Financial Sector Transformation

Standing Committee on Finance

Competition, barriers to entry and inclusive growth: retail banking case study

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Meaningful inclusion means *changing the rules*

1. Inclusive growth: *Meaningful participation* as labour, buyers, owners

2. Transformative finance is Inclusive, Competitive, Funds entry
   Going beyond banks, financial markets, state funding

3. Competitive market should reward effort & innovation, *not* incumbency

4. Rules stacked in favour of insiders – so *change the rules of the game*

5. CCRED shows that **entry and rivalry** brings benefits to consumers
   Consumer savings = R20 billion a year

6. **BUT banking transformation only part of a broader set of measures to shift economy towards greater inclusion**

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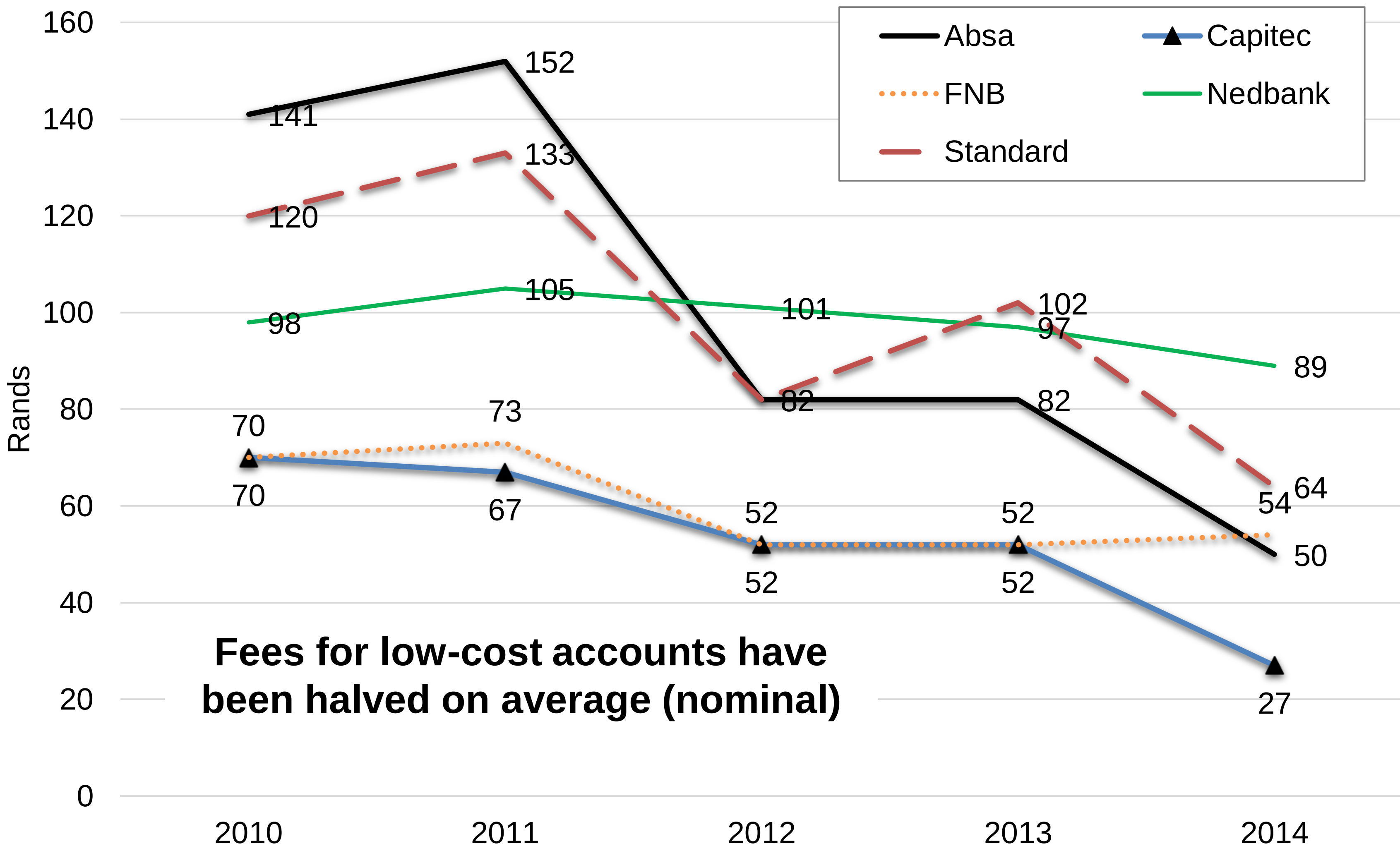
1. Entry contributed to ~R20bn/yr consumer savings



1. Barriers to entry remain high

- Entry brought benefits in lower fees, more dynamic products, competition for low-income customers, responsiveness from incumbents

BUT, there are natural and strategic barriers

- Customer switching ‘costs’ are high, hassle factor
- Limited transparency and comparability of bank offerings
- Obtaining banking licence is difficult without tiered structure
- Infrastructure is costly – ATMs, interconnection, and limits on using alternative technologies
- Requirements affect small banks disproportionately
- High fixed and sunk costs

AND

In some cases, failure to encourage and support entry through permissive regulation has same effect as high barriers to entry

2. Bank collusion only part of the story

- Important to recognise the case as part of global cartel arrangement
- Highlights limited transparency and flaws in supervision
- Demonstrates that competition law is not enough to correct harm
- Harm from cartels generally larger than penalties allowed by law
- Cartels arise and sustained by high barriers and fighting off entrants
  - Including using regulation as a barrier to protect incumbency
- Opportunity to use cartel finding to open up regulation (e.g. US, UK)

3. Regulate *for* competition

- Comparative studies on Mobile Money (MM) demonstrate role of regulation in stifling growth of MM in South Africa
  - Mobile money viewed as deposit-taking in SA, thus bank-led
  - Prioritising role of clearing banks
  - Lacking dynamism of MNO-led solutions
- Benefits from MM in Zimbabwe and Kenya arose from a flexible, adaptive, risk-taking regulatory environment
- Slow progress in implementing Banking Inquiry recommendations
  - Customer switching – penalise delays in switching customers, and reduce customer costs
  - Transparency and comparability in pricing

3. Regulate *for* competition

- Introduce better monitoring and publishing of commercial lending to SMEs and black-owned businesses
  - Development finance not enough – SA requires long-term, risk-taking, patient funding for new investments in productive assets
  - Incentivise provision of services to SMEs and black-owned entrants
- Open up licensing to promote diversity of offering:
  - Tiered or stratified banking structure relative to degree of risk to payments system
  - Supportive legislation for branchless, cooperative forms, agency banking, technology-based solutions
- Bank regulation to be viewed as contributing to goals of industrial policy

Transformation in finance in context