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**SACP WRITTEN SUBMISSION: PUBLIC HEARINGS ON FINANCIAL
SECTOR TRANSFORMATION**

1. Introduction and Background

The South African Communist Party (SACP) launched and championed the transformation of the financial sector campaign, working together with other progressive organisations such as the Congress of South African Trade Unions (COSATU), the Black Sash and others, under the theme 'Make the banks serve the people' in 2000. As a result of the momentum created by the campaign there was a process initiated at the National Economic Development and Labour Council (NEDLAC), culminating in the convening of the first Financial Sector Summit in August 2002.

It is against this background that the SACP welcomes this opportunity to make this presentation to the portfolio committee. We have been keeping abreast with the

developments in the sector and have maintained our financial sector campaign since 2000.

Whilst an opportunity to present at the hearing of this portfolio committee tempts us to present a chronological order of how the Financial Sector Summit was undermined in the process of drafting the Charter, we will not do so. We will, however, anchor our input here today on one of the critical agreements of the summit which was a commitment to build a sector which is more diverse in terms of its nature and character, which includes its make-up – *i.e.* its structure, size and ownership.

The SACP was also concerned, and still is concerned, about the high cost of financial service or product charges. This includes insurance premiums, banking service fees and interests – such as in the case of the sky-high, 20 year sentence of the compound interest that makes access to housing prohibitive especially excluding millions of the workers and poor. The problem must still be addressed through legislation and regulation.

All other related failures of the sector to transform, rest on the lack of commitment by the sector to this sacrosanct agreement already made in 2002. The very convening of this portfolio committee is testimony to the sectors' poor lack of transformation.

2. An oligopolistic market structure

According to the *Banking Association South Africa* (BASA), as of 2014 the big four banks in South Africa, *i.e.* Standard Bank, ABSA, FNB and Nedbank commanded well over 80% of the market share. This kind of market structure is not healthy for the financial sector, banking and democracy specifically in our country. It is incompatible with our national imperative to eliminate class, racial and gender inequality. It is in fact part of the drivers of inequality and citizens, especially the workers and poor, as well as the rural masses, are greatly disadvantaged by such a market structure. Inherent in the dominance of the big four banks is that they will dictate market conduct that is detrimental to the workers and poor and those in rural areas. There is a huge invisible

manner, given their dominance, in which they act unduly to protect their turf. In this regard, that conduct also makes new entry very difficult.

Two scenarios are actually possible out of this position of dominance by the four. They themselves can abuse that position and resort to market conduct, despite the usual retort that the sector is well regulated, that will prejudice the consumers. Alternatively new entrants are pushed to try circumventing good practice in order to penetrate the market and gain customers. The recklessness of African Bank is a case in point – they tried hard to be a role player. Whilst we still call for those involved to be punished, one of the main issues we wish to elevate in this submission is that objectively the genesis of the conduct of the African Bank directors lies in the nature of the market structure. Measures must be found to make the product and pricing structures of the banks more transparent in order to drive competition within the limits of the current oligopolistic structure. The banks will argue that they are already doing so but it is our submission that what they publish remains obfuscated, is not user friendly and doesn't empower consumers to make informed banking decisions based simply on price and product worthiness.

The question of competition in the financial sector is viewed as important for improving efficiency thus bringing down costs for consumers. It can be argued that the questions of competition on the financial sector have to be understood against questions of stability. In this regard arguments are often presented that because of the regulatory regime, amongst others the prescripts of BASEL 3, it is difficult to adopt certain transformative measures. The SACP submits that regulations must be understood for what they are, man-made obstacles, often with the very same dominant role players financing their development. It cannot be that the financial sector subverts first and foremost the Constitutional imperative of our country and trade these off with regulatory frameworks that are designed in any case for countries that never experienced racial oppression as occurred in South Africa. It is time that the national goal of reconciliation and development takes prime place.

The SACP wishes to draw members' attention to the Banking Enquiry Panel that released a report in 2008 which amongst others matters pointed to the unfair practices in relation to banking charges. Those who wish to argue that the concentration in the sector is beneficial must just read that report. In fact this hearing provides an opportune moment to take stock of the implementation of the recommendations of the Banking Enquiry Panel. Some recommendations have been implemented and others not implemented.

One of the major complications with respect to market structure is the inter-relationship between the ownership of the banks, insurance companies and the asset management industry. In the asset management industry black firms have access to only 4,6% of the market share or rather put differently black asset managers manage just a mere R408,3 billion of the total R8.9 trillion.

3. The Financial Sector Charter – A Failed Promise

Elements of ownership even within the highly concentrated financial sector have not been impressive. It is our understanding that the question of ownership by the historically disadvantaged is an important reform measure; but it is not an end in itself. A demand for black ownership represents a minimum demand.

Judging from what was tabled here this morning by the Financial Sector Charter Council, the performance of the sector on this front is nothing else but pathetic to say the least. The inclusion of black people, women and people with disabilities into this sector at both board and management level is highly unsatisfactory. Turning back on commitments is unacceptable. Whilst the SACP supports the call for the convening of the second financial sector summit, how do we trust that industry will once more work towards meeting the minimum target without permanently shifting the goal posts? Taking our people for granted like this cannot be allowed any further. This parliament will have to apply its mind to what it should mean to the license conditions of those who do not meet their promises.

There are suggestions from some quarters that would trade off ownership targets against access to finance for black industrialists. We do not know what will be the terms of such financing. However our argument is that there should not be tradeoffs with the financial sector in areas where they should ordinarily be operating, i.e. extending credit for productive investment as opposed to consumption.

Access to finance by SMME's and black business remains a major headache in our country. More must be done to compel financial institutions to make credit available to SMME's and black business whilst at the same time setting a firm deadline for meeting the numerical targets of participation of blacks and women in ownership structures and in management. This portfolio committee, perhaps in collaboration with institutions such as the Commission on Employment Committee must oversee the financial sector generally with respect to their employment equity plans and monitoring the implementation of these plans.

4. A poorly Diversified sector

"The SA banking industry is currently made up of 17 registered banks, 2 mutual banks, 14 local branches of foreign banks, 2 cooperative banks and 43 foreign banks with approved local representative offices" (Banking Association of South Africa, 2014)

The above quote just depicts the extent of the failure in creating a diverse financial banking system. The banking system is dominated by one type of a banking model. People in rural areas have organised themselves into various means of financial participation including but not limited to stokvels and co-operatives. There has not been a requisite urge to drive the inclusion of our people into the formal financial system, for example, registering co-operatives and providing the requisite assistance to convert stokvels into mutual banks. Instead the banking sector has seen this as a business opportunity to swindle money out of our people. The role of the Co-operatives Bank Development Agency as it relates to its mandate of "promote and develop co-operative banking as viable alternative models to the commercial banking industry" has not been satisfactory. Funding for the agency remains a critical issue of frustration. The SACP calls on this parliament to review the mandate of the agency which is caught up

in typical problems associated with agentification of the state and ensure that it becomes an activist agency, well-funded, that seeks citizens already practising saving and credit co-operation, and assist them. Similarly CFI must be provided with the same kind of support.

Government and the public sector have been closed off in the area of ownership of banks. The fact that the Postbank has struggled so much is testimony to how the prevailing regulatory regime is used to exclude different types or models of banking. The SACP supports the provision of a banking license for full banking services to the Postbank, albeit only provisional for now, and the expansion of state-owned banks as a sector. In addition we call for the break-up of the monopoly of big financial sector as well as building support for the creation and development of co-operative banks and an inclusive co-operative financial sector to deepen transformation. Unlike the private monopoly banking sector which is interested only in profit, co-operatives and state-owned banks, including the Post Bank, must prioritise the people and support production and development.

In order for this to succeed, we cannot have co-operative and state-owned banks regulated under similar set of regulations that apply to commercial banks that are established for profit making. The SACP therefore calls for regulatory differentiation and articulation to enable the creation and development of co-operative banks and the expansion of state-owned banks that serve the people based on our national transformation and development imperatives as opposed to the profit-making motive that drives commercial banks. This must be seen changing the structure of our financial sector, underpinned by a new financial sector architecture based on the needs of the people.

A key issue for consideration is whether the current National Payment System is structured in a way that it can allow for diverse role players in the banking sector. As a matter of fact the Payment Association of South Africa in our view has not been made independent consistent with the spirit and letter of the findings of the Banking Enquiry Panel. This is the very reason that other types of banks like co-operatives still have to transact through the banking establishment in order to be able to access the National

Payment System. This essentially makes co-operatives subservient to the mainstream banks.

The insurance and asset management sectors in South Africa also remain undiversified. Mutual and co-operative insurance is unknown amongst our people. A space has not been created wherein policyholders translate into participants in the business. Investors own the business and thus in the main the experience of our people is that insurance companies take the monthly payments but when the day of a claim comes the companies find every reason by hook or crook to not meet their commitment. If they do provide payouts, people are immediately classified as high risk and then premiums rise. The logic of this model is anti-development and we wish to urge this portfolio committee to take the short term insurance companies to task with respect to this business practice. We would propose that consumer education be intensified and that the financial sector be held accountable in ensuring that this training takes place.

5. Community investment

It is our contention that the financial sector commands huge resources and assets that continue to be used in speculation and contribute little to the development of the productive sectors of the economy and meeting social needs like housing and education. This can be witnessed with the latest strikes in our higher education landscape. The SACP would like to suggest that this committee going consider mandatory community re-investment legislation to force the sector to direct its profits, which in any event are drawn from ordinary members of society, towards meeting their social needs.

In particular we need legislative, regulatory and policy interventions that help direct investment in the productive sector of the economy to create jobs, thereby reduce our country's persisting unemployment rate, inequality and poverty.

6. Conclusion

The financial sector has become the epicentre of the capitalist system, and thus plays the central role in sustaining and consolidating capitalism with all its ills, exploitation and monopoly characteristics. It is a well known fact that the majority in the world are feeling greatly marginalised by the rapid capitalist development and hence the unrests, from whatever ideological angle such emanates from.

For our part as South Africans, it is crucial that as we deepen the democratic order, we do not leave intact the finance complex which served as the backbone of the barbaric apartheid system. It is for this reason that as the SACP we call for radical measures anchored on addressing the oligopolistic market structure, diversifying the financial sector including fast tracking the inclusion of black and women in the ownership structure and management of the current establishment. Meeting the commitments to transform is not doing the people of this country a favour, it is a business imperative that industry must embrace and comply with. They have not kept their word previously to do it voluntarily. We have reached a stage to make it compulsory through legislation.