South African Reserve Bank

Remarks by Daniel Mminele, Deputy Governor, South African Reserve Bank, at the Institute of International Finance (IIF) High Level Public-Private Sector Conference, "The G20 Agenda under the Australian Presidency."
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Good morning and thank you to the Institute for International Finance and the Australian G20 Presidency for the opportunity to make a few remarks on the role of the private financial sector in supporting the G20 development agenda as it relates to financial inclusion.

The topic of financial inclusion has gained prominence in recent years, especially since the 2007 global financial crisis and even more so following the Arab Spring that began in Tunisia in 2010. The World Bank's Global Financial Development Report (GFDR) of 2014 highlights the importance of financial inclusion in driving efficiencies, lowering costs, and contributing towards economic growth and poverty alleviation. In a study done in 2013, Moody's Analytics showed the impact of electronic payments on economic growth and estimated that every 1.00% increase in card usage would produce an annual increase of 0.06% in consumption and a 0.03% increase in GDP. More inclusive societies help to boost job creation, reduce vulnerability to shocks, and increase investments in human capital. By broadening access to financial services, greater household savings aremobilised, capital for investment is accumulated, and the number of entrepreneurs and people investing in themselves and their families is enhanced. While it is important to have good economic growth, this is not in itself sufficient. It remains crucial to have an inclusive society as the Arab Spring has shown, for in the absence of shared prosperity and better livelihoods for the majority, the risk of instability increases.

Several initiatives have been endorsed by the G20 to encourage financial inclusion, as well as to involve the private sector in strategy design, target-setting and monitoring progress in order to create a conducive environment of shared ownership. To mention a few interventions, at the 2010 Toronto Summit the G-20 Leaders endorsed 'The Principles for Innovative Financial Inclusion', and at the 2010 Seoul Summit the Leaders endorsed the 'Financial Inclusion Action Plan', recognizing the centrality of financial inclusion to the global development agenda, whilst also linking it to the financial reform agenda and the provision of long-term finance. The Global Partnership for Financial Inclusion (GPFI) was established in December 2010 as the implementation vehicle for the Financial Inclusion Action Plan. The Russian G20 Presidency sought to promote financial literacy and consumer protection, in addition to promoting access to financial services. Both the Principles and the Action Plan acknowledge the critical role that the private sector plays in achieving the outcome of financial inclusion.

In a similar vein, the B20, in their 2013 Green Book, identified ways in which governments can assist financial institutions in order to motivate them to make resources available to the SME sector. These suggestions included both direct and contingent financial assistance to the SME sector, as well the provision of transparent and reliable data to investors.

As it is not possible for one single player to successfully deliver or drive financial inclusion on its own, it is essential for public and private sector entities to work together: the private sector can contribute in terms of innovative technologies, a good understanding of consumer dynamics, and the capital required to build a lower-cost banking model, while the public sector enforces regulations that ensure payment systems are equitable and sustainable in the long run and provide the long-term commitment necessary to warrant large upfront investments by private sector players. Research suggests that public sector interventions are more effective if the private sector is involved and I therefore would like to commend the B20 and G20 for jointly putting this important aspect on the global economic growth agenda.

Although some progress has been made in addressing financial inclusion globally, the World Bank GFDR 2014 points out that an estimated 2.5 billion people (1 out of every 2 adults) worldwide do not have an account at a formal financial institution. Developing countries account for nearly 90 per cent of the world's unbanked population. In low-income countries only 30 per cent of the adults saved in 2011, compared with 58 per cent in high-income countries[1].

Of the unbanked, 20 per cent report distance as a key reason they do not have an account, while the constraints facing the poor, women, youth, and rural residents are even greater. Among firms, 35 per cent of small firms in developing countries report that access to finance is a major obstacle to their operations, this percentage reduces to 25 per cent for large firms in developing economies and 8 per cent for large firms in developed economies. Africa is one of the continents lagging behind when it comes to financial inclusion. It is estimated that less than one adult out of four in Africa have access to an account at a formal financial institution.

Allow me to update you on the situation in my own country. In South Africa, approximately 30,7 million people aged 16 years and older either have or use financial products and services (both formal and informal) to manage their financial affairs. Participation in the formal banking sector in South Africa has increased from 48 per cent (13 million banked adults) in 2004 to 75 per cent (26 million banked adults) in 2013. The proportion of adults with a bank account is higher than in any other African economy, but despite this progress, more than 12 million South Africans still do not have a basic bank account. The Minister of Finance has set a target of 90 per cent of the adult population being banked by the end of 2030 as per the National Development Plan 2030 (NDP 2030).[2]

In South Africa, the structure of the financial sector is dominated by large and complex financial institutions with a historical bias towards extending access to financial products to high- and middle-income earners. The Financial *Services Charter and Code,* the Broad-Based Black Economic Empowerment (B-BBEE) Act, 2003 (Act No. 53 of 2003) and *Codes of Good Practice*[3] are examples of measures introduced in order to address this structural imbalance. The legislation sets specific

[1] World Bank Global Findex database
[2] More information on the NDP 2030 can be accessed at http://www.npconline.co.za.
[3] More information on the B-BBEE Code can be accessed at http://www.fscharter.co.za.

targets which must be met by 2017. These targets relate to ownership, management support, employment equity, skills development, preferential procurement, socio-economic development, empowerment financing, enterprise development, and access to financial services. Furthermore, the Post Bank, Cooperative Banks and Microfinance institutions are promoted as vehicles for financial inclusion. In 2004 South Africa also introduced simple, low-cost, transactional accounts available to the poor, so-called Mzansi accounts, with risk based exemptions from legislation to combat money laundering when it comes to Know Your Customer (KYC) requirements.

Let me make a few remarks from a central bank's perspective. G-20 members, standard-setting bodies such as the Basel Committee on Banking Supervision and the Financial Action Task Force as well as International Organization's, have a key role to play in creating an enabling environment for financial inclusion. Not only is financial inclusion an important pre-condition of development and poverty reduction as I mentioned earlier, but there is also an important link between financial inclusion and financial stability. Research suggests that financial inclusion can serve to reinforce other core objectives of financial stability, financial integrity and financial consumer protection which speak directly to the role of central banks, prudential and market conduct regulators. However, it is important that these objectives be pursued simultaneously and in a complimentary manner so as to maximize synergies and avoid any negative trade-offs.

The promotion of financial inclusion is not an explicit mandate or policy objective of the South African Reserve Bank (SARB), but it is relevant in relation to the SARB's responsibilities as the prudential supervisor of the financial sector and in ensuring financial stability. As such the SARB supports G-20 efforts to promote financial inclusion especially in areas such as the legal and regulatory frameworks and promoting transparency of information. We have to ensure that our regulatory frameworks and supervisory practices give sufficient space to encourage competition and innovation to promote formal financial sector participation by individuals and SME's. At the same time, however, we also have to ensure that the creation of new financial institutions, products or activities to increase financial inclusion opportunities, do not result in increased systemic risk for the financial system as a whole. This is particularly relevant given that issues of affordability and high levels of household indebtedness can have an impact on the monetary policies we pursue.

Banks and financial institutions themselves have a responsibility (and an interest) in diversifying their business models so as to focus more on low-income earners and their needs for accessible financial accounts. The provision of low-cost, basic products will serve to increase a bank's deposit base and loan portfolio – promoting both financial stability and financial inclusion.

As the GPFI works to update the Financial Inclusion Action Plan under the Australian G-20 Presidency, it becomes important for the Standard Setting Bodies, national governments, regulators, financial institutions and other stakeholders such as the B-20 to come together to create a cohesive financial inclusion strategy.

I look forward to an informative panel discussion and hear your views around this topic.

Thank you