



**Financial Sector Campaign Coalition
Submission to the
Competition Commission Enquiry**

**Competition in Banking
13 November 2006**

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**With testimony by social beneficiary grantee Ms
Nondzekile Mbambo, assisted by Black Sash staff
member, Ms Ndileka Madyosi**

In preparing for this hearing, at such short notice – it became obvious that there is a need for civil society and consumer organisations to be given a chance to understand what provisions the banks have made to serve the poor in our country, in a way that is both ethical, and takes into account their particular needs and circumstance.

The establishment of the Nedlac-mediated Financial Sector Charter a positive step in addressing this need.

Introduction and purpose

My name is Marcella Naidoo. I am the National Director of the Black Sash. With me is Ms Nondzekite Mbambo, a social assistance beneficiary, living in Khayelitsha and today assisted by Black Sash paralegal caseworker, Ms Ndileka Madyosi of our Cape Town Advice office.

We are here today for the following reasons:

- To share with you, and present our findings, concerns and learnings regarding the approximated benefits that banks reap monthly, by merely being couriers of government transfers for social assistance of millions of South Africans.
- We would like to know how banks can justify administration and banking charges on a huge amount of state money belonging to the poorest of the poor, and the most vulnerable people in society
- Provide preliminary recommendations with regards to the role of banks in socio-economic development and their obligations to bring about lasting transformation
- Endorse and support the FSCC recommendations
- Introduce a social assistance beneficiary to you, so that she may share her experiences and ask the questions that plague her, and which we also find perplexing.

Our submission to you today is based on the belief that access to banking; with affordable banking charges especially for the most vulnerable and indigent in our country will contribute to economic and social justice. This commitment should include financial services that are affordable, fair and justifiable.

Background

Let me take a moment to introduce the Black Sash and its work to you. We are a South African human rights organisation with a fifty-year tradition of working towards a just, inclusive society.

At the forefront of the fight against apartheid in past decades, today we strive to maintain and strengthen the framework of precious civil liberties that our Constitution extends to all South Africans; and to promote social justice through a rigorously-developed system of interventions

that incorporates advice giving, education and outreach programmes, service delivery monitoring, policy research in order to engage with government, and sometimes, litigate against government when necessary.

Our organisation comprises seven Advice Offices (including one in each major metropolitan centre), an Advocacy Unit, and a coordinating national office. We employ over forty full-time staff, and are active in two-dozen civil society forums and networks.

Our seven advice offices provide a free service to anyone who needs advice. These services include:

- Paralegal advice on a range of matters, especially those that address poverty. We help:
 - parents access Child Support, Care Dependency and Foster Child grants;
 - retrenched workers access the Unemployment Insurance Fund;
 - auto accident victims access the Road Accident Fund;
 - the sick or disabled access the Disability Grant.
- Rights education
- Voter education

All told, our advice offices open between 10 000 and 15 000 individual cases per year, plus an additional 5 000 people are reached through outreach work in outlying areas. We help poor South Africans – mainly women – access over R15 million in social assistance, social insurance funds and private pensions.

Given that most cases represent the interests not just of a single client, but also her extended family (conservatively estimated as three additional people), Black Sash advice offices touch the lives of more than 50,000 South Africans each year. We recently celebrated our 50th Jubilee Anniversary.

In the last two years, the Advocacy Unit has made nine major submissions to Parliament and other bodies, on items as diverse as the guidelines that govern compensation for HIV/AIDS acquired in the workplace, and a review of the Older Person's Bill for Parliament's Portfolio Committee and on the New Credit Act for the Portfolio Committee for Trade and Industry.

Financial services for social assistance and social insurance beneficiaries

The Black Sash, as part of the community constituency at NEDLAC, has begun to engage with the need for equitable banking and financial services for its clients in particular, and poor households in general.

We believe that there are benefits to social assistance beneficiaries receiving their grants

through banks. These include security and convenience in managing and using their money. However, we find that few of our clients use the banking system in its current form. Why is this so?

From the table listed as Appendix 1, we note that the Department of Social Development reports that only 15% of social assistance beneficiaries access these grants through the formal banks. The other 85% of grants are distributed through different cash payments systems, such as Allpays and Cash Paymaster Systems. In total, this department alone pays out at least R52 billion for social grant transfers each year.

By comparison, the Department of Labour pays Unemployment Insurance payments and COIDA (a total of around R5 billion per annum) mainly by electronic fund transfers (EFT's) and cheque payments to approximately 825 000 claimants. This method of paying people through the bank allows for the convenience of these beneficiaries to choose when and where to collect their claims.

We need to know what bank charges are incurred on these payments, both to government and/or the beneficiary (both in terms of receipt and withdrawals) in order to understand whether the banking charges are fair and equitable.

On the other hand, social assistance beneficiaries are forced to collect their money on a given date, at venues which frequently do not cater adequately for basic amenities such as seating, sufficient toilets, shelter, forcing very vulnerable people to collect their money in a manner that, we believe, compromises their dignity and rights. For example, senior citizens, disabled people, and mothers with children have to be at the paypoint/or rural bank facility (where there is low banking density and high demand) early in the morning, and stand in long queues to collect their grant. People often have to stand in very long queues. Where is not sufficient shelter, people have fainted in these queues. Also, the fact that there is cash in hand, have made a number of these paypoints vulnerable to robberies.

Government pays anything between R15-20 per grant for its distribution. The question we need to have answered, is to what extent are these costs used to improve the facilities utilized for distribution, if at all? We believe that this is the least banks can do, namely invest in community facilities that provide the facilities for the purposes of payments.

This system of distribution of grants to beneficiaries on particular days and particular venues, has the additional problem that, if someone is sick and cannot get to the paypoint for 3 consecutive months, and cannot appoint someone as proxy, their grant is suspended. These persons then have to reapply, at great personal cost.

Had the money been deposited into their bank account, they would not have this problem and they could commence use of their account once they were well enough.

Furthermore – for beneficiaries that use the paypoint system, their ability to travel outside of a province (in order to attend to urgent family matters, seek work as in the case of a single mother) is constrained by the need to be at the paypoint on a monthly basis, unless they



appoint a proxy to collect their money on their behalf. This requires that the proxy has proper identity documents, and is available to collect these grants. If the proxy is a working person, it means that the person may need to take time off work, leading to a loss of income or strained relations with her employer.

The testimony of Ms Mbambo will show, there are many factors that make it difficult to use banking accounts conveniently. These factors include, a limited understanding of banking services and options available, poor access in areas of low economic activity, low banking density, and high transportation costs.

We will now hear testimony from Ma Mbambo.

Clearly there are many unanswered questions that both she and we have. We hope that these questions can and will be answered shortly. We urge you as the Commission, to use your powers to assist us in getting these answers speedily. Failure to do so, will allow an unacceptable situation to continue. Some of our questions are listed below.

Key questions that require urgent answers

- What is the real cost of bank charges for the delivery of a social grant?
- What blocks grantees from using bank accounts?
- What are the ethical obligations on banks in delivering these payments?
- How do they interpret their commitment to the Financial Services Charter in this regard?
- What motivates banks to provide services for the poor? What should the minimum conditions be?
- How much profit do banks make from this?
- How much does this grant payment service and other social insurance payments contribute to banks profits?

Recommendations

We have seen what some of the consequences of raw and unchecked pursuit of profit does to the quality of life of poor people.

We request that the Competition Commission, based on the hearings of this Enquiry, establish how much it really costs banks to administer these banking charges by doing further a further formal investigation and establishing what relationship there is between these costs and the charges to government.

Finally, we propose that all social grant recipients must get free banking, with no transaction charges and that grant payments systems must be at cost.



Appendix 1:

Dept.	Type of Programme	No of Beneficiaries	Amount	Current payment system	Future payment system	Additional Info.1	Additional Info.
Social Services	Social Grants	10.8 million	R52 billion for social grant transfer R3.4 Billion for Prov. administration	Cash payments (85%) Banking (15%)	Cash payments And increase % through the banks	CSG: R190.00 pm FCG: R590.00 pm DG: R820.00 pm OAP: R820.00 pm ¹	Project Isidma (dignity) One of the objectives to encourage beneficiaries to use banks to collect money.
Dept. of Labour	UI ²	589 000	R2 888 252 billion	100 % EFT	100% EFT		
	Coida ³	109 930 claims Finalised and paid 126 415 backlog Cases. Finalised and paid	Claims more than R2 billion (more than half paid to medical providers)	Claims per cheque	Banking		

¹ CSG – Child Support Grant; FCG - Foster Care Grant; Disability Grant – DG, Old Age Pension -OAP

² UIF – Unemployment Insurance

³ Compensation of Injury and Disease Act



Dept.	Type of Programme	No of Beneficiaries	Amount	Current payment system	Future payment system	Additional Info.1	Additional Info.
Transport	RAF ⁴	General Damages 94 000	R5.13 billion	Banking Transfer to Law firm,	Banking		
		Loss of earnings 65 000 Mostly middle to higher income earning group	General Damages (R2.1 billion)	Claims submitted by client			
		Loss of support 27 000 claims	Loss of earnings over R1 billion to R355 million)				
Justice	Management of monies in trust	Not available	R941.3 million	Mostly cash payments at the 747 maintenance offices	Banking Other financial institutions		Project Isondlo Raise awareness about Maintenance and procedure to claim.
	Private Maintenance Guardian Fund	Not available	R3, 5 billion	Cheque Collect at Master's office Or Post	Electronic Transfer Banking		

⁴ Road Accident Fund