



---

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

**Competition in Banking  
02 November 2006**

**Jan Mahlangu**

## 1 Introduction

Good morning, my name is Jan Mahlangu. I am pleased to have this opportunity to address you as you start the Banking Enquiry hearings.

I am presenting this submission on behalf the Financial Sector Campaign Coalition. I represent Cosatu, which is a founding member of the Coalition. The chairperson of the FSCC, Dr Blade Nzimande, has asked me to apologise that he cannot be here today to address you himself, but unfortunately he is out of the country. He is looking forward to engaging with you a little later in the hearings.

Firstly, let me say that we welcome this Enquiry into Competition in Banking – in fact, we believe that it is long overdue. We see it as a crucial intervention in the a broader initiatives currently underway in our society to transform the financial sector so that it better serves the needs of all South Africans. We also welcome the Commission's decision to conduct this enquiry in terms of Section 21 of the Competition Act in order to increase market transparency in the banking industry.

Let us be frank. In post-apartheid South Africa, the banks have failed to provide access to banking products and services in an equitable, just, appropriate and affordable manner. We hear a lot about our sophisticated, world class banking system. But any industry that fails to serve the majority of its citizens cannot boast that it is world class – it is an industry that faces serious challenges. We hear boasts that our National Payments System is second to none, among the best in the world, settling payments in record time.

Our banks, like those internationally, conduct their businesses to make profits for shareholders. Because the same purely profit-driven banks also own and control the National Payments System, it serves some of the people very well ... they could easily think they are living in Switzerland instead of Sandton. But it serves most of the people badly or not at all.

We see this Enquiry as especially important for the estimated 13 million South Africans who are "unbanked" – the majority of our people who are excluded from this so-called first world, first class system. And they are unbanked as a result, at least in part, of the following factors:

- the lack of competition in banking,
- the lack of access to the National Payments System,
- unaffordable banking services,
- high bank charges, and ultimately,
- the lack of regulation by the relevant authorities.

We are hopeful that this Enquiry will shed light on the previously secret or hidden banking industry practices that have resulted in the failure of this industry to serve the people – all our people. Having said that, we do have some reservations that the Enquiry's terms of reference could prove too narrow to enable the Panel to make the comprehensive recommendations that we believe are required to address the broader concerns we have around competition, access and exclusion.

We note the support for this enquiry by the National Treasury, the South African Reserve Bank, and the Department of Trade and Industry, underscores government's concern and desire to change

the current state of affairs in the banking sector. We will explain our view that strong intervention by government and its regulatory agencies is a fundamental requirement to bringing about the long-overdue transformation in the banking industry.

We also note the banking industry's statements that it will co-operate with the enquiry. We hope that that is true. We will be following the Enquiry with interest to see whether the banks, particularly the Big Four, embrace the opportunity to engage in a meaningful and constructive manner with the Enquiry.

South African civil society perspectives are of particular importance to this Enquiry, given the unique context in which it takes place, the backdrop of broader financial sector transformation against which it is conducted, and the legacy of apartheid which it seeks to understand and redress.

We therefore appreciate the opportunities granted by the Enquiry to make this contribution.

## **2 Financial Sector Campaign Coalition: profile and background**

I will start with a brief overview of the Financial Sector Campaign Coalition and its initiatives to transform the financial sector. This background is important to show that the Enquiry cannot be seen in isolation, but as part of the broader national commitment to transform the financial sector, including the banking industry, to ensure that it contributes to the development of our country and all its people.

The Coalition was launched in 2001 to campaign for transformation of the financial sector so that it would serve the needs of all South Africans. Having grown from its roots in the South African Communist Party's Red October Campaign in 2000 to "Make The Banks Serve The People", the FSCC is now a network of 50 member organisations representing civil society through labour, political, legal, human rights, health, youth, faith, consumer, community, women's and co-operative organisations.

The FSCC is a non-profit organisation, registered as a member of the Community Constituency at the National Economic Development and Labour Chamber (Nedlac), the social dialogue forum which brings together government, organised business, labour and community groups in an effort to reach consensus on issues of social and economic policy, including public finance and monetary policy. Nedlac functions in terms of the Nedlac Act (Act 35 of 1994), one of the first pieces of legislation passed by first post-apartheid parliament in recognition of the need for social dialogue as a pillar of our new democracy.

As a member of the Nedlac Community Constituency, the FSCC spearheaded initiatives that resulted in the Financial Sector Summit in August 2002. The Summit declaration outlined 13 agreements that committed business (including banks and other financial institutions), government, labour and community constituencies to work together for transformation of the financial sector. All partners in the Summit agreed that "the financial sector acknowledges that access to first-order retail financial services is fundamental to Black Economic Empowerment and to the development of the economy as a whole".

The agreements recorded, among other things, the Summit's commitment to:

- put strategies in place to ensure that the financial sector is more efficient in the *delivery of financial services*, which enhance the accumulation of savings and direct them to development initiatives.
- ensure the provision of first-order retail financial services including
  - *sustainable and affordable banking services*;
  - contractual savings schemes;
  - credit for small and micro enterprise and poor households;
  - the development of sustainable institutions to serve poor communities;
  - addressing issues of discrimination, and
  - supporting higher levels of savings and investment overall.

The 13 Financial Sector Summit Agreements were incorporated into the Growth and Development Summit Agreements which were signed in June 2003 by all Nedlac partners. These Agreements are the blueprint for our national growth and development.

One of the outcomes of the Financial Sector Summit was the Financial Sector Charter, which was signed in October 2003. The Charter is a sector transformation charter drafted in terms of the Broad-based Black Economic Empowerment Act. The Banking Association, representing all major banks in South Africa, is a signatory to the Charter. The FSCC is part of the Nedlac Community Constituency representation on the Charter's governing body, the Financial Sector Charter Council.

I should mention at this point that I am currently the Chairperson of the Charter Council. This position rotates among the Charter participants.

So it is against this background of involvement with "making the banks serve the people" as we said as far back as 2000, that the FSCC is participating in this Enquiry.

## **Submission**

We submit that there is an urgent need to examine the reasons for an estimated 13 million people in South Africa remaining unbanked or unable to afford newly acquired banking services, despite the commitments contained in the agreements and voluntary transformation commitments to banking the unbanked majority – the working class and the poor of our country.

Our submission includes evidence from our member organisations and from some individuals who will provide testimony of how low-income earners, people with irregular incomes, social grant recipients and others experience banking in South Africa today.

In the presentations that some of our member organisations from organised Labour and Community groups will make both here and in Durban and Cape Town, we will show the typical daily challenges faced by most South Africans in dealing with the banking industry with regards to:

- the level and structure of charges made by banks; and

- difficulties experienced by alternative financial institutions in accessing the National Payments System.

The issues that we will address will include:

- Bank charges and Access to banking – here we want to illustrate the actual and hidden costs of most people in both urban areas

It is the small, middle class, mostly white elite in our society that experiences bank charges simply as the deductions from their cheque accounts which they see on written statements received by post.

For the majority of South Africans, bank charges are experienced in a number of ways.

- o Firstly, there are the high bank charges for maintaining and conducting simple deposit and withdrawal transactions on a basic bank account.
- o Secondly, there are the added costs of operating a savings account when a current account would be more appropriate but access to this is denied;
- o thirdly, there are the hidden costs of accessing basic banking services in a country where banking infrastructure remains skewed along apartheid spatial development lines.

We will be giving you some insight into how communities on the West Rand in Gauteng, in Alexandra in Sandton, in the rural Eastern Cape and in KwaZulu Natal experience both banking and bank charges.

- In the hearings in Durban, community-based organisations and NGOs will discuss bank charges and access to banking by organs of civil society and banking for social grant recipients.
- In the hearings in Cape Town, our affiliates will discuss Access to the National Payments System by financial co-operatives and the effects of exclusion from the System on community-based organisations. In addition to paying high bank charges, South Africans who try to join with others to circumvent the limitations of the banking system are thwarted by their lack of access to the National Payments System. Our submissions will outline the problems experienced by two types of financial co-operatives, namely, savings and credit co-operatives, and burial societies.
- We will also discuss current initiatives to improve Access to banking and to address high bank charges, such as Mzansi, the National Bank Account, and give you our views on its pricing and bank charges.
- Finally, we would like to make some recommendations for the Panel to consider.

### **3 Banks and sustainable development**

In our view, banks have a responsibility to promote sustainable development in our country and have an obligation to contribute significantly to our national transformation goals, to promoting development and eradicating poverty. In an economic environment characterised by:

- the persistence of grinding poverty,

- unprecedented income inequality,
- rising Gini coefficients between 1996 and 2001;
- high unemployment rates of up to 42%, and
- a widening wealth gap,

it remains an anathema to us, that bank charges and interest on savings for ordinary workers and the poor are punitive, exploitative and unjust. High profits to banks come at a great cost to social stability and sustainable development.

Within the context of workers earning salaries below sustainable and decent living conditions, below the minimum R2 500 demanded by Cosatu, let alone those earning income from survivalist activities and the unemployed, South African CEOs and directors of banks continue to pay themselves shamefully high salaries that are not justified in terms of the performance of their institutions in meeting the needs of the majority of citizens.

Figures published just last week show that bank CEOs are among the top earners with salaries up to R15 million and total packages up to R25 million in 2005. Compare this with average salaries for workers of R22 000 a year, and the wage gap is 711:1. No wonder Business Report's Ann Crotty says South African CEOs - including some bank CEOs - are worth their weight in gold – literally.

I want to quote the Minister of Finance, Trevor Manuel, on the subject of astronomical executive pay: "In building a post-Apartheid South Africa, we have set ourselves two objectives: to get rid of the racial inequities that were imposed on our people, and to reduce the massive amounts of poverty in our country. Only when we are making progress on both of these fronts can we say we are defeating Apartheid. In many areas of society, we are not making progress on the second objective of reducing poverty and inequality."

It seems South African bank CEOs were not listening.

### **Trade Union members and bank charges**

I would like to tell you now how bank charges affect ordinary workers.

Let us take a trade union member who earns R2 800 per month in a factory building luxury cars, the BMWs and Mercedes Benzes that some of you drove here this morning.

Let us call him Jan Mahlangu.

Jan must have a bank account in order to get his salary. But when he goes to any one of our major banks, he will be offered only a basic savings or transactional account. He will not be offered the option of a current account because the banks want him only as a saver or a payer of transaction fees; they do not want him as a borrower, they do not want to give him credit or an overdraft.

So Jan must pay high fees to draw cheques or make electronic transfers, an arrangement that is both inconvenient and costly. Nowadays, many schools want fees paid in cheques or electronic transfers. Jan

has to pay a premium to make these kinds of payments from his basic account.

Jan opens an account designed for low income earners at one of the major banks – we are not sure whether it was a blue, or a red, or maybe the other blue or the green. The colours can be confusing but there really isn't that much difference between them, not in terms of charges or features at least.

Every month Jan is careful to make only a limited number of transactions. He makes 2 withdrawals on the ATM near the car factory. They cost R4,90 each because the machine belongs to his own bank. He makes 2 other withdrawals from machines belonging to other banks, and they cost more than double, R11,60. He had no choice – the first time was because his own bank's machine had no money; the second was on the weekend when he had to go to the machine nearest his home – that belongs to another bank. Jan is the same as all the other workers in his factory - he pays bank fees and charges of about R135 or 5% of his monthly income. This compares poorly with the internationally recommended benchmark of bank charges not amounting to more than 1-2% of income.

Bank charge	Purpose	Bank charge per item	Total bank charges
Monthly fee		R6,50	R6,50
Withdrawal x 4	2 from own ATM; 2 from another bank's ATM	R4.90 x 2; R11,60 x2	R33,00
Debit card payment + cash x 2	1 chemist for medicine  1 supermarket for groceries	R R4,05	R8,10
Enquiry x 1	At another bank's ATM	R3,50	R3,50
Cheque x1	To pay school fees	R R44.00	R44.00
Transfer x1	Family emergency	R27.50	R27.50
Debit order x 2	1 insurance policy;  1 clothes account	R R4.90	R9,80
<b>TOTAL</b>			<b>R132,40</b>

Sometimes, Jan just knows he won't manage the next month. So on the 25<sup>th</sup>, he joins other people very early in the morning at the ATM. He draws out all the money in his account, so that there will be nothing left to pay the debit orders on his account. He knows that his accounts will be in arrears and that there will be endless phone calls harassing him to pay.

But he is desperate and sees no alternative. He does not know that in terms of rules agreed by the banks, they can try three times to get money from his account. Every time the debit order is rejected due to insufficient funds, he will pay a penalty of R30.

Jan does not know that there is no connection at all between the cost to the bank of rejecting a debit order and the penalty charge - that this is pure punishment, presumably to try to teach him a lesson. The only lesson people are learning here is that banks do not care about them or their problems.

**In moving towards closure, I would like to make some preliminary observations and recommendations:**

In order to assist the panel in its task of making recommendations as required by the Enquiry's terms of reference, we propose various stakeholders should be engaged further, including being given an opportunity to make detailed recommendations, during the course of the Enquiry.

We suggest that this would be appropriate once the public has had an opportunity to examine and analyse the information provided to the Enquiry. This will be especially relevant in relation to information to be provided by the banks, as this will be the first time such information will be available in the public domain.

Depending on the quantity and quality of the information provided by banks, we will possibly recommend that the Competition Commission should embark on a full investigation into Competition in Banking.

**National Payments System**

Our view at present is that the NPS should be owned and operated by the state in the national interest. Access to the system should be determined by criteria established by the relevant authorities in consultation with all stakeholders. We will examine information supplied by the banks to the Enquiry to establish whether this confirms our views.

**Bank charges**

We also await the information banks will provide on how they calculate and impose bank charges. In particular, we will be paying attention to information on the links, if indeed there are any, between the cost of services and charges to consumers. Our view is that there should indeed be links, regulated by law.

We believe there should be a direct link between costs and charges and that it is cynical to suggest otherwise in a country with our history of excluding the majority of citizens from access to banking and exploitative and unaffordable bank charges. Banks should not be allowed to continue to use

high charges as a form of punishment, especially when this punishment is inflicted most on poor customers.

Our view is that certain categories of accounts should carry no bank charges, they should be free. Research should be conducted, under the auspices of the relevant authorities, to ascertain which types of accounts should offer free banking.

**Consumer information and education**

Consumer information and education should be required by the relevant authorities. Coupled with effective regulation, consumer education will determine whether banks do indeed ever serve the people.

**Market conduct regulation**

In our view, there is an urgent need for appropriate and effective market conduct regulation in the banking industry by the relevant authorities.

**Conclusion**

In closing, we hope that the Enquiry will contribute to the pool of knowledge that will assist South Africans to make decisions that are not only in the interests of shareholders, but that are in the interests of all stakeholders in our society who are committed to our national transformation goal of eradicating poverty.

I want to thank you for this opportunity of addressing the hearing. I wish the panel well in its work and I assure you of our full co-operation as you proceed.

Thank you very much.