of the financial sector in South Africa.

There is not enough competition currently in the banking sector. Competition is generally accepted as a key mechanism to increased efficiency and for economic development; As a result of this lack of competition and of the exclusion of the majority of potential banking customers from the formal banking sector, and due to the high risk aversion in the South African financial sector services, mutually reinforcing exclusionary fees cripple the catalyst role that banks could play in development and in economic growth and sustainability.

Our Submission: Preoccupation with international standards at expense of local imperatives has led to the monopoly of the National Payment System thereby limiting competition. In the final analysis, the consumer has to bear the cost of global competitiveness

2. Access to banking services

In 2004, in order to even gain access to any financial services, restrictions such as a monthly income of R3, 500, and longer-term or permanent formal employment generally apply. Without meeting these criteria, a person remains unbanked and often in a vicious cycle of being unbanked and unable to become either employed or bankable.

Indeed, it costs an unbanked person more to access and to transfer money than it does a banked person: for instance, according to a study conducted for the South African competitiveness report, it would cost an unbanked individual living on the outskirts of a main town R32 to make a R250 payment using the Post Office to make a money transfer or R20 to make the payment in person, whereas for someone with a bank account and access to the internet, the cost of making a R250 payment would be R3.75.

Clearly the cost of accessing banking services is higher for clients of smaller banking service providers as compared to the bigger banks. This cost is born by the consumer. Also the travel and transport cost to access this service is born by the customers. Thus rural and poorer areas are punished by banks due to the long distances to be traveled to get to the nearest service point.

Our submission:

1. it costs the poor more in Rand terms to access banking service
2. proximity of banking facilities could facilitate access, and the cost of bringing this service to the customer should be born by the service provider rather than by the consumer
3. As a consequence of skewed competition, clients of bigger banks pay less for services as compared to those of smaller players. Thus clients pay more as a result of unfair competition

Furthermore, an informal micro-loan, which generally does not require an ID, salary slip or regular income, carries an annual charge of between 222 percent and 360 percent compared with prime rate plus duties for a low-risk bank customer.

In addition, an unbanked person runs the risk of being financially uninsured, undermining personal security and capital gain and that of dependents, with repercussions for the market in which that person could have spent money and/or accumulated and grown capital; yet recognizing this rippling crippling effect an insurance scheme based on the Mzansi account has been developed to enable banks to engage with the financial and social risk of unbanked customers and to enable them to access financial services and savings and to accrue expandable capital;

However these prices continue to exclude an estimated 60 percent of low-income and 80 percent of the lowest-income groups. These tend to turn instead to the formal financial system from which they are

excluded, to the informal system, notably making use of stokvels and informal burial societies, to which 30% of these unbanked individuals subscribe, as their sole source of ‘insurance’.

Further undermining financial stability and sustainability is the fact that an individual in the low-income group is between four and five times more likely to have a store card, which while on the one hand providing a source of credit, on the other hand often carries with it high fee rates.

Little sectoral or governmental intervention on mitigating these inequities is a further reflection of lack of awareness, impetus, ability and accountability of the South African financial sector to catalyze economic growth – particularly synergies between commercial banks and micro and other finance - for the marginalized; for instance, credit unions, common in other countries, play no role in South Africa.

This has entrenched rationale perpetuated by the schism between global rules and local needs, both of which need to be acknowledged and taken into account but also intervened against: Competition must be restrained by the rules – local and global – vital to the stability of the banking system. In other words, banks need to recognize inequality to access between rich and poor clients, and that if this continues; South Africa will become a non-sustainable society.

We assume that banking fees are part and parcel of the risk management policies of banks. High banking fees for low income earners allow banks to take little risk on their returns and thus while international standards bring some credibility to South African banks, a case can be made that some of the international regulations impede access to banking services and penalize low income earners through charging high fees. This does not assist in lessening inequities, or in the developmental role banks can play. Lower and more transparent fees will assist in closing the gap between rich and poor, and create a more sustainable and fairer economic system.

1. We recognize that making access easier might be especially onerous on banks operating in risky environments, such as those potentially posed by HIV/AIDS, or the social and political instability.
2. Compounding these problems are local infrastructural difficulties, notably access to the infrastructure of the banks’ payment system.
3. In addition, due to the existence of a mutual governance system amongst the “Big Four”, which locks policies in place, the room for maneuverability between ostensible competitors is in fact narrow if not non-existent;
4. Consequently also, there is a lack of transparency and information on financial service access criteria, charges and other constraining and exclusionary practice.

2. Access to bank accounts

This is well-illustrated by the access parameters for financial services at First National Bank. The Lending, Prime Overdraft, Existing and New Home Loan, and Student loans are all charged at 10.5% interest. Access, however, to accounts that would enable those loans and facilitate savings for their repayment, is prohibitive. A checking account stipulates a minimum age of 21 years, an annual income of at least R24, 000, and even when those requirements are met, leverages fees either for transactions, all of which well detract from the accessibility and affordability of such an intended facilitating finance service.

Furthermore, a personal loan, advertised as available in amounts between R4, 000 and R50, 000, excludes all potential customers earning less than R4, 000 per month, who are not contactable by telephone, permanently employed, or employed by the same employer or living in the same place for a ‘reasonable’ amount of time. Fundamentally, it is impossible even to accrue such a record, which perpetuates marginalization and inequality and inequity, effectively working against economic growth and certainly social stability and sustainability. So the very argument to limit short-term financial risk actually increases long-term financial risk.

In order to access a bank account a prospective client must have a “traceable” domicile address. Thus residents of informal settlements are excluded or put through a rigorous means-test and screening.

As such the bank protects its assets, again shifting the risk to the employee or the customer, effectively however limiting the gains of both and also of the shareholder in the long-term by not investing in financial access and capital gains which while in the short-run would involve risk, in the long-run would contribute to greater economic growth and development.

The mutual governance system that locks banks into charging similar fees, and limits access to banking services needs serious review taking into account our history, present needs, and how lower fees would contribute to better livelihoods of all South Africans.

Our submission: Lack of access to bank accounts tends make people vulnerable to crime and pushes them to informal and inadequately regulated money lenders. This can be attributed to the fact that there is effectively no competition in the sector. Instead what we have is a dictatorship of the Four Banks. If a prospective customer is turned down by one of the big banks, the rest of them will also turn that person down.

3. Banking fees

Discriminatory pricing pervades the banking sector in South Africa, administered through its three basic charges: the rate of interest on deposits, the rate of interest on loans, and the array of charges it imposes for particular transactions and services; assuming that access to financial services is attained at all, which it is invariably not. In fact, with the exception of Australia, South Africa’s banking fees are the highest and most exclusionary in the world.

In addition, the percentage of capital required up-front to receive a loan or financing is more often than not exclusive to the propertied and elite wealthy class. Furthermore, where other countries engage in subsidization for lower-income customers, South Africa does not.

- Whereas in the UK lending activities tend to subsidize payment and transmission facilities, “in South Africa the payment and transmission services dominate and appear to cross-subsidize lending.” In South Africa, this cross-subsidy is borne chiefly by low- and middle-income consumers and SMEs rather than the more prosperous.”
- Also, whereas low- and middle-income customers rely on banking facilities, if they have access to them in the first place, to effect payments and transmissions, which can be very costly, more prosperous customers are more likely to use banks to access – and thereby to accrue additional capital – credit.
- Consequently, the lack of subsidization perpetuates exclusion and entrenches in inequity between richer and poorer.

Through high cost for cash transactions, the banks marginalize the lower income, the poor and the unbanked. Cash withdrawal over the counter costs about four times that of the ATM withdrawal. Secondly, cheque account holders pay less for services such as debit orders, and stop orders as compared to savings account holders for the same services. The majority of the lower income earners as well as students run savings accounts. The effect of this system of charging service fees is that low income earners subsidize higher income earners.

Our submission:

1. The relationship between the service charge/fee and the service offered has not been explained. An explanation is warranted
2. The effect of the system of charging customers leads to the wealthy benefiting more from the bank than the poor. An explanation to this effect will be helpful

Presentations for the Competition Commission Hearings

We will focus on leading evidence from five people in the form of case studies to argue our case. These case studies will be prepared over the next while and evidence will be led proving our case before the Commission. The case studies will focus on:

1. Mzansi account- access and affordability

Here we will show that the Mzansi scheme costs too much in banking fees and other charges and that it is not available in urban areas and that to set up such an account is impeded by various banking requirements, such as a fixed abode, proof of income, proof of residence, and that an Mzansi account does not offer benefits available in an ordinary savings account.

2. Small medium and micro enterprises on access and affordability

Our focus to the Competition Commission will demonstrate discriminatory requirements and costs that impede the growth of small and medium enterprises.

3. An ordinary worker

We will likewise demonstrate the impact of banking fees on a low income earner.

4. Church burial society

An example of the restrictive access to the NPS and its impact informal savings groups will be demonstrated as well as the cost of doing business with banks because burial societies, stokvels and other savings bodies are not allowed to operate as banks.

5. Pensioner

We will demonstrate how banking fees erode the benefit State pensions. Names of submitters will be supplied in due course.