

Minister of Finance

Speech to Financial Sector Summit

20 AUGUST 2002

Members of constituencies, business, labour, community and government, NEDLAC Executive Director and distinguished delegates

Reforming the financial sector in any country is not easy. Let alone in one marked by a history such as South Africa's. It is most encouraging that our respective teams have been able to take a fresh look at the important role of the financial sector in South Africa and come up with proposals in a number of key areas.

Government is indeed grateful that NEDLAC has taken this initiative and brought the partners together. Through strengthening these partnerships, our democracy matures, building platforms for constructive engagement.

This engagement has not been one of position and counter position. Rather, there is common ground among the stakeholders about what needs to be done. We must ensure that all South Africans - rich and poor - have access to the broad range of financial services. The poor cannot be denied access to economic opportunity just because they are poor!

This Summit is about exploring this commonality and agreeing on ways to transform the way we think about these challenges.

I want to thank the parties for their honesty and willingness to ask the hard questions and seek appropriate answers. Today we have a number of broad agreements and must work equally hard to refine these into detail that meets our objectives.

The financial sector in South Africa is highly sophisticated by world standards. Towering above many of its peers in emerging markets, it stands shoulder to shoulder with some of the best in the world.

Over the past 10 to 20 years, the financial sector has grown at twice the rate of the economy as a whole. Over the past five years the sector has grown at 5,5 per cent a year, compared to 2,2 per cent for the economy as a whole. Its share of GDP has increased from 12,4 per cent in 1990 to 18,7 per cent in 2001.

Currently there are more than 20 million deposit and current accounts with our banks - in a country with less than 10 million households.

The pension funds administered on behalf of our workers amount to around R1 trillion, covering over 70 per cent of the workforce and receiving an annual contribution flow of over R50 billion.

Employment in the sector, as a share of total non-agricultural employment, has risen by over 27 per cent since 1990.

Many of the financial sector's traditional markets are already mature.

But new opportunities present themselves all the time. The strength and creativity of the industry and the eagerness of our social partners combine to develop a set of agreements here that continue this growth and development.

Yet, despite our advanced markets, millions of South Africans have little or no recourse to financial services.

One of our challenges is to ensure that further market development positively affects the lives of all South Africans.

South Africa is a very rich country in many ways - we have energy and enthusiasm that far exceeds that expected of such a young democracy. The many economic achievements since 1994 - more competitive industries, more rapid economic growth and sustainable fiscal balances - all bear testimony to this.

Despite these successes, many challenges remain. For South Africa to achieve rates of economic growth necessary to address our unemployment and social delivery challenges, we need to significantly raise investment rates from the current 15 per cent. This is only possible if we vigorously engage with two further economic challenges:

To raise the level of savings in the domestic economy to lead foreign capital to our shores and not away.

And to enhance the ability of the financial sector to intermediate these flows efficiently.

As a small, open economy, we have access to surplus international saving to finance our investment. However, increasingly, international capital flows are dominated by portfolio flows and acquisitive FDI.

While this is an important source of financial capital, it is critical for South Africans to also look to themselves and ask: what must I do to improve the situation for myself and my fellow South Africans?

Domestic saving must provide one component of our solution...

South Africa needs to raise its own level of saving. Household saving has fallen precipitously to an alarmingly low level of 0,2 per cent of GDP in 2001.

While corporate saving has been more resilient since 1994, it too declined to 2,3 per cent of GDP in 2001.

Households must be encouraged to save more. We must all work together to ensure that every South African has a bank account, that people have access to credit, but that we borrow responsibly.

This is a shared responsibility. Households must learn patience. We all want to enjoy the fruits of our liberation now. But we must build. We must build a society that cares for the needs of this generation, but also thinks about the next, just as those who came before us fought for our freedom.

There is also a large responsibility on the financial sector. At this summit and in taking the proposals forward, we need to put our creative energy to the test and identify the most appropriate way to bring trusted, affordable banking services to lower-income households.

People cannot be expected to save in an environment where they get virtually no interest on their meagre deposits and, in fact their capital is diminished by unrealistic bank charges. In this room, there is enough goodwill and acceptance of the problem that ways can be found to develop innovative products to bring lower-income households into the banking net.

Microlending presents a particular set of challenges. All of us have been concerned that lower-income households do not have access to credit to get ahead.

Whether it is to invest in human capital, home ownership, or entrepreneurial ventures, in the past, lower-income people suffered an embarrassing degree of disenfranchisement.

This changed somewhat with the emergence of the burgeoning microlending industry. Regrettably, this access has come at a pernicious price, as abo-Mashonisa condemn many of our poor people to a life of financial slavery.

Loans in this sector are mostly short-term, with about 70 per cent being for one month or less and often used to finance unsustainable consumption.

The usurious interest rates charged on these loans and scant regard for the welfare of the borrowing households have combined to swamp households under a mountain of debt. Such high levels of household indebtedness, particularly among poorer households, undermine our efforts to lift people out of grinding poverty.

The challenge facing us today is to maintain access to credit, but to safeguard the welfare of households by ensuring more responsible and sustainable borrowing patterns.

This summit must seek a commitment from all partners to encourage households to save to meet their short and medium term financing needs and to utilise credit responsibly.

While household debt has eased in recent years from 61 per cent of disposable income to 54 per cent, a sustainable South Africa must be built on a foundation of household wealth - not overwhelming debt.

Also, the industry must ensure reasonable and affordable access based on objective, transparent and complete information so that households are not penalised by unfair and discriminatory risk assessment procedures.

Confidence and stability in the financial sector are of paramount importance to the sustainability of growth and development in South Africa. If individuals are going to save more, they must be able to trust the financial system and those charged with the custodianship of their savings.

South Africa is viewed both domestically and internationally as a sound and well-regulated jurisdiction both in terms of banking and other financial services.

But, this year has been a year in which the effectiveness of our financial sector regulators has been tested. The demise of Saambou and the experience of BOE and smaller banks in the A2 sector, serve as a warning to all of us.

These problems have been carefully and effectively dealt with by decisive action on behalf of the Treasury and the SARB. The depositors of all affected banks have not lost a cent in the process. I am very proud of this, but would never like to be faced with a similar situation ever again.

The question that needs to be asked and debated is how can such a situation be avoided in the future and what went wrong in terms of our system of regulation that led to this crisis?

A critical evaluation of our banking regulatory system is urgently needed not just from the perspective of risk and crisis management. But the architecture of the whole system needs to be re-evaluated to assess whether or not we are actually meeting the objectives as defined in this forum.

Are financial services becoming more accessible to the average South African? Is the level of competitiveness in our banking sector adequate or conducive to enhancing consumer welfare?

Two A2 banks voluntarily handed in their banking licences and there has been a flurry of acquisition activity in the past months. This has raised the concentration ratio in the sector, such that the 'big four' now have 77 per cent of total assets in the industry.

Enhancing consumer welfare in a competitive, well-regulated environment is a central objective of Government from this summit. We would strongly support the agreements in the summit that move us closer to this objective.

The confidence in our financial sector is underpinned by the codes and standards to which we subscribe as a nation.

I am proud to highlight that we have continued to build on the 2000 FSAP evaluation of the South African financial system that the system is robust, highly developed, sophisticated and well regulated, with a strong banking system, a well developed securities market, a strong presence of institutional investors, and low corporate leverage.

The IMF Article IV Consultation Report of June 2002 commended South Africa's good progress in following-up on the recommendations of the initial February 2000 FSAP report. Progress was made on: ensuring full compliance with the Basel Core Principles; and considering a compulsory deposit insurance framework.

Further, corporate governance standards in South Africa has been guided or heavily influenced the King reports on corporate governance. These cover important issues such as discipline; transparency; independence; accountability; responsibility; fairness and more importantly, social responsibility.

As we continue to develop and strengthen our corporate governance codes, we are at present reviewing legislation in terms of the Financial Reporting Bill and the Accountancy Profession Bill.

Government is spearheading this review process, but it is important to obtain inputs from all stakeholders to ensure an arrangement in the best interest of South Africa.

The broad proposals set out in the agreements and endorsed by Government certainly extend the capabilities of our respective representatives to ensure that in working out the detail, the principles we have espoused today are not lost.

We are guided by a common purpose to generate sufficient capital for sustainable investment that raises the standard of living of this generation and those to come.

In partnership, we continue to build on a common core that seeks to deal with inequity in access to financial services so that the poor are not excluded because they are poor.

The destiny of South Africa's poor people cannot continue to be destitution and vulnerability.

This is not business as usual, with a palliative for poor people added on. We, together, are agreeing on a set of principles that fundamentally transforms the way we think about providing financial services to everyone.

In this regard, the most critical amongst the achievements we seek to obtain from this summit include:

Seeking ways of extending a wide spectrum of affordable financial services to the entire population.

Eliminating discrimination and other artificial barriers to expanding financial services, including the practice of redlining.

A range of institutions must be developed to lend responsibly and affordably to our lower-income households.

Regulating credit bureaux to ensure they fulfil their important function effectively and transparently on the basis of accurate and timely information.

Enhancing corporate governance in the financial sector through adhering to international best practice in standards and codes for the sector.

Enhancing the role of development finance institutions in uplifting communities and contributing to the sustainable development of our economy.

Developing institutional frameworks for the development of non-traditional financial institutions, including co-operative financial intermediaries and other niche financial services players.

In conclusion, I would like to thank NEDLAC for taking up this important task. Government is committed to further engagement in developing the detail of the proposals and giving effect to the high-level commitment that has been given today.

After all, we are all moved by the same common destiny, by the same desires to make South Africa a better place for our children to live in.