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**The Finmark Trust Forum on the Success of the Mzansi Account Initiative**

**31 March 2009**

**Deputy Minister of Finance, Nhlanhla M. Nene, MP**

Ladies and Gentlemen, Comrades and friends,

It is indeed an honour to be part of this occasion that marks the launch of major new research into the effectiveness of the Mzansi bank account – and particularly to share on the successes achieved, as well as the challenges that may have been endured in providing affordable, accessible and appropriate financial services to our people.

Firstly I must salute the Finmark Trust for spearheading this research innovation. The Finmark Trust has become one of the key organisations with whom the National Treasury shares the quest for financial inclusion as a common goal, and I encourage this continued collaboration between our two organisations.

It has been a good four and a half years since the launch of this remarkable initiative meant to afford historically disadvantaged South Africans the opportunity to open and operate a low-cost banking account. Therefore, it is quite timely that the Finmark Trust is able to present to us this empirical assessment of the Mzansi account initiative. I hope that this assessment will provide us with the necessary feedback required to further refine this novel product, ultimately improving the lives of the people who use it. Without this evaluation, we as policy makers, and the sector as a whole, may remain in the dark about the effectiveness and sustainability of new products and services that have been introduced to improve access to financial services.

## **Background**

The world is struggling with the worst financial crisis in almost a hundred years. This crisis has led to a downward spiral of the world economy in proportions not seen in many years. To address this crisis and in an effort to revive the world economy, leaders of the G20 will meet again this week at a summit. They are expected to finalise a consolidated economic recovery plan and regulation enhancement framework, introduced in November last year. Internationally, governments have introduced significantly high injections of capital into their financial systems, essentially to promote access to financial services for households and boost economic growth and business sustainability.

South Africa, as with a few other emerging economies, has not been directly affected by this financial crisis. However, the country has to address the second-round effects of the crisis such as a slowing domestic economic growth rate and rising unemployment. As with other central banks around the world, the Monetary Policy Committee of the South African Reserve Bank reduced the repurchase rate by 100 basis points on Tuesday last week. That decision is expected to contribute towards the resuscitation of domestic growth and promote employment creation.

In attempting to revitalise the world economy, promoting access to financial services has become a central feature of the financial packages by world leaders. It is interesting to note that in normal times, access to finance is usually put on the back burner by policy-makers around the world. However, in this financial crisis, promoting access to finance is used as a key instrument to resuscitate the world economy.

### **The Mzansi Initiative**

The National Treasury welcomed the Mzansi initiative as it fitted well with the financial access policy trajectory we had set for ourselves. However, as policy-makers, we have to continuously re-evaluate our role in ensuring that the financial sector's market-led growth addresses problems of financial exclusion and leads to the availability of financial services for all. In fact, our guiding principles for financial inclusion relate not only to ensuring that we catalyse and facilitate market mechanisms, but also intervene to address market failures.

This market failure manifested itself in the proportion of the adult population without access to banking services. Prior to the introduction of the Mzansi account initiative close to half of our adult population did not have access to a basic bank account.

Before the introduction of the Financial Sector Charter initiative, our financial system did not provide financial services to disadvantaged members of our society, who either did not have formal jobs or belonged to the very low income categories. Only those members of society fortunate enough to hold formal jobs could open and operate bank accounts.

This was clearly contrary to policy objectives of making financial services available to all sections of our population. We envisage a nation in which basic financial services are accessible and affordable for all. The Mzansi initiative was celebrated as an effort to include financially all our citizens.

## **Policy Interventions**

India captured the limelight in the early 1990s as a result of the introduction of rural banking initiatives to accommodate members of its society that previously did not have access to appropriate financial services. The US also made interventions to ensure financial inclusion by way of the Community Reinvestment Act of 1977. Countries like France also make it a statutory requirement for every adult to have a bank account. Closer to home, Zambia embarked on a drive to effect cash transfers to beneficiaries of social security grants through the use of mobile bank branches set up at schools and clinics, in order to minimise the transport and transaction costs of the grant beneficiaries.

Both the Indian and Zambian examples emphasise that banking initiatives specifically targeting previously excluded members of society should not only be convenient for the users, but should also minimise their transaction costs.

It is therefore commendable that South Africa has its own unique initiative, catering specifically to the needs and dynamics of our nation. This shows our recognition that financial development is a key ingredient for economic development. A society with an undeveloped financial system is bound to experience a slower pace of growth in the real sectors of the economy. The financial inclusion presented by Mzansi accounts makes an much needed contribution towards the economic development of the country.

What perhaps made our financial exclusion more unpalatable is the fact that it coexisted with a well developed financial system by world standards - whether you look at our total sector assets, the adoption of international regulatory standards, an efficient and world class stock exchange or our well functioning national payment system.

It is a documented fact that financial inclusion has unlimited spin-offs in terms of its contribution to the reduction of poverty and inequality. Besides these

recognised economic benefits, financial inclusion has the potential to destigmatise the financial sector and reverse the alienation and vulnerability associated with financial exclusion. When people are excluded from the financial system, they resort to all forms and means of transacting, from keeping their money under mattresses to sending monies to their families using taxi drivers and other informal means. These forms of transacting are not only inconvenient, but also fraught with many risks.

When it was introduced in 2004, the Mzansi account was one with no frills but limited functionality – designed primarily as a transaction account. Over the past three years, the functionality of the account has been enhanced to include stop order and debit order facilities.

### **Our Vision for Financial Inclusion**

It is acknowledged that South Africa as a country does not have a savings culture. Initiatives such as the Mzansi account therefore serve as crucial building platforms from which a culture of saving can be launched. It would be perverse to expect ordinary citizens to save when they are denied access to a basic savings account.

We all need to strive for a South Africa where everyone, regardless of income or financial position, is afforded the opportunity to operate a bank account. In the absence of appropriate access, our people would continue to be marginalised and inconvenienced. Not only does the difficulty in accessing financial services have the potential to disrupt the lives of our people, it also has the potential to disrupt our economy.

Our vision for financial inclusion entails a continuous process of expanding access to and use of financial services and products. Access to a basic bank account can help in the opening of floodgates so that our people are able to access a myriad of other financial services for their benefit. Over time, the banks will be able to track the profiles and savings patterns of their customers, and thus

establish a credit potential for them. It is an established fact that access to credit is associated with benefits such as small business financing or the smoothing of spending for household consumption.

The initiative will also pave the way for people to access insurance products. We need to monitor developments in these indicators of financial access, not only to flag up key trends, but to understand financial behaviour in a way that helps in formulating appropriate policy responses.

### **Advances made by Mzansi**

The number of accounts opened has surpassed 6 million since the launch of the Mzansi initiative. This vindicates our position that historically disadvantaged members of our population can be harnessed into a potentially viable market.

We have always maintained that the size and level of activity in what is commonly referred to as the informal sector indicates that there is sufficient appetite for financial services. This appetite has however not been duly satisfied due to inappropriate formal provision of financial products and services. We therefore need to continue to develop innovative products and services that are specifically targeted at this low income segment of the population.

### **Conclusion**

As we celebrate the successes that we have enjoyed, we are aware that there are challenges that still lie ahead. The development of our financial landscape is too important for us to surrender to any setbacks. We must keep up the fight.

I urge each and every one of us to strive to enhance competitive practices within the financial services sector through the introduction of new and innovative products, so that our people, can truly and fully enjoy the fruits of financial freedom.

As I conclude, let me reiterate that government remains committed to supporting initiatives like the Mzansi accounts. We are one united nation that is best served by one financial landscape. Our resolve should therefore remain that of uplifting our people out of poverty by all means.

Thank you