New banking Bill to increase access to financial services

By Michael Appel

13 Sep 2007

The new Co-operative Banking Bill 2007, which was passed in the National Assembly on Tuesday, 11 September, will allow low income earners access to banking services.

The banking Bill was passed without opposition following Finance Minister Trevor Manuel's address which highlighted the fact that many South Africans do not - or have a lack of - access to banking services and therefore financial advice.

This is one of Governments initiatives to promote access to financial services, particularly to the most vulnerable people who earn low incomes and who lack access to mainstream financial products.

In 2004, the financial sector Charter was launched which led to a number of initiatives to promote access to financial services.

“The most prominent of these initiatives is the no-frills basic Mzansi bank account.

“According to the Banking Association of South Africa over three million Mzansi accounts have been opened in the three years following the launch of the financial sector charter,” said the minister.

However, a survey conducted by Finscope in 2006 revealed that 49% of the total adult population does not have access to banking services.

This implies that in 2006, 15.27 million South African adults were “unbanked”, he said.

The minister noted that while major achievements had been made by the commercial banks in providing banking services to the previously excluded sections of society, the problem of access to financial services was too large to be tackled by commercial banks alone.

He said it was necessary to increase community participation and government intervention.

The concept of the Co-operative Banks Bill seeks to formalise an “old international tradition of institutionalised self-help practices”.

Co-operative banks have been in successful existence for centuries in Germany, Australia, United Kingdom, Unites States and India.

Manuel said they had been successful because of deliberate government policies that support and advance their cause.

Since 1998, financial services, co-operatives, credit unions and village banks have been operating under an exemption from the main stream Banks Act.

This caused an absence of sector-specific legislation for these community-owned banking institutions with a lack of protection for the deposits made.

The end result is that the public's confidence in these institutions is hugely compromised, said the minister.

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.

In addition, the bill will create a development framework to be implemented through a Development Agency for Co-operative Banks, and the establishment of a deposit insurance fund aimed specifically at protecting the registered co-operative banks.

The Bill was extensively debated at the National Economic Development and Labour Council (NEDLAC) and comments were received from stakeholders including the Congress of South African Trade Unions (COSATU), the Banking Association of South Africa, the University of Pretoria, the Competition Commission and the South African Reserve Bank.

The bill will now be forwarded to the National Council of Provinces for the final approval.

Government has embarked on a number of initiatives on its own and in partnership with financial institutions, to increase access to banking and savings services to low-income and other marginalised groups, previously excluded from this facet of economic participation.

Launched nationally by Trade and Industry Minister Mandisi Mphahlwa in 2005, the SA Micro Finance Apex Fund (Samaf) extends micro-credit of up to R10,000, to entrepreneurs excluded from large financial institutions.

Samaf has been capitalized by R120 million yearly from government.

Another inclusionary measure is the Micro Agricultural Finance scheme of South Africa (Mafisa). This is a credit scheme for the agricultural sector, administrated by the Land Bank on behalf of the Department of Agriculture.

It extends micro credit, savings, insurance and payment facilities to economically active poor rural households, small farmers and agri-businesses.

This scheme provides loans of up to R100,000, payable over 12 months.

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