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CO-OPERATIVE BANKS BILL 2007

ADDRESS TO THE NATIONAL ASSEMBLY BY THE HONOURABLE

MINISTER OF FINANCE,

TREVOR A MANUEL, MP

11 SEPTEMBER 2007

Madam Speaker, the Co-operative Banks Bill, 2007 seeks to create an appropriate regulatory framework for member-based deposit-taking, financial services co-operatives. By creating a sector-specific regulatory framework, the Co-operative Banks Bill also seeks to promote and advance the social and economic welfare of South Africans by enhancing access to banking services under sound and sustainable co-operative banks.

Co-operative banks will be divided into 3 tiers, namely: (a) Primary co-operative banks; which will comprise of the savings as well as savings and loans co-

operative banks, (b) Secondary co-operative banks; which will be established by two or more primary co-operative banks. and (c) Tertiary co-operative banks which can be established by two or more secondary co-operative banks.

The Co-operative Banks Bill is one of Government's initiatives to promote access to financial services, particularly to the most vulnerable people characterised by low incomes and lack of access to mainstream financial products. It is part of a broader strategy for promoting access to financial services in addition to the financial sector charter and the Mzansi initiative.

In 2004, the financial sector launched the financial sector charter which culminated in some innovative initiatives that promote access to financial services. The most prominent of these initiatives is a "no-frills" basic bank account popularly known as the Mzansi bank account. According to the Banking Association of South Africa over 3 million Mzansi accounts have been opened in the three years following the launch of the financial sector charter.

According to the Finscope (2006) survey at least 49 percent of the total adult population in South Africa does not have access to banking services. This implies that in 2006, 15.27 million of the adult population was unbanked.

While noting the major achievements made by the commercial banks in providing banking services to the previously excluded sections of our community, it must

be pointed out that the problem of access to financial services is too large to be tackled by commercial banks alone. Community participation and some government intervention is required if we are to see success.

Madam Speaker, it is important to note that the Co-operative Banks Bill is not proposing a new concept, but seeks to formalise an old international tradition of institutionalised self-help practices. Co-operative banks have been in existence for centuries and are very successful in countries like Germany, Australia, United Kingdom, United States, India, Brazil, Tanzania, Uganda and in many others. In many of these countries, these co-operative banks have been successful because of deliberate government policies that support and advance their cause but also because of an existing dedicated regulatory framework.

Since 1998, financial services co-operatives, credit unions, and village banks have been operating under an Exemption from the mainstream Banks Act. The implications of the exemption notice and an absence of a sector-specific legislation for these community-owned banking institutions are firstly a lack of protection for the deposits invested in such institutions and secondly an exclusion from the lender of last resort facilities. Under an “Exemption Regime”, and in the absence of formal regulation and protection afforded in the lender of last resort facilities, the public confidence in these institutions is hugely compromised.

The Co-operative Banks Bill seeks to correct this sub-optimal and temporary regulatory arrangement by providing for formal regulation and supervision of co-operative banks, creating a development framework to be implemented through a Development Agency for Co-operative Banks, and for an establishment of a deposit insurance fund aimed specifically at protecting the registered co-operative banks.

The Co-operative Banks Bill was intensely debated in NEDLAC and extensive consultations with other relevant stakeholders were carried out. Comments were received from a wide array of groups and associations including COSATU, the Banking Association of South Africa, Savings and Credit Co-operative League of South Africa (SACCOL), the Business Parliamentary Office (representing BUSA and Chamsa), the University of Pretoria, the Competition Commission, and the South African Reserve Bank. Judging from the substance of the comments received, the Bill was generally well received.

Madam Speaker, I would like to thank all the members of the community who took time to engage with the National Treasury during the consultation periods and for all those who sent through their useful written comments. I would also like to thank the Portfolio Committee on Finance under the guidance of the Honorable Chair Mr. Nene for interrogating the Bill and helping to sharpen it as an instrument that seeks to promote access to financial services.

Madam Speaker, I hereby request the House to pass the Co-operative Banks Bill, 2007.

I thank you.