COMMENTS RESPONSE DOCUMENT

An Inclusive Financial Sector for All

November 2023

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REPUBLIC OF SOUTH AFRICA

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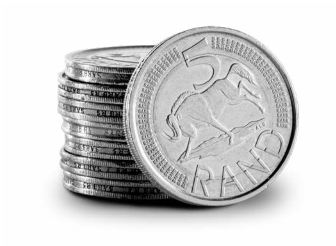

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AN INCLUSIVE FINANCIAL SECTOR FOR ALL

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Private Bag X115, Pretoria, 0001 | 40 Church Square, Pretoria, 0002 | Tel: +27 12 315 5944 | Fax: +27 12 406 9055 | **www.treasury.gov.za**

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1. INTRODUCTION

In 2011, the National Treasury released the policy document "A safer financial sector to serve South Africa better". This policy document provided a comprehensive review of key challenges facing the South African financial sector and proposed a roadmap to deal with the challenges. The proposed roadmap included the separation of prudential and market conduct regulation and identified the following policy priorities: (i) financial stability, (ii) consumer protection and market conduct, (iii) expanding access through financial inclusion, and (iv) combating financial crime as key to building a financial sector which is safe and serves all South Africans.

In its efforts to realize the objectives set out in the "A safer financial sector to serve South Africa better" policy document the National Treasury has over the years introduced new and/or amended laws, regulations, and policies in the financial sector including the introduction of the Twin Peaks regulatory regime. This regulatory regime entrenches financial inclusion as a core priority for Government and the financial sector regulators and provides a more strategic and deliberate response to financial inclusion.

As part of the implementation of the Twin Peaks model and addressing the financial inclusion objectives set out under priority three of the policy document "A safer financial sector to serve South Africa better" the National Treasury developed a financial inclusion policy for South Africa. This Policy, titled "An inclusive financial sector for all" establishes the overarching policy for financial inclusion in South Africa and sketches the approach to its implementation.

2. SUMMARY OF THE FINANCIAL INCLUSION POLICY DEVELOPMENT PROCESS

In 2019/20, the first draft of the financial inclusion policy was circulated amongst the financial sector regulators and selected government stakeholders to solicit input on the draft financial inclusion policy. The policy was subsequently revised to incorporate comments from those stakeholders as well as developments within the sector that had an impact on it. On the 28th of October 2020, the National Treasury then published the revised version of the draft financial inclusion policy "An inclusive financial sector for all" and issued a call for submission of comments from the South African public, including government departments, agencies, and regulators as well as stakeholders in the financial sector.

At the end of the commentary period (28 October to 31 December 2020) National Treasury had received twenty-six written submissions from the financial sector, regulators as well as international financial inclusion organizations and experts.

To ensure that the voices of all interested parties were considered and to support the comments submission process, National Treasury extended the public consultation period to 31 July 2021. During this period National Treasury extended invitations to government departments, agencies, stakeholders in the financial sector, community, and labour affiliations as well as the broader financial sector to virtual consultation sessions. These virtual sessions were subsequently hosted from March 2021 until July 2021.

At the final close of the public consultation period, National Treasury had received approximately 303 pages of written submissions and verbal input derived from 10 virtual consultation sessions. These comments/inputs were received from, but not limited to, the following organisations:

Organisations	
1.	Association of Black Securities and Investment Professionals (ABSIP)
2.	Actuarial Society of South Africa
3.	Alliance for Financial Inclusion (AFI)
4.	Association for Saving and Investments South Africa (ASISA)
5.	Banking Association South Africa (BASA)
6.	BankServAfrica
7.	Competition Commission
8.	Co-operative Banks Development Agency (CBDA)
9.	Coop Congo
10.	Department of Small Business Development (DSBD)
11.	Department of Social Development (DSD)
12.	Department of Trade, Industry and Competition (DTIC)
13.	Department of Women, Youth and Persons with Disabilities (DWYPD)
14.	Development Microfinance Association (DMA)
15.	Financial Intermediaries Association of Southern Africa (FIA)
16.	Financial Sector Conduct Authority (FSCA)
17.	Financial Sector Transformation Council (FSTC)
18.	Finfind
19.	Guardrisk Group
20.	Housing Development Agency (HDA)
21.	Intellidex
22.	Mastercard Southern Africa
23.	MicroFinance South Africa (MFSA)
24.	National Credit Regulator (NCR)
25.	Payments Association of South Africa (PASA)
26.	Small Enterprise Finance Agency (SEFA)
27.	South African Institute of Stockbrokers (SAIS)
28.	South African Insurance Association (SAIA)
29.	South African Reserve Bank (SARB) – Money and Banking – National Payment System Department – Prudential Authority
30.	South African Social Security Agency (SASSA)
31.	United Nations High Commissioner for Refugees (UNHCR)
32.	VISA
33.	World Bank
34.	Ziphakamise Co-operative Bank

The Response Document outlines National Treasury's response to the comments and inputs received. They were synthesized and categorized under the following "buckets".

- **Policy considerations/proposals for government** aimed at realizing the objectives highlighted in the draft policy document. This included matters that:
  - can be addressed directly in the financial inclusion policy document,
  - are out of the financial inclusion policy document scope but within the National Treasury's policy mandate and
  - are out of the scope of the policy document and fall outside of the National Treasury's mandate.
- **Draft policy document edits** which provided text edits and recent data that were reflected in the draft policy document.

- **Additional projects for development** aimed at supporting the policy priorities under each of the three pillars identified in the draft policy document; and
- **Proposed solutions** to implement some of the projects proposed for development in the policy.

3. POLICY CONSIDERATIONS/PROPOSALS FOR GOVERNMENT

3.1 PROPOSALS WITHIN THE FINANCIAL INCLUSION POLICY SCOPE

Commentators suggested refinements/amendments to some of the policy matters included in the draft policy document. Below is a summary of the main policy issues raised and how these have been addressed in the final Financial Inclusion Policy:

Financial inclusion definition

Although the Policy defines financial inclusion in various sections of the document, these definitions are not aligned with international best practice precedents in defining financial inclusion. In addition, definitions in the draft financial inclusion policy do not align with what has been provided in some of the more recent financial sector laws.

> **Key change:** Taking into consideration international precedent in defining financial inclusion whilst also ensuring that policies, regulations, and legislation where financial inclusion is defined are aligned, the definition in the Policy has been revised to align with the financial inclusion definition provided in the Financial Sector Regulation (FSR) Act which includes the following elements of financial inclusion: access, usage, quality, and is aligned to the international definition[1] of financial inclusion.

South Africa's socio-economic context

The policy provides a picture of South Africa's socio-economic issues at a high level and does not take a more holistic view of the country's macro environment in terms of overall factors which influence consumer behaviour concerning the acquisition and use of financial services and products.

> **Key change**: Recognizing that financial inclusion is better achieved when challenges and issues faced by those excluded/underserved are better understood, the *socio-economic context in chapter 2* of the policy documents has been refined to provide additional data on South Africa's unemployment rate, household disposable income and the SMME sector (level of formalization).

Previous financial inclusion initiatives in South Africa

Although some of the previous initiatives to get the unbanked banked are mentioned, the policy does not provide enough information on whether these initiatives were a success or if the product (e.g., Mzansi account) referred to in the policy was used effectively by customers and whether the product yielded the desired outcome for customers or financial institutions alike. It is important that when new interventions are developed as outlined in the policy these incorporate lessons from previous initiatives that had the same objective in mind.

> **Key change:** *Box 7*[2] *"The Mzansi account"* has been expanded to include the objectives achieved from the initiative, product expectations that were not met, product limitations, and lessons learned from the initiative.

[1] The international definition refers to definitions used by the World Bank, IMF, Center for Financial Inclusion, and the Consultative Group to Assist the Poor, among others.
[2] Initially Box 4 in the draft Financial Inclusion Policy published for public comment

The draft policy refers to and discusses Kenya's experience of mobile money in detail but does not provide any detail on the South African experience in introducing mobile money and the lessons learned from it.

Key changes: Similar to the Mzansi account initiative outlined above, it is important that the Policy is able to draw lessons from previous solutions implemented with the same objective in mind, thus the section on advancing mobile **payments** under priority 11, pillar 33 has been expanded to include reasons why efforts at promoting mobile money services have not been successful in South Africa and how such services can be developed to suite the South African market.

Consumer financial education

Although the policy refers to consumer financial education this is only limited to the "traditional way" of consumer financial education provision and does not consider the evolution of technology, nor embrace the role that technological advancements have on assisting with consumer financial education.

Key change: To highlight the role of technology on consumer financial education, additional wording has been included under the sections focusing on consumer financial education under *chapter 2's quality of financial service provisioning section* to indicate how technology can be used to support consumer financial objectives.

Insurance uptake and usage by low-income earners

The policy does not sufficiently provide key constraints in accessing insurance for low-income households and focuses mainly on distribution channels as a key factor in the low take-up of insurance products. It is thus recommended that this section be improved to paint a better picture of the challenges that the sector needs to address and thereby improve financial inclusion as it pertains to insurance product uptake and usage. This will also allow the policy to build a better case for proposed projects for development aimed at improving the inclusivity of insurance products. To better understand the market constraints in the insurance market, it is further recommended that in-depth research on the insurance landscape and factors resulting in market failure, be it from affordability and appropriateness from the consumer or risk appetite and sustainability from the insurers' perspective be considered under the policy.

Key change: To ensure that the challenges facing low-income consumers in accessing and using insurance (both long- and short-term) and provide a better case from a policy perspective on the necessity of improving the accessibility and use of insurance products for the low-income market, the section under *chapter 2 take-up and usage of financial services* focusing on insurance and *priority 5*[3] *of pillar one* have been augmented by including additional information and data on key constraints facing low-income earners in accessing and using insurance products. In addition, to ensure that products developed for this market in the medium to long-term support low-income consumer needs whilst taking into consideration the insurance sectors constraints, the proposed *project for development under this priority focusing on research* will be expanded to include the insurers' perspective and hence focus on the entire insurance landscape instead of the demand perspective only.

The policy proposes product standards to be included in the new Insurance Act's micro-insurance framework. While this is supported, these standards should be developed using a principle-based approach (i.e., focus on product design and allow for product differentiation as per Treating Customers Fairly outcome 2 principles[4]). It is further proposed that the proposed standards should not be limited to micro-insurers only but should be developed for the entire sector. This will lead to better outcomes and more providers solving for financial inclusion across their product range.

Key change: In ensuring that the *policy* aids financial inclusion rather than stifle it by limiting the introduction of product standards to micro-insurers only, and ensuring that a principle-based approach is adopted in the

[3] *Initially priority 6 in the draft Financial Inclusion Policy*
[4] *TCF Principles Outcome 2: Products and services in the retail market which are sold and marketed are designed according to the needs of the customers identified and targeted accordingly.*

development of standards for the *proposed project under development for priority 6* relating to this point has been revised to:

- not only focus on service providers regulated under micro-insurance but rather focus on the insurance sector as a whole and
- to adopt a principle-based approach in the revision of minimum product standards for insurance.

In addition, recognizing that product standards already exist in the micro-insurance policy-holder protection rules, the proposed project under development which made reference to product standards will be further refined to focus on assessing the impact of the product standards in promoting access to appropriate insurance products for low-income earners and, based on findings from the assessment, to make improvements aimed at serving the needs of low-income consumers better.

Payment services for SMMEs

The use of transaction accounts and payment services by SMMEs deserves larger attention in the document with respect to the need of expanding the offering of payment services by Fintechs and non-banks.

Key Change: Taking into consideration that SMMEs are not homogenous, take-up and use of financial services by the sector should take into considerations differences found in the sector and the policies aimed at the sector should respond to these differences, *priority 9*[5] *under pillar two* of the policy has been expanded to elaborate on:

- the differences found in the SMME sector,
- reasons why micro and informal enterprises generally do not make use of the formal financial sectors transactional and payments services and
- how further digitalization can enhance product provision to this sector**.**

The projects under development for this priority will be further refined to ensure that the policy highlights the role that non-banks can play to address the objectives of this priority and thereby increase the use of transaction accounts and payment services by the SMME sector.

Suitable insurance for SMMEs

The draft policy paper focuses more on agriculture insurance without speaking to other types of business insurance required to serve the SMME sector. Given the different types of SMMEs found in South Africa and the various areas in which they operate the policy should aim to provide this perspective and then address challenges faced by this segment in accessing and using insurance products currently provided by the insurance market.

Key change: In line with the comments above the section covering SMME insurance under *priority 10*[6] *pillar two* of the policy document has been revised to cover the different types of SMMEs as well as the key risks they are exposed to. Additional projects for development will be added to the projects proposed for development under this section to ensure that access and usage of insurance products by the SMME sector is improved.

Stakeholder participation in the Financial Inclusion Sub-Working Group and the Financial Inclusion Forum

The draft policy only makes mention of a few role-players in the financial services sector and excludes some of the key credit industry players and fintech industry players when these institutions also play a significant role in the financial inclusion of those currently excluded or underserved. To ensure that the envisaged action plan is informed by work undertaken by these structures, it is recommended that the list of participants be revised to include other role players key to advancing financial inclusion in South Africa.

[5] *Initially priority 11 in the draft Financial Inclusion Policy*
[6] *Initially priority 12 in the draft Financial Inclusion Policy*

Key Changes: To ensure that the Implementation Strategy and Action Plan development process is inclusive and encompasses contributions from all sector players *chapter 5 – From policy to action: A coordinated approach* has been amended and the likes of the MFSA, DMA, and Fintech representatives have been included as part of the Financial Inclusion Forum. It should be noted though that this list is an indicative list that will be expanded when required.

Indicators for financial inclusion

The policy makes mention of indicators that will be developed to monitor the level of financial inclusion, including indicators aimed at monitoring consumer financial education. It is recommended that the consumer financial inclusion indicators which will be monitored as envisaged in this policy should be aligned with monitoring under the Financial Sector Code and the proposed enhancements/amendments by the FSCA.

Key changes: The Financial Sector Transformation Council (FSTC) has over the years played a significant role in driving transformation in the financial sector and ensuring that previously disadvantaged South Africans gain access to the financial services sector through the enforcement of the Financial Sector Codes. In considering this, the policy's *chapter 5 – From policy to action: A coordinated approach and chapter 6 – Measuring progress and impact* have been amended to outline the role of the FSTC in the implementation of this policy and the monitoring and evaluation of the interventions set out in it.

Data collection

Although the policy outlines that it will develop indicators for financial inclusion and collect this data from various sources as input into the financial inclusion monitor. The policy does not sufficiently define the method which will be used to collect this data. It is thus recommended that the method of collecting data on financial inclusion in the final policy document be clearly outlined.

Key change: *chapter 6 – Measuring progress and impact*, has been expanded to indicate:

- what is required from a data perspective,
- how the data collected will be used in respect of measuring and evaluating financial inclusion and
- how this data should be gathered to arrive at informed policy decisions and interventions for the development of the financial sector and for sustainable and beneficial financial inclusion.

In ensuring that SA has all the data it requires in measuring financial inclusion, data collected for Monitoring and Evaluation (M&E) purposes should be collected in such a way that it is also available to the financial sector regulators to report on international financial inclusion measurement requirements.

Key changes: The proposed projects for development under *chapter 6 - Measuring progress and impact* section will be amended to incorporate reporting requirements by *international* bodies to which South Africa provides financial inclusion indicators to. In addition, the M&E framework and the indicators thereof will be developed in collaboration with the financial sector regulators and the FSTC to ensure that the data collected supports the goals of all stakeholders required to measure financial inclusion.

3.2 PROPOSALS OUTSIDE OF THE FINANCIAL INCLUSION POLICY SCOPE BUT WITHIN THE NATIONAL TREASURY MANDATE

Commentators provided policy proposal/considerations which have an impact on financial inclusion but could not be include in the revised policy as they fall outside the scope of the policy. The comments received in this category have been grouped according to policies, regulations, or legislation where such proposals can be addressed. National Treasury will where possible address these proposals under the appropriate policy, regulation, or legislation.

Below is a summary of the proposals under this category:

Consumer Financial Education

To improve financial inclusion in the country, it is imperative that consumers of financial products and services get the necessary consumer education for them to be able to make the right product choice and have sufficient knowledge of how products acquired can be used, therefore:

- Policies pertaining to consumer financial education should thus not be seen in isolation but rather as an enabler to improving financial inclusion. It is therefore recommended that the consumer financial education policy referred to in the draft policy derives its objectives and identifies initiatives from the priorities outlined in the financial inclusion policy.
- Government, financial sector regulators, the FSTC and the private sector should ensure that consumer financial education initiatives are aligned.
- Consumer financial education should be implemented as early as the foundational phase and thus would require the National Treasury to liaise with the Department of Education and the Department of Higher Education and Training to create a curriculum and workshops aimed at educating the population on the financial products and services available for consumers.
- Consumer financial education initiatives should be rolled out at the sectorial/ industry level with set objectives accompanied by impact measures.

It is worth noting that National Treasury is currently developing a national financial education policy with the objective of improving the financial capabilities and knowledge of all South Africans. Through this policy, Government aims to align public and private sector organisations to coordinate efforts and resources to direct financial education programmes in a way that meaningfully impacts financial literacy and capability levels of financially vulnerable South Africans. Consumer financial education-related comments received as inputs into the draft financial inclusion policy will inform the ongoing national financial education policy development. Similarly, as with the consumer financial education policy, matters raised pertaining to policies, regulations, and legislation under development will also be considered as inputs to those developments.

Long-Term Insurance

The current contractual savings legislation is a hindrance to developing an improved savings culture in South Africa. The legislative rules and requirements for endowments - Section 54 of the Long-term Insurance Act (viz. minimum of 5-year term, lack of flexibility in terms of withdrawals, a penal tax rate), should be aligned to the objective of driving improved savings for the lower-income earners. The current dispensation causes clients to liquidate their entire investment in a financial emergency, instead of just taking what is required at that stage – due to restricted access to money.

Exchange Controls

The current exchange controls impose high costs and time delays on SMMEs trying to attract foreign investors. It is thus proposed that:

- The lifting of loop structure restrictions in the exchange control laws be implemented as was announced in the MTBPS in October 2020. This is consistent with standard practice internationally and will allow South African high-growth SMMEs to own unlimited shares in foreign holding companies that in turn own shares in South African firms.
- The intellectual property exchange controls be amended so that high-growth SMMEs report transactions rather than obtain permission beforehand.

National Payments Systems Act

Access to the NPS needs to go together with proportional (tiered, or activity-based) prudential and conduct regulation and supervision of these new entities. It is thus recommended that:

- Access should be extended based on ensuring a balance between increased participation and maintaining stability. This is best done by adopting (a) a risk-based approach that allows access based on the ability to manage risk and (b) a clear allocation of counterparty liability.
- The Settlement environment should be strictly controlled by the SARB with the appropriate collateral, with treasury expertise being the criteria participation criterion.
- Increased participation should be done on an incremental basis.

Conduct of Financial Institutions

Ensuring that the sector meets all conduct requirements from the provision of credit perspective is a key objective, however, issues of potential regulatory arbitrage need to be addressed. The 2020 Version of the CoFI Bill proposes that the Financial Sector Conduct Authority will issue a second license to NCA-regulated entities. Once obligations in the NCA have been discharged, the CoFI Bill proposes that the FSCA will monitor Conduct practices in relation to – for example – marketing, disclosure, and advice. In response to the above, it is proposed that:

- Instead of the FSCA issuing a second license under CoFI to NCA-regulated licensees the FSCA and NCR should issue "joint" conduct standards on credit-related conduct issues, not already addressed in the NCA.
- The supervisory oversight activity should be clear, and accountability should be agreed upon in a memorandum of understanding between the NCR and FSCA.
- To improve transformation and financial inclusion, the COFI bill as part of its licensing and license renewal process must include stretched transformation targets that must be aligned with population gender and race demographics and the sector should be required to submit a financial inclusion action plan annually which should include information on affordable pricing, this plan should be reviewed against prior plans submitted.

Micro-Insurance

Seen as a framework aimed at improving the use and take up of insurance products by the low-income segment in South Africa it is proposed that:

- Micro-insurers should be able to offer the same products as the traditional insurance companies on the micro-insurance license, albeit smaller (in respect of benefit amounts) to manage risk.
- The application process should not be restrictive to SMMEs and the capital requirements should be tiered based on the risk of the proposed business model in order to attract new entrants.
- Micro-insurance should allow for more readily available savings products for the lower LSM population. Currently, only cashback benefits are offered to consumers, which are subject to approval from the regulator.
- The framework should cater to niche target market service providers. These niche players generally provide a niche service/offering to their target markets (risk selection benefits) and therefore penetrate these markets deeper than may have been the case otherwise.

Cooperative financial institutions (CFIs)

To promote the independence of CFI's and grow the CFI sector it is proposed that CFIs should be enabled to connect to another independent institution that will serve as their "big bank" and not commercial Banks. The CBDA should be that Bank and structured to help Cooperatives in their activities by creating banking platform, advisory panel, and infrastructure that assists Cooperatives offer "community-oriented" services.

FinTech Policy

To minimize risk which may be brought forth by fintechs and safeguard the sector it is recommended that regulation for consumer data protection and risk management should be introduced for fintech providers.

Unregulated financial entities

South Africa has several unregulated financial services providers offering products generally offered by the formal financial services sector such as 'mashonisas' who offer credit and funeral parlors who offer insurance-type products. Given the risks that these entities bring to the market, it is imperative that government defines and regularize the environment in which these entities operate to protect the most vulnerable who are often the users of their services.

3.3 PROPOSALS OUTSIDE OF THE FINANCIAL INCLUSION POLICY SCOPE AND OUTSIDE THE NATIONAL TREASURY MANDATE

Commentators submitted comments which have an impact on financial inclusion but cannot be addressed in the draft policy nor can be addressed in legislation, regulations, and policies within the National Treasury's mandate. The comments provided below will be referred to the relevant government departments and agencies that have a mandate over these areas.

Financial Sector Codes

Seen as a tool to drive financial inclusion, the financial sector codes should be reviewed, and the following be considered in the review process:

- The financial sector codes should recognize Developmental Micro-finance Institutions (DMFI) as a vehicle for socio-economic development (SED) and enterprise development (ED) funds. This will open a channel for private sector funds to support the financial inclusion work of the development micro-finance sector.
- The points allocated for access products under the current codes to/must be allocated for financial inclusion objectives outlined in the draft policy.
- The codes and the FSTC should be strengthened to ensure the enforcement of transformation targets in the financial sector.
- The points provided for Enterprise Development in the Financial Sector Code scorecard should be increased from the current 3 to 10. The formula is currently 0.2% of Net Profit After Tax and this could be increased to 0.75% of Net Profit After Tax with 10 scorecard points. This will incentivize financial institutions to provide more business development support to smaller businesses.

National Credit Act

To promote access to credit for the low-income segment including SMMEs it is important that legislations and regulations enable this objective. Thus, in support of the priorities outlined in the policy, it is recommended that:

- The current regulatory formulation of the Affordability Assessment Criteria and Guidelines be reviewed, improved, and simplified to accommodate the type of consumer and segment of the population micro-financiers serve. The requirements outlined in the Affordability Assessment Criteria and Guidelines perpetuate the exclusion of the low-income segment of the population as these individuals and businesses operate in the informal economy and thus do not have the means to validate their source of income as required by these criteria and guidelines.
- Amendments to the National Credit Act to explicitly include SMMEs and SMME credit (distinguishing between natural and juristic persons), addressing the challenge of credit providers (in particular banks), prioritizing consumer credit data over business credit data when assessing business credit risk be considered to improve SMME access to credit.
- The National Credit Act be reviewed and synchronized with this Policy and provide an exemption to corporates who want to undertake lending to SMMEs in their value chain in pursuit of the B-BBEE objectives.
- The National Credit Act be amended to allow for other lending techniques or tools in addition to those currently in the Act.

Credit insurance

The current structure for credit insurance does not benefit consumers, thus it is proposed that this structure be revised to ensure that consumers derive benefits from this product.

Small, Medium and Micro Enterprises

To ensure that the financial sector can serve SMMEs better, it is important that the following pertaining to the SMME industry be addressed:

- Government activities linked to SMMES such as the National Youth Development Agency, Small Enterprise Development Agency, and Small Enterprise Finance Agency need to be reviewed to inform a more coordinated and impactful delivery to SMMEs, thereby identifying gaps that the activities can bridge from a financial inclusion perspective. This review should look at the manner in which (i) government agencies/ departments work together, (ii) government and the private sector work together and (iii) the manner in which government does business with SMMEs and how these working relationships can be improved to advance the SMME sector.
- The definition of what constitutes SMMEs should be clearly defined to ensure a simple classification of various businesses (an example could be the use of the turnover threshold of a business). This will enable the financial sector to provide support where required and enable the sector to measure the impact of its interventions geared for SMMEs more appropriately.

Telecommunications

Driving financial inclusion does not only rest on the financial sector but requires government-wide concerted efforts. To create a more efficient and inclusive financial sector it is recommended that:

- Internet connectivity and coverage issues be addressed in urban and rural areas. Due to the lack of this, the sector is faced with challenges in enabling digital solutions. An inclusion policy for the telecommunications industry, therefore, needs to be developed to support the objectives of the financial inclusion policy.
- Interventions to accelerate the adoption of affordable smartphones be developed to enable South Africans to use these as a tool to access financial services. This should be complemented with policies aimed at making data connectivity affordable (e.g., reducing data costs for use of fintech products)

Economic Inclusion

Financial inclusion depends on economic inclusion. Thus, it is imperative that the country solves the national unemployment problem, and this in turn can promote the inclusion of more people in the provision of financial services.

Higher Education

In support of the policy objectives outlined in the policy aimed at improving access to loans for educational purposes it is proposed that government should invest in providing support to low-income students in tertiary education to increase pass rates, whether it be offering 4-year degrees over 5 years; providing additional mentoring and tutoring services; as well as providing additional incentives to the private sector to offer paid internships/learnerships so that students are more equipped to find gainful employment post their studies; especially given the high unemployment rate in South Africa.

Labour law and regulation

To ensure that the SMME sector grows it is proposed that regulation, including labour laws and red tape needs to be significantly reduced and exempted for SMMEs with less than 50 employees.

Housing

To promote the affordable housing market and ensure that low-income earners have access to affordable credit for housing it is recommended that the following measures be in place to advance the objectives outlined in the policy in this regard:

- All plots/stands should be identifiable and be registered in the Deeds Office (separate land register) to ensure restrictions are placed on trading. The buy-in of the Tribal authority will be critical to ensure the stability of security and long-term success.
- Establish housing subsidies for first-time homeowners wishing to build their own homes.
- Remove red tape and hand-offs in the building industry to make it more affordable for those looking to build. For example, explore the relaxation of certain National Home Builders Registration Council requirements, recognition of informal builders, building plan requirements, etc.
- The following costs should be removed as they contribute to the increased cost of credit for consumers:
  - Payment for a plan drawn up;
  - Payment for plan approval to the municipality;
  - Payment for engineers to certify soil for NHBRC enrolment;
  - NHBRC enrolment.
- Land identified for building should be surveyed upfront so that communities know what is required to build, thus avoiding high professional fees and maximizing value for consumers.
- Develop a rapid land release program that should support lending by giving lenders the first right on land should a borrower default so that the lender maximizes the recovery rate where a lender has financed the building.

4. POLICY DOCUMENT EDITS

The comments received regarding text and data edits were addressed by making the necessary changes in the policy document and have not been outlined in this response document. In addressing these proposed edits and improving the structure and readability of the Policy some of the priorities have been shifted to other pillars and the projects proposed for development (see Annexure A) have been extracted from the policy and will now form part of the Implementation Strategy.

5. ADDITIONAL PROJECTS FOR DEVELOPMENT FOR THE ADVANCEMENT OF FINANCIAL INCLUSION IN SOUTH AFRICA

In addition to the projects proposed for development in the draft financial inclusion policy, commentators proposed additional projects in support of the policy priorities outlined in the draft policy. Although these have not been added to the policy, the National Treasury will in its Implementation Strategy development process as outlined in the draft policy take these together with the proposed projects for development in the draft policy into consideration. Below is a list of the new proposed projects:

Priority 1: Promote the beneficial use of transactional accounts

- To ensure that the initiatives aimed at the beneficial use of transaction accounts are not only limited to the underserved market, **conduct research to understand constraints inhibiting the unbanked** market in accessing and making use of the formal financial services sector. Based on the research findings develop initiatives targeted at enabling the currently unbanked to gain access to transactional products that adequately serve their needs.

- **Develop a financial education and awareness campaign** on the beneficial use of bank accounts and the appropriate use of the various banking channels to ensure that financial services customers use the appropriate channels for their transactional needs.

Priority 4: Support increased formal savings for low-income earners

- To create demand and a viable market for low-income retirement products, **assess the role that auto-enrollment in the retirement market** can play in promoting access and use of retirement products.
- Instead of substituting informal savings schemes such as stokvels, **assess how complementary solutions to these schemes can be developed** to enhance the significant social benefit that these schemes currently provide within communities for example (use the risk-based solutions that also use pooling to solve life cycle risks). To ensure the visibility of those who save through these schemes', products should be developed in such a way that all members of the savings scheme are accounted for.
- **Conduct research on prize-linked savings products**[7] to understand their role in promoting financial inclusion. Based on learnings, design such products to suit the needs of low-income earners within the South African financial market and carve out a special dispensation for low-income households to participate in prize-linked savings.
- Conduct research to understand whether the tax-free savings initiative has achieved its intended objectives and its impact on savings since inception. This research should further outline whether this is an appropriate mechanism to improve savings amongst the low-income earners and if it's not, recommend ways on how this product can be improved for the low-income target market.
- **Develop savings product standards** for the financial services sector to define product requirements for entry-level savings solutions.

Priority 5: Promote appropriate credit for assets and investment over consumption

- **Develop a project aimed at understanding and defining all barriers** that may impact access to productive credit and design intervention that will enable regulators and financial service providers to respond, in a coordinated manner, to this challenge.

Priority 8: Improve efficiencies in the onboarding of financial services clients

- **Explore the use of technologies** such as application programming interfaces and distributed ledger technology to improve efficiency.

Priority 10: Broaden the range of financing instruments available to SMMEs

- Establish an integrated structure that draws on different pools of capital to finance different points of the SMME ecosystem with the following main characteristic:
  - Centralised coordination and planning of sectors that provide the best long-term sustainability for jobs and international competitiveness;
  - Standardised M&E (including financial data to monitor sustainability) across all SMME support services such as hubs, incubators, and accelerators with transparent data collection and information dissemination.

[7] *A prize-linked savings account or PLSA (also called a lottery-linked deposit account) is a savings account where some of the interest payment on bank deposits or marketing dollars are distributed as prizes based on chance.*

- **Assess the feasibility of setting up a centralized funding pool for SMMEs** that partners with enterprise development programmes and SMME incubation programmes.
- **Assess the impact of existing industry funds** such as the ASISA ESD fund established under the financial sector on the SMME sector. The assessment should amongst others focus on implementation methodologies and scaling-up strategies. Based on the findings, recommend the intervention to improve the outcomes of these funds.
- **Explore the use of innovative finance models such as impact investing** as a mechanism to provide funding to the low-income segment, to leverage the growing pool of global investors who seek to generate social and environmental impact alongside financial returns.
- **Evaluate the effectiveness of fintech solutions and alternative funding products**, including hybrid instruments, in the provision of funding to SMMEs and make recommendations for improvements that could increase take-up and usage.

Priority 10: Suitable Insurance for SMMEs

- **Develop education/ awareness campaigns for SMMEs** on the risks they may be exposed to and how to engage the insurance industry in obtaining products that suit their needs.
- **Conduct research to determine SMME needs** and use the information to assist the insurers to develop appropriate products.
- **Explore the use of alternative distribution channels** to address market failures in the provision of insurance products to SMMEs such as Cell Captives.

Priority 11: Build appropriate payment options to drive usage

- **Establish targeted tax incentives for consumers and merchants to reduce cash**. Such an intervention should be developed in a manner that will disincentivize the use of cash and promote greater electronic payment usage and acceptance.

Priority 13: Enable and strengthen the capability of new and small financial institutions, with an increased focus on strengthening the financial co-operatives and developmental micro-finance sector

- **Establish a guarantee scheme** for policy pay-outs from a dedicated fund where a policyholder claim cannot be met by a failing insurer to safeguard individual policyholders.

Priority 14: Explore the role of the state in supporting sustainable financial inclusion

- Conduct an analysis of the reasons of the shortcomings by DFI's to address issues related to SMME finance.
- Propose solutions that could address market failure in the insurance space.

Priority 15: Enable a broad base of agents in the provision of financial services

- Conduct research on possible distribution platforms to advance access to insurance products.

Measuring progress and impact

- **Consider a 360-degree impact evaluation framework** to be able to holistically measure progress of financial inclusion.

- **Develop a supply-side data collection tool** to be used by all financial service providers to provide data to the various financial sector regulators. The National Treasury should then take on the role of aggregating this data and disseminating it to relevant stakeholders.

Applying the gender lens

- **Develop proactive strategies and approaches** to better enhance current products to serve women and girls better and improve their ability to access and use financial services and products.

Annexure A: The Impact of Covid-19 and the Future of Financial Inclusion

- **Conduct further research** on the impact of the COVID19 global pandemic on both individuals and SMMEs and ascertain their financial services needs in response to the impact of the pandemic. Based on the research develop appropriate initiatives to address needs from a financial inclusion perspective.

6. PROPOSED SOLUTIONS

Whilst the solution/actions required to implement the projects proposed for development were received in the comments submitted, these have not been included in this response document but will rather be factored into the envisaged Implementation Strategy and Action Plan outlined in the Policy and in section 7 below.

7. NEXT STEPS

As outlined in the draft policy, the successful implementation of the Financial Inclusion Policy will require strong coordination amongst government departments and agencies, regulators, financial institutions and their representative bodies, and relevant civil society organisations. To achieve this, the National Treasury will over the course of 2021 establish two bodies namely the FISWG, an intra-government body, and the Financial Inclusion Forum, an industry body in support of the policy implementation.

These two bodies will, through sessions arranged by the National Treasury, collaborate and identify key projects for implementation based on the proposed projects for development in the final financial inclusion policy as well as the projects submitted by commentators contained in this document. This collaborative process will inform the development of the National Financial Inclusion Strategy which will define a framework to achieve financial inclusion in SA by setting out the requirements for effective implementation and outlining an action plan to achieve financial inclusion in SA.

This strategy and the targets thereof will be monitored through a Financial Inclusion Monitor, which will include a comprehensive set of indicators of access, usage, and quality.

Where interventions comprised in the strategy require any legislative or regulatory changes and where such changes may affect the ability of the financial services sector to fulfil its role and functions, such changes will be subjected to a thorough economic impact assessment (EIA) as required by Cabinet.

ANNEXURE A

The proposed projects for development, extracted from the draft policy document, to be considered in the Implementation Strategy development process include:

Priority 1: Promote the beneficial use of transaction accounts

- To ensure that the initiatives aimed at the beneficial use of transactional accounts are not only limited to the underserved market, conduct research to understand constraints inhibiting the unbanked market in accessing and making use of the formal financial services sector. Based on the research findings, develop initiatives targeted at enabling the currently unbanked to gain access to transactional products that adequately serve their needs.
- Conduct demand-side research to understand blockages and impediments to transactional account usage; and
- Develop a financial education and awareness campaign on the beneficial use of bank accounts and the appropriate use of the various banking channels to ensure that financial services customers use the appropriate channels for their transactional needs.
- Coordinating a stakeholder workshop to explore affordable and effective cash-in options, considering especially the potential benefits of improved cash-in facilities, current blockages, and market experiences.

Priority 2: Position remittances as a springboard for further financial inclusion

- Investigate the feasibility of an interoperable domestic remittance system, including allowing non-banks to provide domestic remittances without the backing of a bank (as is currently required). Interoperability in this context does not imply a single system, but rather that money can flow seamlessly between different platforms and service providers.
- Using relevant regional integration structures, investigate the feasibility of an interoperable person-to-person money transfer system in the SADC region. Such a system should ideally leverage existing infrastructure to the extent possible. The system should consider all stores of value and make full use of mobile technology capabilities. It should also embed a proportionate and risk-based approach to applicable international standards, ensuring that the implementation of these standards by regulators and financial institutions does not have unintended consequences on financial inclusion.
- Undertake a risk assessment to set thresholds and requirements for different types of transactions, ensuring their alignment with projects undertaken in pursuance of Priority 8.
- Prioritize the collection of data on remittance flows, including estimates of transfers through unregulated channels, published as remittance indicators as part of the Financial Inclusion Monitor proposed in Chapter 6.
- Ensure that customer education on safe and efficient ways of sending and receiving money is identified as part of the National Financial Education Strategy.

Priority 3: Supporting increased formal savings for low-income earners

- With the aim of tapping the massive informal savings pool in South Africa, perform a diagnostic on available savings mechanisms. This should consider market failures, including those relating to product design and distribution, and make recommendations for improved savings models (drawing lessons from countries such as India). This should include the design of new and/or complementary savings products that support regular small-value savings, the extension of the product range for stokvels, and distribution improvements.
- To create demand and a viable market for low-income retirement products, assess the role that auto-enrollment in the retirement market can play in promoting access and use of retirement products.
- Conduct research to understand whether the tax-free savings initiative has achieved its intended objectives and its impact on savings since inception. This research should further outline whether this is an appropriate mechanism to improve savings amongst the low-income earners and if it’s not, recommend ways on how this product can be improved for the low-income target market.
- Develop savings product standards for the financial services sector to define product requirements for entry-level savings solutions.

Priority 4: Promote appropriate credit for assets and investment over consumption

- Coordinate a stakeholder workshop between Government, DFIs, and industry to unpack the issues, hear the experiences of market participants and international counterparts, and explore options for addressing these issues, with the aim of reaching concrete recommendations.
- Explore how the new Financial Sector Conduct Authority set up under the Twin Peaks model could work together with the National Credit Regulator in monitoring the conduct of credit providers regulated by the National Credit Act proactively and pre-emptively.
- Review and revise the Financial Sector Code to set access to finance targets for specified developmental loans. Loans needed for students from low-income families should be informed by Government's approach to improving funding for tertiary education. The following approaches should be considered:
  - Reduce the credit risk for lenders by setting up a facility where Government shares the loss on defaults. This in effect is a partial credit guarantee (PCG) scheme for education loans similar to what is proposed in more detail under Pillar Two's Priority 9.
  - For student loans, use the student's future income generation capability as the primary way of assessing if it is affordable for them, rather than the current approach which looks at the ability of another party, typically a parent or guardian, to repay the amount owed.
- In support of wealth creation among the currently un- or under-served while also increasing the level of home ownership in South Africa, explore the feasibility of using other types of security such as permission to occupy (PTO) tenure as acceptable collateral for financial institutions seeking to provide home loans or mortgages.
- Develop a project aimed at understanding and defining all barriers that may impact access to productive credit and design intervention that will enable regulators and financial service providers to respond, in a coordinated manner, to this challenge. This should include imparting basic credit principles to consumers through consumer financial education.

Priority 5: Promote appropriate, affordable, and quality insurance

- Conduct in-depth research to understand the insurance market landscape and factors resulting in market failure (i.e., blockages and impediments to take-up and usage of insurance). This should include factors such as affordability, appropriateness, and access from the consumer perspective and risk appetite and sustainability from the insurers' perspective. Based on the findings develop interventions aimed at addressing any market failures and promoting access to and usage of insurance products
- Assess the impact of product standards included in the micro-insurance framework in promoting access to appropriate insurance products for low-income earners. Based on learnings, develop improved product standards that meet the needs of low-income South Africans and can be provided by the insurance sector. These product standards should inform FSC targets and be supported by consumer protection measures such as the FSCA Treating Customers Fairly principles.
- Develop appropriate consumer education initiatives for the low-income market to address perceptions associated with the insurance market.

Priority 6: Increase the financial inclusion impact of social grant distribution

- Support the Department of Social Development to explore a long-term and sustainable solution for grant payments in support of financial inclusion. In doing so, conduct research to consider the appropriate role of banks (state and commercial), other payment service providers, and transactional accounts in the payment distribution chain, to:
  - Utilise existing infrastructure as far as possible, particularly payments and identification infrastructure, and encourage the extension of that infrastructure for the benefit of all;

- Take a systemic approach to grant distribution and encourage the development of beneficial ecosystems, particularly as it pertains to distribution aspects that can be provided by SMMEs within communities where grant recipients reside; and
- Enable access to, and use of, further appropriate financial services for grant recipients in a fair and competitive environment.

Priority 7: Improve efficiencies in the onboarding of financial services clients

- Explore the impediments to client FICA onboarding validation services and establish a centralised database in this regard. This should explore the use of the national identity system (Department of Home Affairs) and consider a customer's ID and/or biometrics as their unique identifier in the payment system. The system should be configured in a manner that reduces the potential for fraud and supports other consumer protection measures - obviating the need to go through a FICA check - when switching across product suppliers;
- Financial institutions should be required under the new market conduct framework to develop a single validation process within the organisation to further reduce duplication. This should be aligned to the "single customer" view processes underway, and its resulting system development; and
- Explore the use of technologies such as application programming interfaces and distributed ledger technology to improve efficiency.

Priority 8: Broaden the range of financing instruments available to SMMEs

- Investigate the potential for capital markets in financing SMMEs in South Africa to propose specific instruments that meet SMMEs' financing needs at different stages of the business development cycle;
- Centralised coordination and planning of sectors that provide the best long-term sustainability for jobs and international competitiveness;
- Standardised M&E (including financial data to monitor sustainability) across all SMME support services such as hubs, incubators, and accelerators with transparent data collection and information dissemination.
- Assess the feasibility of setting up a centralized funding pool for SMMEs that partners with enterprise supplier development programmes and SMME incubation programmes.
- Assess the impact of existing industry funds such as the ASISA ESD fund established under the financial sector for the SMME sector. The assessment should amongst others focus on implementing methodologies and scaling up strategies. Based on the findings, recommend the intervention to improve the outcomes of these funds.
- Explore the use of innovative finance models such as impact investing as a mechanism to provide funding to the low-income segment, to leverage the growing pool of global investors who seek to generate social and environmental impact alongside financial returns.
- Evaluate the effectiveness of fintech solutions and alternative funding products, including hybrid instruments, in the provision of funding to SMMEs and make recommendations for improvements that could increase take-up and usage.

Priority 9: Promote the use of transaction accounts and payment services by SMMEs

- Develop innovative ways to assist SMMEs to acquire affordable payment devices and enable a variety of interoperable point-of-payment channels. This should consider the needs of micro- and informal enterprises. This will also support priority 2.
- In line with priority 9, develop the credit information system in such a manner that the use of digital payments history becomes an integral part of the credit assessment tools available to credit providers. This will act as an incentive for SMMEs to utilize digital payments.
- Ensure that all government entities digitalize their processes, including payment processes, in dealing with SMMEs and develop initiatives to address the digital capability and access issues in the micro- and informal enterprise market.

To ensure the adoption of solutions by all classes of SMMEs, conduct research to understand the financial needs of informal enterprises and develop initiatives to enable the provision of appropriate transaction accounts and payment services to informal enterprises. Such initiatives should include allowing these entities to be recognized as enterprises without necessarily having to completely formalize them thereby giving them access to formal financial services. This should be supported by developing the financial capability of such enterprises.

Priority 10: Suitable insurance for SMMEs

- Conduct demand-side research to understand SMMEs’ needs and use the findings to:
  - Develop affordable and appropriate insurance products for all classes of the SMME market;
  - Develop minimum product standards that can inform a review of the targets in the Financial Sector Code; and
  - Develop education/ awareness campaigns for SMMEs on the risks they may be exposed to and how to engage the insurance industry in obtaining products that suit their needs.
- Explore the need and potential for specific agricultural insurance in South Africa, including weather index insurance.
- Explore the use of alternative distribution channels to address market failures in the provision of insurance products to SMMEs such as Cell Captives.

Priority 11: Build appropriate payment options to drive usage

- Develop a payment ecosystem that is accessible and serves all users of financial services, covering transactional accounts, mobile payments, low-value payments, and remittance services (both domestic and cross-border).
- In line with the National Payment System Act, provide non-banks access to the payment and settlement system to enable these entities to directly provide payment services.
- Develop a national strategy for interoperability, identifying a national vision and steps required to get there. This could focus on the critical levers highlighted, including leveraging off large-scale payments like mass transit payments and implementing the national standard.
- Explicitly allow non-banks to issue e-money in the National Payment System independently of banks and develop an appropriate regulatory framework in this regard. This will cater to wallets and other forms of digital stores of value.

Priority 12: Build a credit infrastructure to improve access to credit for SMMEs

- Improve business credit information collection and sharing for the SMME credit market, ensuring that business data, including payment history data, is made available to credit providers. All service providers should be able to use this information to enable credit providers to assess the financial situation of all types of SMMEs. This should leverage the outcomes of the pilot project on alternative data scoring driven by the NCR, with support from the World Bank and Finfind.
- Take steps to improve the effectiveness and take-up of support provided by the SEFA credit guarantee scheme. Perform an assessment of what is functioning well and what is not in the current system and to what extent the scheme meets the needs of the SMME credit market. The study, Diagnostic Assessment of the Khula Credit Guarantee Scheme, undertaken by the World Bank and the subsequent proposed business plan for this scheme should form the basis for this intervention.
- Consider reforming the secured transactions law pertaining to SMMEs, especially security interest for movable assets and the establishment of a movable assets’ registry.
- Build business knowledge and financial literacy of SMMEs, with a focus on business funding and funding readiness by improving synergies between SEDA and lending institutions and promoting the financial education of entrepreneurs through South Africa’s financial education policy.

Priority 13: Enable and strengthen the capability of new and small financial institutions, with an increased focus on strengthening the financial co-operatives and developmental micro-finance sector

- Promote the sustainable development of financial co-operatives, including banks and non-banks, and provide for their graduation to enable them to compete against large banks. The first steps towards achieving this include enabling insurance co-operatives under the Insurance Act, as part of the National Treasury's financial sector development agenda and conducting an in-depth assessment of the role and effectiveness of the co-operative banks and CFIs currently operating in South Africa.
- Introduce a tiered licensing framework for the financial services sector to allow for new entrants into the financial sector and propose solutions to increase market diversification and support the growth of smaller financial institutions.
- Conduct an in-depth assessment on the role and function of the cooperative banks and CFIs currently operating in South Africa and identify options for growth.
- Review the mandate of the CBDA to extend its mandate to become a cross-sector development agency for all informal, new entrants or smaller financial institutions – including cooperatives and financial sector SMMEs – that want to formalise and grow (also see Priority 14 in this regard). This assessment should consider existing DFI support programmes, to promote efficiencies and avoid duplication.
- Introduce deposit insurance to safeguard individual depositors who might lack the knowledge to assess risks between different financial institutions.
- Explore ways in which developmental microfinance institutions can be supported to establish sustainable enterprises at scale.
- Establish an insurance guarantee scheme for policy pay-outs from a dedicated fund when a policyholder's claim cannot be met by a failing insurer to safeguard individual policyholders.

Priority 14: Explore the role of the state in supporting sustainable financial inclusion

- As part of the National Treasury's financial sector development agenda, consider research to evaluate the opportunities, risks, and effectiveness of state-owned banks and DFIs, to make recommendations about how these institutions could be rationalized and restructured to deliver on South Africa's socio-economic objectives. This research should be designed to consider South Africa's financial inclusion needs and objectives.

Priority 15: Enable a broad base of agents in the provision of financial services

- Take steps to improve the access point network, especially through strengthening the agency model in South Africa by:
  - Getting representative survey data on incentives and disincentives for retailers to act as agents; and
- Developing a suitable regulatory framework to promote shared use of widespread branch networks like SAPO, support the potential role of CFIs and smaller retailers in reaching the underserved market, support partnerships between banks and retailers, and move closed-loop systems into an interoperable environment (as part of the interoperability strategy). Conduct research on possible distribution platforms to advance access to insurance products.

Priority 16: Leveraging fintech disruptors to promote and support financial inclusion

- Financial inclusion should inform fintech policy development with the former as one of the key objectives of that policy. At the core of such policy should be an assessment of the effect of fintech on the South African financial consumer from a usage, cost, and access perspective.
- Enable regulatory "sandboxing" of new ideas and business models that enable providers to bring innovative financial products and services to the un- and under-served market.

NOTES

COMMENTS RESPONSE DOCUMENT

An Inclusive Financial Sector for All

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Private Bag X115, Pretoria, 0001 | 40 Church Square, Pretoria, 0002 | Tel: +27 12 315 5944 | Fax: +27 12 406 9055 | **www.treasury.gov.za**

national treasury
Department:
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REPUBLIC OF SOUTH AFRICA