



MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

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SADC FINANCIAL INCLUSION INDABA

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I am pleased and honored to address the first SADC financial inclusion indaba. The realisation of regional economic development begins with forums like this, where information, best practices and innovation on what we can do to ensure sustainable and inclusive growth which will benefit our people, can be shared.

Regional economic prospects

In the recent past many countries in the region have introduced reforms necessary to construct economies in which all people can fully participate in and derive benefit from. Progress has been made in building more equitable societies. The growth of the region remains robust, with expectations of on average of 5 per cent growth over the next three years. This is exceptional if we compare it with other regions in the world.

Economic activities in the region have diversified over the past decade, attracting increased foreign direct investment and benefiting from rising investment in ports, electricity capacity and transportation.

However, despite the positive economic prospects of the region, many of our people are still excluded from the mainstream economic activities. The improvements in our economies have not always adequately translated into sufficient opportunities for poor and low-income households to improve their living standards. It is therefore important that, as we pursue development in our respective countries, we ensure that we create a fully inclusive economic environment in which all people can participate in and derive benefit from it.



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What is financial inclusion and why does it matter?

Financial inclusion is the responsible provisioning and use of regulated financial services by those segments of society where financial services are needed but not yet adequately provided. It is a key element in the development agenda of our region, just as financial exclusion is a significant developmental constraint.

At an individual and household level, it is a key enabler in the improvement of households' and individuals' quality of life and hence in the further elimination of inequality in society. At the small enterprise level, the appropriate use of financial services increases the financial viability of those enterprises and therefore improves the economic environment of the communities in which those enterprises operate.

Financial inclusion in the SADC region

When the importance of financial inclusion was beginning to be appreciated about a decade ago, 2.5 billion people across the globe were not banked. In the recent 2014 World Bank Global Findex Database, this figure has now gone down to 2 billion, which is a significant achievement.

From the regional point of view, we have equally made tremendous progress as well, with account penetration in the Sub-Saharan Africa region at 34 per cent in 2014 compared to 24 per cent in 2011. This growth is corroborated by the data from FinScope surveys in individual countries within the region. Just to mention three countries, the Finscope surveys reveal that overall financial inclusion (i.e. having some form of financial product from a formal financial services provider) in Malawi has increased from 26 per cent in 2008 to 34 per cent in 2014, in Zimbabwe, from 38 per cent in 2011 to 69 per cent in 2014, and in Tanzania from 16 per cent in 2009 to 57 per cent in 2014.

Although this is encouraging, the overall figure of financial exclusion remains unacceptably high. Many of our people still do not have savings accounts, do not receive credit from formal credit providers, and do not have any type of insurance and rarely make or receive payments through formal financial institutions, thereby increasing their financial vulnerability.



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The excluded rely on the cash economy and consequently on less efficient, inadequate and higher-risk financial services.

Appropriate access to financial services can empower individuals, particularly lower income people, allowing them to better participate in the economy, actively engage in their own development and protect themselves against economic shocks.

Remittances

In today's global society it has become common for people to migrate to other countries in search of a better life. This can often have a positive effect on the economies of both the home and host country. The host country benefits from the productivity and work of the migrants and the home country benefits from a growing external source of capital as workers remit cash to their families. For many people, such money transfers represent their first interaction with the financial services industry. Studies from the Consultative Group to Assist the Poor and others have shown that remittances promote financial inclusion and contribute to poverty reduction in home countries. While some migrants are in a position to use formal money transfer channels, many migrants are unable to access these channels. As a result the majority of cross-border remittances between the SADC countries use informal means.

South Africa is one of the destination countries for many in the SADC region looking for better opportunities. According to a 2012 study conducted by the Centre for Financial Regulation and Inclusion (Cenfri) on behalf of FinMark Trust, the South Africa/SADC remittance market was estimated at R11.2 billion annually, of which an estimated R7.6 billion (68 per cent of total remittances) was sent via informal channels.

The use of informal remittance services has two major implications – the integrity of the formal remittance system is severely undermined, whilst particularly low-income migrants face both the high costs and the high risk of using informal means of remitting funds.

While there have been notable efforts to improve the situation in the region, the efforts to reduce costs and make remittance services more accessible within the formal remittance market need to be taken a step further. In this context there is a need for a more graduated



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policy approach - that balances regulation and the risk of exclusion. We hope that this Indaba can take this important aspect forward,

The role of technology in promoting financial inclusion

With a few exceptions, limited physical infrastructure remains a barrier in extending access to financial services in the region. Many of our people who reside in rural and remote areas of our countries remain unserved. Traditional distribution channels have been unable to reach them. There is therefore a need for a greater use of other distribution models to provide support for the poor and low income earners. The maximum use of technology-enabled services can provide the best opportunities to facilitate a wider reach of financial services. In particular, the widespread acceptance and use of mobile technology continues to offer significant opportunities.

In many African countries, including those in our region, mobile telephony is one of the most available and useful technologies to reach the consumers of financial services, in particular those who reside in remote areas. Kenya is the prime example where this has happened. Although the success in Kenya required a unique set of circumstances, it does point to the tremendous potential of mobile capability in the pursuit of increased financial inclusion.

The private sector must take full advantage of technology by adopting business models that leverage technology platforms. Regulators must ensure an enabling environment that allows financial institutions to take advantage of technology innovation while at the same time ensuring that the financial system is stable and that consumers are protected.

However, technology should always be used as an enabler for the provision of financial services, not as a substitute. Appropriate risk management, support mechanisms and human interaction environments remain necessary to drive sustainability and ensure stability.



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Financial literacy and consumer protection

Financial consumer education and consumer protection play a critical role in encouraging the sustainability of financial inclusion. Improved understanding of benefits, costs and risks of financial services increases the likelihood of beneficial use of appropriate financial services.

The continued and beneficial use of financial services is also dependent on the manner in which financial service providers interact with the users of financial services. It is therefore important that consumers are treated fairly at all stages of their relationship with financial service providers to ensure that financial inclusion is optimal. When we develop consumer protection and market-conduct regulation we should aim to ensure that characteristics of products offered to low-income households and small enterprises are appropriate and not exploitative.

Measuring financial inclusion

To understand our people's experiences of and their interaction with financial services, as well as the impact of financial services in their lives we need the ability to measure and monitor the complete state of financial inclusion in countries. Financial inclusion data plays a crucial role in this regard by establishing a quantified assessment of the current state of financial inclusion. This helps to inform policy and market interventions, assessing progress and if necessary adjusting such interventions towards the desired outcomes.

It is therefore important that we intensify our financial inclusion data collection efforts. Without data we cannot measure the impact of our efforts. FinMark Trust, through the FinScope Surveys, has certainly helped us a great deal in our region, sharpening our insight into the financial needs of our people, their financial behaviour and how financial services affect their lives.

For a complete picture of financial inclusion there is also a need for data that reflects the capacity that financial institutions have put in place or are utilising to provide financial services. The most appropriate agencies to collect these data are typically regulatory



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authorities. I therefore encourage those regulators who are currently not collecting financial inclusion data from the institutions they supervise to start doing so.

Financial inclusion and other financial sector objectives

Ladies and gentleman, there is a view that financial inclusion efforts will have a negative effect on other policy objectives such as financial stability, financial integrity and consumer protection. However, if financial inclusion is approached from a systemic perspective and responsibly progressed, the opposite can be true. The approach to financial inclusion should not be just about ensuring that financial services are accessible to all but it should also take into account the other policy objective of maintaining financial stability, protecting consumers and promoting financial integrity. Pursuit of these objectives and the resulting trade-offs must be balanced to achieve responsible and sustainable advantages.

Having a financial system that is safe is of course always a key objective, but only focusing on this objective may limit competition and innovation in the market. The focus on consumer protection as the only policy objective might hinder financial service provisioning, while a focus on promoting financial integrity alone may well lead to high cost financial services provisioning and hence discourage product offerings of financial institutions, as has occurred recently with widespread “de-risking” by banks after receiving substantial fines for failing anti money-laundering and terrorism checks. We therefore need to ensure that there is balance between these objectives.

When you deliberate on these issues tomorrow at one of the breakaway sessions you should be mindful of the fact that balancing these objectives needs to be done at a policy level. Any regulatory initiatives that could have unintended consequences for any of the four policy objective should be carefully considered, striving for complementarity in meeting the objectives rather than looking at each objective in isolation.

Ladies and gentleman, such an approach to different policy objectives goes beyond just the financial sector objectives. We need to approach financial inclusion in a holistic way together with other development programme. Financial inclusion alone cannot change the lives of the



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poor. For financial inclusion to make a positive change to the lives of the poor it has to part of a compendium of complementary development programmes of education, enabling labour environments and poverty eradication.

Regional financial inclusion forum

We have created platforms to discuss our development challenges and exchange ideas, and learn from each other's experiences in the SADC. However we have not used this approach in addressing financial exclusion as a challenge facing all countries in the region. Mindful of the fact that countries have different financial service provisioning environments which requires country specific financial inclusion strategies and interventions, I hope that this event is the beginning of a regional forum that will provide a platform for countries within the region to share financial inclusion experiences that inform and enhance their own approaches.

I urge you to consider the further development of regional financial infrastructure, as the richness of shared infrastructure will invariably enable greater financial inclusion across the region. Where the regional infrastructure is complemented by compatible national financial infrastructure this enabling effect will be much enhanced.

Conclusion

Ladies and gentleman, I wish you well in your deliberations during this event. May the needs, aspirations and hopes of our people guide all of you in your endeavours to ensure that all our people have access to and the use of appropriate financial services. As we strive to build a better life for all our people, let financial inclusion be part of our efforts. I hope the outcome of this indaba will be presented to the meeting of the Finance Ministers with the objective of making inclusion an integral part of the SADC agenda.

I thank you