

Submission by COSATU on the Transformation of the Financial Sector



COSATU

Submitted to:

**Standing Committee on Finance and
Portfolio Committee on Trade and
Industry
Parliament
Republic of South Africa**

1. Introduction

The Congress of South African Trade Unions (COSATU) welcomes and supports the Standing Committee on Finance and the Portfolio Committee on Trade and Industry's convening of these public hearings on the transformation of the financial sector. COSATU appreciates the opportunity to share its views on this critical matter.

COSATU welcomes Parliament and government's call for the need to transform our financial sector. This is a call that COSATU and its affiliates and members have been making for many years.

COSATU believes that the financial sector has not sufficiently transformed since the advent of democracy and that it is not sufficiently responsive to ordinary workers' conditions.

In particular we believe more attention needs to be given by the sector, Parliament, government and civil society to the issues of:

- Monopolies and collusion;
- Foreign ownership;
- Barriers to small entrants;
- A need for a state owned bank;
- Transformation and de-racialisation;
- Access to the financial sector in rural areas and townships;
- The wage gap, retrenchments and outsourcing;
- Support for SMMEs;
- The need to create and save jobs;
- Nationalising the South African Reserve Bank;
- Exorbitant bank charges and interest rates;
- Financial education and empowerment;
- Auctioning of homes and cars;
- Garnishee order abuses;
- Loan sharks and debt relief; and
- A Financial Sector Summit.

2. Financial Sector Regulation Bill

COSATU welcomed and supports the Financial Sector Regulation Bill as a critical building block to ensure greater stability for the financial sector. COSATU in particular lauds its provisions to:

- Learn lessons from the 2008 economic recession;
- Learn lessons from the African Bank episode;
- Develop early warning mechanisms;
- Expand the oversight role of the Reserve Bank;
- Promote greater transparency, accountability and oversight;
- Providing for greater coordination and intervention mechanisms;
- Promoting greater consumer protection, rights and standards;
- Minimise opaque banking charges and abuses; and
- Strengthen crime prevention efforts.

COSATU believes the Bill is long overdue, progressive, consumer biased and will be bring greater stability to the financial sector. We do not believe that it gives too much power to government or will stifle economic growth in any way. We urge its speedy passing by the NCOP and Parliament and signing into law by the President.

COSATU hopes that it will bring some relief to consumers and empower government significantly to intervene and prevent future banking and financial sector turmoil. Turmoil that South Africa's economy and workers cannot afford.

3. Areas Where The Financial Sector Needs To Be Transformed

Whilst COSATU supports the FSR Bill, we do believe that significant problem areas remain in the financial sectors which are not covered in the Bill. These are areas which have a heavy impact upon the daily lives of COSATU members and workers in general.

These areas can be summarised as:

3.1. Monopoly Capital

COSATU is deeply concerned by the lack of transformation in the financial sector since 1994. Key issues we have concern with relating to the de facto monopolies dominating the sector include:

- The excessive concentration of capital in what can be termed a monopoly banking, finance and insurance industry.
- Price, charges and foreign exchange collusion.
- Foreign ownership of large domestic banks.
- Lack of progress with regards to the establishment of a state owned bank aimed at serving working class and indigent persons, e.g. the Post Bank.

3.2. Lack Of Transformation

There is a significant lack of meaningful transformation in the financial sectors. Transformation targets must be strengthened and enforced. These need to be geared towards:

- Ensuring the de-racialisation of the sector in terms of ownership, leadership, staffing and servicing.
- Addressing the massive wage gaps in the finance sector, where bank CEOs make R30 million and a bank cashier R60 000.
- Ending the growing trend of the sector to outsource key functions to labour brokers and companies employing casual workers.
- Providing access to banking and financial services for the majority of South Africans who live in townships, informal areas and villages.
- Providing greater support and access to funding for SMMEs.

3.3 Need to Save and Create Jobs

There is a need to address the woefully insufficient levels of job creation as well as the recent retrenchments in the banking sector.

The mandate of the Reserve Bank should be expanded to include the need to protect and save existing jobs and to ensure consistent and meaningful job growth. The protection and creation of jobs must be part of the SARB's mandate when intervening in the banking sector.

In this regard, COSATU applauds government's role in saving jobs at the African Bank where thousands of SASBO, COSATU's banking affiliate, are employed. However more needs to be done to create jobs. Many jobs have been created in the financial sector. These need to be supported. In 2016 First National Bank retrenched 600 staff in the Eastern Cape and Gauteng. Three years ago ABSA shed approximately 2000 workers.

These occur whilst the very same banks' CEOs reward themselves with performance bonuses worth millions of Rands. It should be noted that the employees who are threatened with retrenchment all too often earn salaries barely above the minimum income tax threshold. Such inequalities need to be tackled as well by government.

3.4 Nationalise SARB

COSATU strongly believes that the SARB belongs to the nation and is charged with protecting its financial stability. It has shown itself to be found wanting when it came to preventing and dealing with the foreign exchange collusion scandal as well as

retrenchments in the banking sector or the exorbitant charges set by banks. It needs to belong to the public and not its shareholders. It is long overdue that it simply be nationalised by government.

3.5 Exorbitant Bank Charges and Interest Rates

COSATU understands that government is preparing a bill to better regulate charges set by the financial sector. This is indeed welcome news. Such a bill is long overdue and badly needed. However it needs to be biased towards the needs of ordinary consumers and empower government to deal with banks who consistently overcharges consumers.

Consumers face a wide variety of excessive bank charges and interest rates with little recourse for action. The FSR Bill provides for the sector regulator to set sectoral standards. However this does not go far enough. All too often poor workers are fleeced by banks with exorbitant charges and interest rate levels. Caps and clear criteria need to be set in place by the Regulator. Banks need to be reined in. They must not simply be allowed to be a law unto themselves and to milk workers dry. Judging by the massive levels of bank profits and assets, there is more than enough room to reduce excessive bank charges and interest rate levels.

Greater criteria and regulations are needed with regards to interest rate charges. Whilst it may make theoretical text book logic to banks to charge higher interest to the poor, it does not make any economic or humanitarian sense. Those who can least afford it and who most desperately need the financial help of the bank to house their family or set up a small business, should be charged at a lower and the most affordable interest rate. It should not be the case that the rich are charged less and the poor are charged more. Thus the poor subsidise the rich!

Banks should also not use the tightening of the law through this FSR Bill as an excuse to reduce lending to workers and SMMEs. More so when we are in such desperate need of economic stimulus and job creating growth.

Treasury has spent a great deal of effort trying to pass laws forcing workers to annuitise provident funds. Surely the FSR Bill is an ideal opportunity to force banks to provide attract interest rates to incentivise, encourage and reward workers who invest and save?! How does Treasury expect workers to save when they are offered below inflation interest rates for savings?! More so when the same banks never miss a chance to charge consumers ridiculous bank charges.

3.6 Financial Education and Empowerment

There is a need for greater financial education and awareness, in particular amongst workers and the poor. Whilst the Bill provides for the regulator to set sector standards, this may not go far enough to empower consumers. There is an inherent contradiction with delegating financial education simply to financial service providers who will inevitably be blinded by their need to pursue profits above all else.

The regulator needs to be mandated and required to provide neutral meaningful and accessible mass financial education to all South Africans. The consequences of continuing with the status quo will simply mean misery for more financially illiterate consumers. Such education and awareness needs to target the insurance sector as well to curb the frequency with which consumers find themselves underinsured or conned by their insurers when they can least afford it.

Greater emphasis and standards need to be inserted to ensure meaningful and accessible assistance for consumers who have been taken advantage of.

3.7 Auctioning of Homes and Cars

All too often banks rush to auction the homes and cars of consumers who have fallen behind on their loans. Frequently corrupt bank officials sell these at below market value at auctions to their family and friends who then resell them shortly afterwards at a profit. Yet the consumers are left destitute. Decisive action needs to be undertaken to deal with this callous and criminal behaviour.

Alternative means need to be developed to address and assist families who risk losing their homes due to financial hardships. The Bill should be tightened to address this inhumane problem.

3.8 Debit and Garnishee Order Abuses

The wide scale abuse of garnishee orders needs to be decisively tackled by government and the financial sector.

Banks need to tighten their authorisation requirements for debit orders. Previously customers had to submit a consent form to the bank agreeing to a debit order. Today banks simply agree to any company debiting clients' accounts without them providing actual written proof of consent.

Whilst the pending Magistrates and Debt Collectors' Bills will go a long way towards this, legislation needs to be further strengthened to compel the banking sector to put

its customers' needs above the army of barbaric debt collectors who routinely and wrongly loot workers' bank accounts.

3.9 Loan Sharks

Whilst the FSR Bill and the National Credit Act empowers government to deal with the abuses of loan sharks, the exponential growth of loan sharks and their preying upon the most poor and vulnerable, indicate that we are not getting to grips with this massive crisis.

The NCA need to be strengthened in this regard.

3.10 Participation of Organised Labour and Civil Society

A great deal of knowledge of the challenges facing the sector and how they impact upon workers and the poor, reside within organised labour and progressive civil society. Space should be provided for their inclusion in the relevant oversight and accountability authorities and regulating bodies and their working groups as envisaged in the FSR Bill.

Such participation would enrich those bodies and help to provide a voice for ordinary workers and consumers in these key oversight and regulatory bodies. Participation should not simply be left to monopoly capital.

4. Conclusion

COSATU welcomes and supports this progressive initiative by Parliament. It is long overdue and badly needed. COSATU hopes that the above areas needing intervention by the sector, Parliament and government will assist with addressing the transformation challenges facing the sector. We hope that these will assist Parliament and government with identifying areas for their intervention in the sector.

COSATU supports the call for a Financial Sector Summit to be hosted by Nedlac to address these urgent challenges. There is a need for such a "CODESA" to allow for all stakeholders to raise issues, share suggestions and agree to common binding road map on how to address them. Its critical for these progressive engagements at Parliament to be linked to this Financial Sector Summit.

We hope that industry will join government, labour and civil society in agreeing on how best to transform the sector to one that supports a developmental path to transform the economy and society to one that caters for the most marginalised of its citizens.



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