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SPEECH OF THE MINISTER OF FINANCE

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"The Financial Sector in Development - Harmful, Helpful or Hindrance"

My sincere thanks go to both *Safmarine* and *The Star*, for inviting me to address you today.

I want to share with you what may at first appear to be a trite lesson, but which in fact is quite profound, and underlies much of what I do as Finance Minister. Ladies and Gentlemen, that is that one reaps what one sows.

Examples of this simple idiom are prevalent throughout history, and it is as true today as it was thousands of years ago. In 68 AD, Roman Emperor Nero, a vicious ruler who sowed much death and destruction, died by allegedly driving a dagger into his throat, aided by his private secretary. On a slightly more breakfast friendly note: Where would the field of mathematics have been today had not Sir

Isaac Newton's uncle seen his latent potential and enrolled him at Cambridge University?

You may ask, what is the relevance of such examples? The answer is straight-forward: Building solid foundations enables great things to take root. The converse however is also true. A weak foundation cannot result in a sustainable solution.

Which brings me to the question that I would like to pose to you this morning: have we achieved a financial sector in South Africa that creates a solid foundation for future growth? Is the structure of our financial sector harmful, helpful or a hindrance to development?

Certainly, establishing a solid foundation is exactly the approach we have consciously adopted in South Africa; in both economic and financial sector management. When inheriting the Apartheid-scarred system in 1994, we were unfortunately not handed a magic wand that could be waved to cure all ills. Instead, by getting the economic fundamentals correct, maintaining fiscal discipline and having prudent monetary policy, we have created an environment conducive to growth, and one capable of tangibly improving the lives of the majority of South Africans.

Apartheid was certainly not only a moral abomination, but also had terrible economic consequences. In the financial sector alone, institutions developed that had a skewed client focus, in many cases antiquated management styles, and often treated the consumer as an afterthought. Our regulatory architecture was outmoded, and in most instances not in line with what was considered best practice internationally. This resulted in gross inefficiencies; both in the manner in which our national savings were utilised and in the way in which they were distributed.

Furthermore, ownership and control of companies was in the hands of a select few, and investment in the development of black staff was virtually unheard of.

Such a situation was definitely no proper foundation for future sustainability and prosperity.

So, how do we create a financial sector that is helpful for growth?

Certainly we must heed the President's call for increased efficiency and competitiveness through investment and innovation in the First Economy – ensuring that our financial sector remains of a world standard. This we continue to jointly achieve through massive reform in the financial sector - not only through improved financial sector regulation, but also incredible private sector investment in technology and innovation.

However, at the same time, a financial sector cannot be a true helping hand in the challenges of development unless it helps bridge the divide between the First and the Second Economy: the structural manifestation of poverty, underdevelopment and marginalisation of large sections of our people. An integral part of enabling people to emerge from this structural poverty is access to appropriate and affordable savings, risk and transactional products.

Tackling this challenge requires a partnership amongst all stakeholders, recognising that the long run sustainability and competitiveness of the South African financial sector is intricately intertwined with its ability to broaden its reach to all sectors of the South African economy.

In this regard, a commitment such as the Financial Sector Charter would have been virtually unthinkable 10 years ago. The Charter has the potential to demonstrate the power of long-term partnership over pure individualism and myopia. By embracing transformation as the only way to ensure a sustainable and successful financial system, the Charter attempts to bridge the economic and social divide.

Such transformation and empowerment has to be broad-based however to be truly meaningful. This is why it is pleasing to see that the Charter commits to more than merely ownership targets, but extends to issues of access to finance, human resource development, enterprise development and targeted investment.

We cannot underplay the fundamental importance of increasing access, which is a common thread running through much policy decision-making. The Charter process is complemented by Government initiatives to encourage innovation and raise consumer standards through proposed legislative changes, such as the National Credit Bill, Dedicated Banks Bill, Co-operative Banks Bill, and the pending review of the Pension Funds Act.

In practical terms, a direct consequence of Charter commitments can be seen in successful initiatives such as the Mzansi bank account, which has removed the blinkers from the eyes of sceptics who believed that initiatives aimed at the low-income sector were not worthwhile. The numbers do not lie: 1,75 million new Mzansi bank accounts in the space of a year [as of end-September 2005].

Other industries in the financial sector have now come forward with their own proposals on Mzansi-style products. These include insurance cover against theft and household damage due to fire or other natural disasters; death and disability cover; and finally novel proposals on flexible unit trust-type savings schemes designed to promote saving for education. We welcome this progress and are currently engaging in an exercise with the various industries within the financial sector to evaluate whether such proposals meet our minimum standards in terms of accessibility, affordability and appropriateness. As from next year, we expect to see a step change in the way that the financial sector goes about meeting the financial services needs of the previously excluded sectors of our society.

We have talked about how the financial sector can aid economic and social development; but what must we guard against in terms of financial sector practices being harmful to development?

Let me be clear: an environment of poor financial literacy coupled with a lack of adequate consumer protection is a sure-fire recipe for consumer abuse and serves to compound the divide between the haves and the have-nots.

What was sown in the past can grow into bitter fruits. Historically, financial service consumers have often been the victims of inequities, disguised by opaque disclosure of costs and passing unnoticed in an environment where high inflation made even miserable returns look good on paper. The mis-selling and churning of investment policies, the lack of sufficient disclosure to consumers, has in a sense come back to haunt those who propagated such practices.

Today we have a life insurance industry that finds itself under the harsh spotlight of the media, facing a growing wave of consumer discontent. The cost of contractual savings products has also been well and truly brought under the microscope by the Pension Fund Adjudicator and Parliamentary hearings. We read on a daily basis about the unscrupulous actions of supposed investment advisors more concerned about meeting their commission targets than the real needs of the clients they are meant to serve.

It is a challenge for the industry to build a new business model, one that will act as a proper foundation to serve the consumer satisfactorily into the future. Building a solid foundation for the future also involves fixing the structural defaults of the past. It is both a moral and economic imperative that the industry respond proactively by providing a fair deal to those consumers who bought policies in the past, hoping to reap the bountiful fruits of their investment only to find themselves left with rotten apples when in need.

It is indisputable however that the dark days of poor disclosure are past, and that as consumer education initiatives gather momentum, the financial services consumer will grow more sophisticated - in turn placing greater pressure on industry to deliver, and to do so with the consumer's best interests at heart.

We are clearly in the process of laying a new foundation. It is our duty to ensure that the foundation this time is built to last. For that to occur, efforts need to be collaborative. They need to be in the spirit of openness and consultation. Otherwise, Ladies and Gentlemen, I say with respect that we may build another Roman Empire, doomed to collapse, rather than a Cambridge University.

Thank you.