

SUBMISSION TO THE COMMISSION ON COMPETITION IN THE BANKING SECTOR OF SOUTH AFRICA : BANKING AND BANK CHARGES FROM A NON-BANKERS POINT OF VIEW

The author of this submission does not in any way pretend to be a banker; hence the information in this submission is more from a socio-economic and human development perspective.

INTRODUCTION : THE PROBLEM

1. The problem stated simply: why is banking in South Africa so expensive?
2. This question poses another: are bank charges absolutely essential?
3. Is it not possible to offer a qualitative banking service to all South Africans without any bank charges?
4. The formal banking sector needs to explain to the South African public, in non-banking understandable terms :
 - why our banking charges are so excessively high.
 - why are the charges presented to the consumer in such complex and confusing terms
 - why the Republic of South Africa is so different to other countries in respect of bank charges.
5. Bankers have a tendency to justify the status quo, or to justify charges by making reference to other banks in the Big Four Group (NEDBANK, STANDARD, FNB, ABSA). We now require explanations that are objective, and confront the real issues. What are we paying for, and why!

SOCIO-ECONOMIC BACKGROUND

6. The World Bank Report (2003:243) classifies South Africa as a lower middle-income economy (viz GNI \$2 900 per capita in 2001). The United Nations Development Report (2003:42&43) and the World Bank Report (2003:237) further underlines South Africa's declining wealth in terms of, inter alia, the affect of HIV/AIDS, crime and corruption on economic development. Take-home income has been seriously eroded over the past few years according the report. In other words South Africans are poorer than they were about 5 to 6 years ago.
7. FinScope Data from 2004 indicates the following trends in banking practice :

STATISTICS PROVIDED BY FINSCOPE

Currently banked 2004 (16 years+) : 13 197 589

Previously banked 2004 (16 years +) : 3 563 036

Never banked 2004 : 12 272 785

Of those who have NEVER BANKED

- 89 % are Blacks;
- 9 % are Coloured;
- 1 % are Whites;
- 1 % are Asians.

Of those who were PREVIOUSLY BANKED

- 83% are Blacks;
- 13 % are Coloureds;
- 3 % are Whites;
- 1 % are Asians.

It is reasonable to assume that these trends have not changed substantially since 2004.

Previously banked persons cite high service fees and minimum balances as reasons for closing accounts, resulting from unemployment or lack of a regular income.

FinsScope data indicates that in order to access the un-banked market :

- bankers will have to provide marketable and affordable products for future clients in the 16 years and upwards population group and situated in the Black population group (the difference between 16 and 18 years olds is marginal).
- the Mzansi account has not met the need it was intended to meet, it is not an affordable product; new concepts in banking will have to be designed and marketed;
- the proximity of residence to a bank; data has emerged that proximity of a bank to the people is a critical factor in making a choice whether to keep money in a bank or at home.
- the most vulnerable groups are the unemployed; and persons with disabilities (who are usually unemployed); special care should be taken of persons who receive a social welfare grant.

COMPLEXITY

Understanding the costs involved in keeping an account open is very complex. Even bankers don't always know how to explain to clients the reasons for charges on their accounts without referring to their computers. This kind of information is complex and confusing. The following serves to illustrate :

- four pages of complex reading to understand the DeZign Save Account
- three pages of tables and notes to understand a NEDBANK current account
- two pages of complex reading to understand a Transactor account;
- one page of complex reading to understand the Mzansi account; ostensibly designed to improve access to financial services for low-income earners.

In South Africa the low levels of education is a primary factor in unemployment, poor skills development and the perpetuation of poverty. 18% of our population have no education at all, and 22% barely have a primary school education, while the mean for the whole population 40% for persons whose level of education is Grade 7. (CSS 2003 : 41&44; Roux 2005 : 59)

LACK OF TRANSPARENCY

To the ordinary man in the street there seems to be a lack of transparency. High banking fees appear not to be in line what the real cost of running the banking

system. It is almost impossible to compare products being offered by the four leading banks. Factors not directly related to the cost of actual banking appear to influence the cost of banking. It is proposed that the following be investigated in depth by the commission :

- limited competition in the market, the Big Four dominate the banking sector;
- the role of the national payments system in determining the price of banking charges;
- the non-banking activities of banks that influence that influence the cost of banking;
- AND to investigate the removal of all bank charges.

CHANNELS OF COMMUNICATION

Members of the public have been denied channels of communication for complaints about banking charges. The Banking Council of South Africa and the Office of the Ombudsman do not as a rule entertain any communication on issues relating to bank charges; this omission must be corrected, “unfair practice” must be corrected.

SUMMARY

NEDBANK may be construed to have lowered certain charges earlier this year. This trend (if indeed it is a trend) is to be welcomed. However, it does not change the fact that the banking sector has a long way to go in order to provide:

- access to banking services in all areas of South Africa, even to the most inaccessible rural communities;
- free, easy-to-understand banking products for all South Africans;
- education for all South Africans on available banking products and the value of savings, investments, and long-term financial planning.

We need to empower people in to utilize their own resources. To perpetuate the negative spiral into an unbanked and a previously banked population is to perpetuate poverty. To empower people with appropriate banking skills is to empower them to utilize their own skills and to plan for a long-term financially secure future. This is one critical step in the direction of the elimination of the stranglehold poverty and debt in South African society.

READING

CSS 2003, Census in Brief.

FINMARK TRUST2004, FinScope South Africa 2004 : media release.

ROUX, A 2005. Everyone’s Guide to the South African Economy.

UNDP 2003,SOUTH AFRICA Human development Report.

WORLD BANK 2003, World development report.

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