



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

**Competition in Banking
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**Victor Botha
MANAGER**

Sibanye SACCO, Cape Town

Introduction

I am the manager of the abovementioned SACCO for the last ten years and have been involved in Cooperatives for the past 16 years. We started the SACCO in 1990 at John Thompson Africa where I was a welder because we did not have access to any financial services, i.e. company loans, bank loans etc. Workers decide to help themselves and thus the SACCO started. It grew quite quickly and people really liked the idea of savings and an organisation where they are known and have a say. We grew to such an extent that we expand beyond the company as other factories heard of our SACCO and wanted to become a part of the organisation. From 1990 we grew to have members in 5 factories and from 1997 to 26 factories.

We have and still receive a lot of support from unions like the National Union of Metalworkers of South Africa (NUMSA) and use their regional and local meetings to approach workers.

We grew quite fast and in 1997 I became the full time manager. As the SACCO grew the demands for more products and services grew and we gave our members loans for housing improvements, furniture, cars, enterprise and more. In 1998 to 2000 the slump in the Metal Industries had a severe affect in the membership of the SACCO and we lost almost 50% of our members. We opened our common bond and were able to sustain our SACCO and are continuing to service our members. It is difficult as we see the need for affordable financial services but with limited resources and access we are only able to scratch the surface.

In my submission today I want to expand on the written testimony given in Pretoria and also provide additional information, which in our view is critical and necessary for the Competition Commission to consider, given your terms of reference. I would also like to make some comparisons of how ordinary consumers are exploited because they do not have a better alternative.

Savings and Credit Cooperatives

Savings and credit co-operatives in South Africa are financial co-operatives in which members form a legally recognised and regulated entity for the purpose of saving together and lending to each other. In other countries, such structures are commonly referred to as credit unions. It is common for credit unions to have access to the national payments system and to offer a wide variety of services and benefits to their members.

Savings and Credit Co-operatives (SACCO's) in South Africa established the Savings and Credit Cooperative League of SA (SACCOL) Ltd. SACCOL is the national association and is legally registered with the Registrar of Co-operatives in the Department of Trade and Industry as a bona fide savings and credit co-operative. *SACCOL is a member of The World Council of Credit Unions (WOCCU) that has a global membership of more than 157million people in 92 countries. WOCCU is an organisation that has provided valuable evidence and arguments in the formulation of policies and the legal framework regarding financial*

co-operatives and actively participates in the Community Constituency of NEDLAC. SACCO's make a difference around the world in countries like Kenya, Ecuador, America, Canada and even Afghanistan where previously unbanked people get an opportunity to become part of the mainstream economy.

SACCOL has three primary functions:

- it is the representative of the SACCO movement both locally and internationally;
- It provides development services to SACCO's. SACCOL services its member organisations by providing training, advice and other technical services as well as accepting deposit from and making loans to its members;
- It regulates SACCO's in terms of what a reserve Bank exemption.

Current Constraints as a financial service provider

SACCOL is of the view that its members' operations are unfairly limited by lack of access to the National Payments System. SACCO's are not granted BIN number,¹ so they cannot pay UIF, Pension Fund payments, and state department payments, or debit orders. This severely restricts the financial services they can offer to their clients.

SACCOL is also of the view that the South African Reserve Bank (SARB) and the Registrar of Banks are not taking responsibility to regulate banks in this regard. These authorities could intervene to remove barriers to access. They believe it will be necessary to ensure that the new Co-operative Banks Bill provides for co-operative banks to have appropriate access to the NPS.

Sibanye Cape SACCO

The experiences of our SACCO are typical of SACCO's throughout the country. Restricting access to the national payments system prevents financial co-operatives from providing appropriate, affordable and accessible financial services to their members. Our members are mainly workers who have formally joined a SACCO and requested that stop-orders come off their salaries in order to save or pay back low interest loans, with interest calculated on residual balances as *shown in the example provided. We also have self employed individuals, pensioners, people receiving grants, unemployed and other members that want to save or plan for the future.*

The SACCO has approximately 2546 members that are using our services. Of these members 1609 are male, 881 female and 56 groups and organizations. We now have members in 16 different factories that range from a total of 9 to more than 250. Some employed members have payroll deductions and our private members and groups mostly pay through debit order and some deposit cash in our bank account or pay at the SACCO offices.

¹ The BIN number is the first six digits of the Account Number. Banks use BIN tables in routing transactions to the appropriate bank for credit approval and final settlement.

At this stage we have members in Khayelitsha, Belhar, Gugulethu, Atlantis, Epping, Bellville, Cape Town and Mitchell's Plain that both work and have joined privately. Each member has a right to vote or to be nominated to serve on the board of any of the SACCO's committees. Members elect a Board of Directors that chooses the Executive committee and specialized committees like Credit, The workers like our savings and funeral products and the access to affordable finance. As a result, they are quite willing to join. However since 1999 we were unable to convince companies to allow payroll deductions from taking place, which had a serious affect on our ability to grow and acquire more members.

Banks use the NPS to exclude

I have visited an average of 30 factories a year and although the workers are willing to join, these attempts were not fruitful because of the blatant lack of cooperation and recognition from employers. Banks and other microfinance institutions do not have these problems. In some cases, even after workers have decided to join the SACCO, one of the banks was brought in to talk to the workers. After discussions, workers were told they can join the bank and the employer will allow deduction from their accounts. Because of these and the banks exclusionary and exclusively granted right to the National Payment System (NPS), the whole approach to self-sustaining organisations like SACCO's is undermined.

It is difficult or impossible for our members who are willing to pay their salary into their SACCO, as access is not as easy because we do not have the funds and the systems to allow ATM or cheque offs. In most cases members receiving cheques cannot deposit it in our SACCO even if they want to. It first has to go through the banking system after which they can then transfer into their SACCO account. This leads to unnecessary additional costs. Even government employees are not able to have access to the NPS. Hence the government, which is the biggest employer, cannot form a SACCO, as there is no payroll deduction facility.

In a country like Kenya and Swaziland the biggest SACCO's are government employee groups such as the teachers, health department officials and persons in the police services. SACCO's have made a meaningful difference in the life of these people and their savings rates are much higher than South Africa. We have a debt problem, where indebtedness constrains saving due to interest payments – this has been complicated by high interest rates. Thus, by supporting SACCO's more; the government would also tackle the whole issue of over indebtedness, poverty and other social issues."

The table below indicates the affordability of SACCO products and services compared to services provided and charged for by banks:

Table 2: A Comparison of typical bank charges and SACCO fees:

Transaction	SACCO fee/ Rate of interest	Typical formal bank fee/rate of interest
Savings account interest	6%	0 – 0.5%
Bank charges	No deposit fees	R1.05 for every R100 deposited
Standard monthly fees	Annual affiliation fee of R60	Varies – lowest R85. Standard monthly fees – minim bank fees of R25 p.m. on a savings account; High withdrawal fees
Cash Payments	R4.00 regardless of amount	Pro-rata on every amount drawn- e.g. R1.05 per R100.00
EFT fee	R5.40 – charged by banks	Varies – depends on type of account – but, for poorer people, they charge more than SACCO's do
Transaction Fees	A standard R3.00 per every transaction levied - (because of fees imposed by bank – lack of access to NPS)	Varies – substantially higher than SACCO's
Interest on loans	25-28% p.a. – to an extent, forced to do so by current banking institutional arrangements – works on a reducing balance system -Compared to banks, this is a very low rate.	If people in the low-income category do qualify, they are charged a much higher rate
Cheque fees	Same as banks – no extra fees charged even though SACCO's are forced to deal with formal banks	Most poor people do not qualify for current accounts. If they need a cheque, they pay about R45 to get one from the bank.

CONCLUSION

During a recent NEDLAC commissioned study tour of co-operatives in Italy, Kenya, Spain and Japan, it became abundantly clear that co-operatives (especially in Japan) are integrally woven into, and sometimes surpasses the quality and price of formal private banking in these countries. If there is no movement in this direction for South Africa, the prospects of this becoming a reality is constrained/limited.

However, we refuse to be relegated to the "second economy" where formal banks have little or no sustained interest, and will NOT be a crutch – we demand equal access, rights as a critical financial service provider who serves the working class and those that are refused the basic banking services in order to become economically active.

I quote Mr. Kofi Annan (United Nations Secretary General) "The cooperative form of organizing is a catalyst for local entrepreneurial growth; cooperatives retain within the communities in which they operate the capital that they mobilize there, as well as surplus derived from outside transactions, both accumulating for further entrepreneurial development."

President Thabo Mbeki noted 7 years ago, on the 25th of June 1999 that "The Government will ... place more emphasis on the development of a co-operative movement to combine the financial, labour and other resources among the masses of the people, rebuild our communities and engage the people in their own development through sustainable economic activity."

The mobilising of savings and access to affordable financial service must be a basic right to all. In South Africa we have a disparity of a First World Banking Industry that makes access to the market very difficult for the ordinary consumer. We also have a distorted playing field whereby the poor are heavily charged.