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Research Report Title:

Financial inclusion in South Africa: An analysis of the financial sector regulatory framework and proposals for reform.

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DECLARATION

I, Amanda Duma

declare that this Research Report is my own unaided work. It is submitted in partial fulfillment of the requirements for the degree of Master of Laws (by Coursework and Research Report) at the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

I have submitted my final Research Report through TurnItIn and have attached the report to my submission.

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Table of contents

1. Acknowledgements.....3

1. Introduction.....4

1.1 Why is financial inclusion important.....6

2. Barriers to financial inclusion.....7

2.1 Regulatory requirements.....7

2.2 Undocumented and under documented individuals.....8

2.3 Lack of enough money.....10

2.4 Lack of trust in financial service providers.....10

2.5 Financial literacy and capability.....10

2.6 Distance from financial service providers.....11

2.7 Religion.....11

2.8 De-risking and freezing of facilities.....11

2.9 Financial Service Provider (FSP) compliance costs.....12

2.10 FSP licensing requirements.....12

3. Financial inclusion in other countries compared to South Africa.....13

3.1 Gender and financial inclusion.....14

3.2 Age and financial inclusion.....16

4. Implemented initiatives and policies enabling financial inclusion.....17

4.1 Regulatory changes.....17

4.2 Remittance market developments.....18

4.3 The Financial Sector Charter.....19

4.4 The National Treasury Policy.....20

4.5 Money transfer or low value payments services.....21

5. Other initiatives.....22

5.1 Regulating systematically important financial institutions.....22
5.2 Expanding the scope of financial regulation.....23
5.3 Improving the financial crisis resolution framework.....24
6. Recommendations.....24
6.1 Re-assessment of legislation.....24
6.2 Effective awareness and financial literacy/education.....26
6.3 Regulation and supervising the banking sector.....26
6.4 Relaxation of FICA/KYC requirements.....26
6.5 Advancing financial inclusion to improve the lives of the poor.....27
6.5.1 Financial education.....27
6.5.2 Digital financial services.....28
7. Concluding remarks.....33
8. Bibliography.....34

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1. INTRODUCTION

It is estimated that around 2billion adults worldwide do not have a basic banking account - this is around 40 per cent of the world's adult population.[1] Approximately 12million people in South Africa (23 per cent of the population) are considered financially excluded, with 9 percent informally served.[2]The reasons for this high figure vary.

By "informally served", this thesis refers to people who have the means to transfer their own money, or they make certain transactions via illegal means, for example, utilizing informal lenders or "loan sharks".[3]Since informal lenders are not registered as financial institutions with the National Credit Authority (NCA), they cannot operate as such, and consumers cannot be protected in terms of the National Credit Act.[4] Even if there are complaints, no legal action can be taken. Because informal lenders are aware of this, they tend to exploit people.

Informal services can also attract other types of criminal activity. For example, in South Africa, the Hawala system is known to facilitate money laundering and human trafficking.[5] Illegal activity can be difficult to trace because the system runs on once-off codes which are instantly transferrable, for example via cell phone.

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[1] Sarah Truen, Kemedi Kgaphola, Motshidi Mokoena "Updating the South Africa-SADC remittance channel estimates" Prepared for FinMark Trust, December 2016; World Economic Forum "2 billion people worldwide are unbanked-here's how to change this" 17 May 2016 (available at https://www.weforum.org/agenda/2016/05/2-billion-people-worldwide-are-unbanked-heres-how-to-change-this); The World Bank "Financial Inclusion" 5 April 2017 (available at http://www.worldbank.org/en/topic/financialinclusion/overview); A Demirguc-Kunt, L Klapper. D Singer and P Van Oudheusden "Measuring Financial Inclusion around the World: the Global Findex database"2014 World Bank Policy Research Working Paper no 7255 at 13.

[2] The South African Insurance Industry Survey by KPMG "The role of financial services in society" 2017 at 19; The World Bank 'South Africa Economic Update: Focus on Financial Inclusion' May 2013 at 20.

[3] Treun, Kemedi and Mokoena at op cite note 1; T.V Hlekiso "Issues in micro lending policy and regulation" May 2000 at 13.

[4] National Credit Act 34 of 2005.

[5] Yusuf Abramjee "Money laundering: Millions of rands leaves South Africa each month" Namola supported by dialdirect (available at https://namola.com/latest-news/money-laundering-millions-of-rands-leaves-south-africa-each-month-writes-yusuf-abramjee/).

Another example of unregulated transacting is cryptocurrency, for example, Bitcoins. In South Africa, cryptocurrency is not regulated and, therefore, consumers are not protected.[6]

The government and the financial sector need to help ensure that the excluded 9 per cent migrate from informal to formal financial services. This would help protect them from potential exploitation and make illegal activity more difficult to conduct.

Financial inclusion refers not only to credit but to all financial products, for example, insurance and investments. Financial inclusion is defined as:(1) "making an adequate range of safe, convenient and affordable financial services available to disadvantaged and vulnerable people, that is, poor and low income groups, undocumented persons and those residing in rural communities", and[7] (2) "providing access to useful and affordable financial products and services - for example transactions, payments, savings, credit, and insurance - that not only meet the needs of individuals and businesses but are delivered in a responsible and sustainable way".[8] Although these definitions differ somewhat, the common factor is affordability.[9] This is important because those who cannot afford financial services and products remain excluded.

Approximately R12 billion is kept under mattresses.[10] This is a lot of money and could have a massive impact if it came into the market.

"Since 2010, more than 55countries have made commitments to financial inclusion, and more than 30 have either launched or are developing a national strategy".[11] South Africa is among the

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[6] Alex Lielacher " The South African Reserve Bank will offer no protection for ICO Investors" 8 September 2017, BitcoinAfrica.IO (available at http://bitcoinafrica.io/2017/09/08/sarb-says-no-protection-for-ico-investors/); Go Legal Industry News and Insight "Is Bitcoin Legal in South Africa" (www.golegal.co.za/bitcoin-legal-staus- South Africa (2016)) last accessed 30 August, 2017; Crawford Kerrie "Financial Services: Regulation tomorrow South Africa: Is Bitcoin Money" (2015).

[7] Financial Action Task Force (FATF Guidance) "Anti-money laundering and terrorist financial measures and financial inclusion) June 2011 at 12.

[8] The World Bank 'Financial Inclusion At-A-Glance' 5April 2017; The Banking Association of South Africa "Working definition of financial inclusion" (available at http://www.banking.org.za/what-we-do/overview/fi-definition); Amanda S. Khoza "Factors that influence the socio-economic impact of the financial inclusion programmes in a South African financial institution" 2015 at 14.

[9] The World Bank op cite note 8.

[10] Press reader "Banker: R12 bln kept under mattresses" September 2010 (available at http://www.pressreader.com/south-africa/the-witness/20100908/282441345412475); The South African Insurance Industry Survey by KPMG "The role of financial services in society" 2017.

[11] The World Bank "Financial Inclusion" 5 April 2017 (available at http://www.worldbank.org/en/topic/financialinclusion/overview

30countries that have already put policies in place to drive financial inclusion. There are quite a few products, for example, Ewallet, Easypay,Pay@ and M-Pesa that were designed to attract people previously excluded. The Mzansi Account, introduced in 2004, attracted some 4.6 million clients.[12]

1.1 Why is financial inclusion important?

Financial inclusion is viewed [13] as important because it is a key enabler in reducing poverty and boosting shared prosperity.[14]From allowing business owners to pay employees electronically rather than carrying cash and putting himself and others at risk to the convenience of cell phone banking, greater access to financial facilitates day-to-day living. At the same time, the economy is stimulated through creation of banking jobs and other ripple effects.

Financial services also help individuals and firms withstand income shocks and encourages smooth spending.[15]Families and businesses can plan for everything from long-term saving and investment goals to short-term issues like unexpected emergencies, where products like insurance and credit protect against the unforeseen.[16] Credit can enable the starting and expanding of businesses, although training must be provided to avoid bad debt and spiraling problems which can result, for example from stress and/or alcohol abuse. Financial inclusion can change lives and boost the economy, contributing to an improvement in overall quality of life. Without inclusive financial systems, individuals and small businesses must rely on their own resources or on informal social support systems to meet their financial needs.

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[12] National Treasury, 'The Use of Financial Inclusion Data Country Case Study: South Africa, The Mzansi Story and Beyond (2014), Bankable Frontier Associates (FinMark Trust Final Report) "The Mzansi Bank Account initiative in South Africa" March 2009 at 13.

[13] The World Bank "Financial Inclusion" April 2017 (available at http://www.worldbank.org/en/topic/financialinclusion/overview); Linda Van Gelder "Financial inclusion is important" 10 November 2017: The World Bank (available at http://www.worldbank.org/en/news/speech/2017/11/10/remarks-by-regional-director-linda-van-gelder-at-the-bank-of-albania-conference).

[14] Velenkoni Matsebula & Derek Yu: Department of Economics, University of the Western Cape "Financial inclusion in South Africa: a NIDS data analysis of household access and the usage of financial services and products" at 2.

[15] World Bank " South Africa Economic Update: Focus of financial inclusion" October 2014 (available at https://openknowledge.worldbank.org/handle/10986/2193)

[16] Ibid.

Furthermore, a well-functioning financial system produces and processes information on investment opportunities and allocates capital based on these assessments.[17] Financial inclusion is crucial to increased economic empowerment. This is especially so in rural communities because it is believed that the rural poor possess the skills needed to earn a living as part of localised economic communities.[18] Access to finance in the form of credit is necessitous to spur economic activity, when attempting to unlock the economic potential of the rural poor.[19] It should be considered as one of the essential aims of financial inclusion to lift the rural poor out of poverty by helping them build better and more dignified lives.[20]

The aim of this thesis is to better understand barriers to financial exclusion and how they might be overcome. We will briefly look at strategies for inclusion in other parts of the world, especially Africa, and how these compared to South African strategies, as well as the effects of age and gender on financial inclusion. We will look at what progress has been made in South Africa and why improvements are especially necessary in order to improve the lives of poor as well as boosting the economy. Here, financial education and digital services are vital. Lastly, we will make recommendations on how financial inclusion can be effected and increased as this is viewed necessary for bettering of the financial markets in South Africa.

2. BARRIERS TO FINANCIAL INCLUSION

The following factors play a role in preventing more people from being included in the formal economy.

2.1 Regulatory requirements

The Financial Intelligence Centre Act 38 of 2001 (the FIC Act) came into effect on 1 July 2003. This act was introduced to fight financial crimes such as terrorist financing activities, tax invasion, money laundering.[21]FICA brings South Africa in line with similar legislation in other countries

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[17] Ibid.

[18] Chijioke Kennedy Oji, "Promoting Financial Inclusion for Inclusive Growth in Africa" Occasional Paper 210 SAIIA (2015) at 11.

[19] Ibid at 12.

[20] Chijioke op cite note 18 at 13; Alliance for Financial Inclusion, *Putting financial inclusion on the global map: The 2013 Maya Declaration progress report*, 2013.

[21] The Banking Association of South Africa "Introducing the Financial Intelligence Centre Act" (available at http://www.banking.org.za/consumer-information/legislation/financial-intelligence-centre-act);see aims in the

and is designed to track the movement of moneys, thereby curbing money laundering and other criminal activities.[22]

Although this legislation is important in combating criminal activities, it is one legislation that has excluded or prevented millions of people from accessing formal financial products and services. This is because FICA has so many requirements that financial institutions need to comply with when providing financial products or services to consumers. Contravening this legislation normally results in large fines.[23]

In aiming to provide banking services at lower fees, the cooperative banking sector introduced the Co-operative Banks Act[24] and associated regulations sought to regulate this industry in 2007.This initiative, however, remained insignificant and failed to achieve its desired objective as the act required that all financial cooperatives with more than R1 million in deposits and 200 members register and be regulated under the Act.[25] While there were 106 cooperative financial institutions with total assets of R217.5 million and 53,240 members at end-February 2012, only two were registered and 19 were eligible for registration.[26] Thus the regulation of cooperative financial institutions has had little effect on inclusion.

2.2 Undocumented and under-documented individuals

Certain legislation, like FICA, contains requirements for what we call Customer Due Diligence (CDD). Section 21 of FICA[27] - the "Know Your Client" (KYC) requirement - obliges financial institutions to verify the identity of potential clients and other persons prior to doing business with them.[28]Some individuals do not have the information required, and this places them at risk of exclusion. For example, the rural poor must often incur extensive costs to access government

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Financial Intelligence Centre Act; Protection of Constitutional Democracy against Terrorist and Related Activities (33 of 2004).

[22] The Banking Association of South Africa op cite note 20.

[23] The Financial Intelligence Centre Act 38 of 2001, section 46(1) and (2).

[24] Co-operative Banks Act 40 of 2007.

[25] The South African Reserve Bank & the Supervisors of the Co-operative Banks Development Agency: Combined Annual Report, 2013/14; Chijioke op cite note 18.

[26] The World Bank 'South Africa Economic Update: Focus on Financial Inclusion' May 2013at 28.

[27] Section 21 (1) (a).

[28] Herbert Kawadza "A snapshot of financial exclusion in South Africa" ABLU 2017 at 46; CGAP Focus Note "AML/CFT Regulation: Implications for financial service providers that serve low-income people" July 2005 at 10.

institutions that issue identity documents.[29] What is also discouraging is the fact that obtaining an identity document is costly.[30]

Furthermore, the Financial Intelligence Centre Regulations state that accountable institutions must also verify the residential or physical address of potential clients.[31] People living in informal settlements are not able to provide such information. Migrants, in particular, refugees and asylum seekers, do not have the necessary documents, and it becomes a challenge for them to open bank accounts. According to the census community survey of 2016, approximately 13 per cent of South African household reside in informal dwellings,[32] and at least one-third of South African households do not have formal addresses.[33] It is clear that address verification would be a barrier preventing such people from opening a bank account.

South Africa is one of the few countries that verifies residential addresses of clients. Other countries only verify identity documents[34]. Financial Action Task Force (FATF) recommendations do not stipulate that financial institution must verify the residential address. According to FATF, countries have flexibility in how they achieve this object and can well adopt a risk-based approach.[35] FICA goes beyond FATF requirements, and this contributes to exclusion.

FICA requirements also make it difficult for people working in the informal sector to apply for credit, for example to expand their businesses. Likewise, low income earners may be prevented from accessing credit by the daunting loan application paper work.[36] Another impediment barrier to accessing credit is the requirement of collateral.[37] "Faced with such challenges, the excluded

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[29] Kawadza at 46.
[30] Kawadza op cite note 28.
[31] Regulation 4(3) of the Financial Intelligence Centre Regulations in GN 1595 GG 24176 of 2002. The Regulations also set out guidance to accountable institutions in relation to the terms of information that must be obtained from natural persons resident in South Africa.
[32] Statistics South Africa "Community survey 2016:Statical release P0301" 60 (available at https://www.google.co.za/?gfe_rd=cr&ei=XEdrWLHjCeOo8wfZ4beABg&gws_rd=ssl#safe=strict&g=stat+sa+community+survey+2016+pdf)
[33] Kawadza op cite note 28 at 47; Serena Coetzee & Antony K. Cooper "What is an address in South Africa?" SAJS 103. December 2007 at 454.
[34] FATF Guidance "Anti-money laundering and terrorist financing measures and financial inclusion" November 2017 at 44- 45 (available at http://www.fatf-gafi.org/media/fatf/content/images/Updated-2017-FATF-2013-Guidance.pdf).
[35] Consultative Group to Assist the Poor (CGAP) Focus Note "AML/CFT Regulation: Implications for financial service providers that serve low-income people" July 2005 at 4.
[36] Fleising and Safavian "Reforming Collateral Laws to Expand Access to Finance (World Bank August 2006)" at 1-3.
[37] Flesing op cite note 36 at 1.

end up being caught in the web of indebtedness as they are bound to make use of alternative services of informal and unregulated money lenders who charge excessive interest rates and employ predatory lending and debt-recovery tactics".[38]

It is a catch-22. If financial institutions do not comply with these requirements they can be fined by the FIC, National Credit Authority (NCA), the South African Reserve Bank and many other regulators. The institution's reputation can be negatively affected. They may lose clients because people are reluctant to entrust their finances to an institution that does not respect the law.

2.3 Lack of enough money

Resent research has shown that the South African banking system charges higher fees than most of it counterparts in the G20.[39] The banking charges are said to be four times higher than those of Germany, Australia and India.[40] "This is usually justified by high operating costs and other financial sector compliance requirements".[41] It is therefore clear that transactional costs that come with holding a bank account contribute greatly to exclusion.

Additionally, a bank account must retain a minimum account balance. Some people cannot afford to continuously maintain this minimum balance and thereby become excluded from keeping a banking account.

2.4 Lack of trust in financial service providers

It is common in South Africa, especially nowadays, for people to get defrauded. People get mugged at ATMs, and sometimes ATM cards get jammed when making cash withdrawals. If a family member falls victim to fraud or ATM attack, others may lose trust and be reluctant to risk having a bank account.

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[38] See Kawadza op cite note 28 at 48.

[39] Genesis "An inter-country survey of the relative costs of bank accounts" 14 March 2015; Task Group Report for National Treasury and the South African Reserve Bank, Competition in South African Banking (April 2004) 114-115.

[40] Kawadza op cite note 28 at 47; Liesl Peyper, Fin24 "High fees tops reasons why South Africans shun banks" 05 May 2017 (available at https://www.fin24.com/Companies/Financial-Services/high-fees-top-6-reasons-why-south-africans-shun-bank-20170505).

[41] Ibid.

2.5 Financial literacy and capability

Many South Africans are illiterate or have low literacy, including financial literacy.[42] "A new survey shows that less than half of South Africans can be considered financially literate – well below the average of advanced economies, but ahead of the global average".[43]Also, some ATMs might not have their home language. Although customers can ask for help (during banking hours), they may feel intimidated and prefer to keep their money under the mattress at home.

2.6 Distance from financial service providers

Hard-to-reach populations, for example, those in deep rural areas, remain for the most part financially excluded. Often there is little or no infrastructure such as roads, electricity, water etc. Unless there are local government facilities, it may not be feasible for banks to build a branch. If people must travel long distances to access facilities, they will usually remain excluded.

2.7 Religion

Religion can be a barrier, ascertain religions do not allow certain activities. Some banks are developing financial products and services aligned to religious requirements so as to be more inclusive and expand business. Some banking institutions now have, for example, ZCC and Islamic products.[44] Banks that do not adapt may not gain access to these markets, and potential customers remain excluded.

2.8 De-risking and freezing of facilities

The concept of de-risking and freezing started around 2013 and 2014 to counter money laundering and other criminal activities which might negatively affect a bank's reputation.[45] In de-risking, financial institutions may close the account or refuse to bank a person suspected of money

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[42] Gertrude R. Thompson "Financial inclusion and the effects of credit expansion on lower income groups in South Africa" 2015 at 18.

[43] Staff Writer "Majority of South Africans do not understand how money works" 19 November 2015 (available at https://businesstech.co.za/news/wealth/104601/majority-of-south-africans-do-not-understand-how-money-works/).

[44] Z.M Randeree "The use of Islamic financial instruments by Islamic banks" December 2000 at 56-57; A Loonat "Consumer awareness, usage, and attitudes towards Islamic banking" September 2004 at 13.

[45] Hugo Smit "Correspondent banking is on decline; for Africa, the impact is huge" August 2016 (available at http://www.theeastafrican.co.ke/OpEd/comment/Correspondent-banking-is-on-the-decline-huge-impact-in-Africa/434750-3360242-mlgua7/index.html).

laundering. In the case of Breden Kamp v Standard bank[46], Breden Kamp was sanctioned by standard bank who closed his account. The same happened with Fana Hlongwane in 2016, when Absa closed his account, claiming that Mr Hlongwane was involved in Amscor company corruption.[47] Doing business with politically exposed individuals accused of corruption can be costly to a bank's reputation.

Another example is that of the Guptas. Because the Guptas are politically exposed and have been implicated in state capture associated with President Jacob Zuma, the banks deemed the risk too high, and it was decided to no longer do business with them.

When dealing with a high-profile client, banks need to monitor every transaction, and this can cost more than the client's bank charges. Banks also tend to de-risk accounts of a high-risk client if administering the account costs more than what they are receiving in bank charges.

As a step before de-risking, a financial institution may freeze an account where they suspect the owner may be engaged in criminal activity. Although this shows that banks do not condone crime, freezing of accounts can lead to unfair exclusion. For example, a bank may allow a low-income person to open an account on condition that their balance must not exceed R25 000. If the customer violates this rule, the bank has no choice but to immediately freeze their account.

2.9 Financial Service Provider (FSP) compliance costs

Legislative requirements result in high compliance costs for financial institutions. FICA requires institutions to securely store clients' personal information as well as all records and documents.[48] These costs must be recovered through higher bank fees and charges. A portion of banking charges is compliance costs. Compliance costs are programmatic in that they drive monthly charges and fees up, causing many people to close their accounts and contributing to exclusion.

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[46] Bredenkamp v Standard Bank (599/09) [2010] ZASCA 75 (27 May 2010).

[47] TMG Digital "Here is why Fana Hlongwane's bank account was closed" 11 November 2016 (available at https://www.sowetanlive.co.za/news/2016-11-11-heres-why-fana-hlongwanes-bank-account-was-closed/).

[48] The Financial Intelligence Centre Act, sections 22, 22A and 24; ABSA blog "what's the fuss with FICA" 3 February 2016 (available at https://blog.absa.co.za/whats-the-fuss-with-fica/); Louise de Koker "Will RICA's customer identification data meet anti-money laundering requirements and facilitate the development of transformational mobile banking in South Africa?" An exploratory note, Finmark Trust. 7 October 2010 at 3.

2.10 FSP licensing requirements

This is a supply side of financial exclusion. We have got only a few banks or financial institutions in South Africa. In rural areas, the smaller financial institutions often do not meet stringent licensing requirements of, for example, the Banks Act.[49] Relaxing legislative requirements so as to embody smaller financial institutions would help these institutions penetrate the rural market. Mutual banks are another way of including people. In South Africa, however, we have very few, and the licensing requirements are rigorous. Penetration of rural markets becomes prohibitive, contributing to greater exclusion of those who might benefit from formal financial services.

3. FINANCIAL INCLUSION IN OTHER COUNTRIES COMPARED TO SOUTH AFRICA.

In this section, we look at how other countries have approached the problem of financial inclusion and how South Africa compares globally and to other SADC countries. We also look at the effects of gender and age.

An assessment conducted by Global Microscope in 2016 shows what SADC countries have done to promote financial inclusion. South Africa was placed at 51%.[50]This seems anomalous - South Africa is perceived as one of the richest country in Africa, and yet some countries like Ghana, Tanzania, Rwanda and Kenya are ahead of us in terms of financial inclusion. Ghana's score was 58%, Tanzania 62%, Kenya 61% and Rwanda 61%.[51]In other words, these countries have implemented more policies, more products and the government is giving more support to financial inclusion. Although South Africa has taken steps to mitigate financial exclusion, it is not enough. We still have 12million people who are financially excluded.

Country scores for Sub-Sahara Africa: Global Microscope 2016

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[49] The Banks Act 94 of 1990; John C. Storey " Strategic issues facing South African Banks in international financial service markets" May 1994 at 29.

[50] FinMark Trust Results from Finscope South Africa 2016 Survey on Financial Inclusion (at https://www.finmark.org.za/results-from-finscope-south-africa-2016-survey-on-financial-inclusion/); The Economist Intelligence Unit "The enabling environment for financial inclusion" 2016 at 10.

[51] Statistics Times 'List of African countries by GDP per capita' (2017); International Monetary Fund 'World Economic Outlook Database' (October 2016), Statistics Times 'List of African countries by GDP per capita' (February 2017)

Country	Score
Tanzania	62%
Kenya	61%
South Africa	51%
Ghana	58%
Rwanda	61%
Mozambique	51%
Senegal	47%
Nigeria	46%
Uganda	46%
Ethiopia	34%
Cameroon	33%
Madagascar	30%
DRC	26%
Average score	47%

3.1 Gender and financial inclusion

Further analysis of the data shows that the gender gap favoring men prevails, even in countries with the highest financial inclusion, with the gap in bank account ownership being highest in Botswana, Swaziland and Mauritius.[52] South Africa is the only country with a positive gender gap, that is, where women are more financially included than men.[53] This is mainly because women receive social grants through SASSA card.[54]By law, only women may receive grants on behalf of

[52] Deena Burjorjee, Mayada EI=-Zoghbi, Lis Meyers 'Social norms change for women's financial inclusion' Prepared for CGAP,July 2017 at 1; The World Bank " Global findex Data: Gender" 2014 (available at http://datatopics.worldbank.org/financialinclusion/indv-characteristics/gender); Ashenafi Beyene Fanta and Kingston Mutsonziwa "Gender and Financial inclusion: Analysis of financial inclusion of women in the SADC region" Policy research paper no. 01/2016 (prepared by Finmark Trust) August 2016 at 6.

[53] Prinesha Naidoo "SA leads SADC in financial inclusion of women" Market Update, 30 August 2016(available at https://www.moneyweb.co.za/news/south-africa/sa-leads-sadc-in-financial-inclusion-of-women/).

[54] Sarah Truen, KemediKgaphola, MotshidiMokoena 'Updating the South Africa-SADC remittance channel estimates' Prepared for FinMark Trust, December 2016.

their children. If this was not the case, South Africa would be in the same position as the above-mentioned countries.

Throughout the countries in this study, the gap in account usage is wider than account ownership.[55]It seems, however, that the gap is wider when usage rather than access is used to gauge financial inclusion. For instance, in Malawi, the gap in bank account usage is 19 percent, favoring males, while the gap in access to bank account is only 8 percent.[56] Not surprisingly, despite the higher proportion of females being banked in South Africa, it is males that have more used accounts.[57] Most bank accounts owned by females in South Africa are either inactive or mailbox accounts.[58] The gender gap in access to bank credit is bigger throughout, even in countries where the level of access is the highest.[59]

Females cite lack of understanding about how banks operate as the main reason for not using their accounts.[60]The is argued that even after controlling for individual characteristics such as age, household size, marital status, education, place of residence, income employment status, and level of education, gender remain significantly related to financial inclusion, implying that financial services are biased against females.[61]

Financial education/literacy programs targeting females would enable them to develop a reasonable understanding of the language used by banks, benefits of owning a bank account and how to apply for one.[62] Such programs should also enable females to develop skills in household

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[55] Ibid.
[56] Ibid.
[57] Bayene Fanta and Mutsonziwa op cite note 50 at 10.
[58] Ibid at 11.
[59] Asli Demirguc-kunt and Leora Klapper "The Gender Gap in Access to Finance" The World Bank, August 2013 (available at http://blogs.worldbank.org/psd/the-gender-gap-in-access-to-finance).
[60] Robin Lewis, John Villasenor, and Darrell M. West "Bridging the financial inclusion gender gap" Techtank, 1 April 2016 (available at https://www.brookings.edu/blog/techtank/2016/04/01/bridging-the-financial-inclusion-gender-gap).
[61] Ashenafi Beyene Fanta and Kingston Mutsonziwa "Gender and Financial inclusion: Analysis of financial inclusion of women in the SADC region" Policy research paper no. 01/2016 (prepared by Finmark Trust) August 2016 at 15-19; Goksu Aslan, Corine Delechat, Monique Newiak, and Fan Yang "Inequality in Financial Inclusion, Gender Gaps, and Income Inequality" IMF Working Paper WP/17/236 November 2017 at 6 (available at https://www.researchgate.net/profile/Corinne_Delechat/publication/321057898_WP17236_Inequality_in_Financial_Inclusion_and_Income_Inequality/links/5a0af6ab458515e482743af0/WP-17-236-Inequality-in-Financial-Inclusion-and-Income-Inequality.pdf).
[62] Ibid.

financial management that leads to empowerment and increased involvement in household financial decisions.

3.2 Age and financial inclusion

Young people face significant barriers to financial inclusion, representing the loss of huge opportunity costs for the global economy. Over 1.2 billion people are aged 15 to 24[63], yet only 4.2 million young people have access to financial services.[64] Worldwide, unemployment rates for young people are about two to three times higher than for adults, and poverty is widespread.[65]Even among working youth, poverty is high, since many young workers are paid low salaries. The fact that many young people lack the resources to support their families also implies that the adverse conditions they face are more likely to be passed on to their own children.

Facilitating access to appropriate financial services can play an important role in supporting young people's transition into adulthood by helping them start their working lives effectively and become productive and economically active members of their communities.[66]In particular, access to savings services encourages asset building and promotes sound money management skills which are likely to continue throughout their lifetime.[67]

The general view is often that young people have no need to handle money and only engage in very limited financial transactions. This is not the case, however, as recent research demonstrates. Surveys show that young people of all ages handle money on a regular, often daily, basis. What's more, many of them prioritize saving a portion of their money in order to support goals such as being able to pay for school supplies and fees or starting a business.[68]

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[63] UNESCO, 'The 2012 EFA Global Monitoring Report: Youth and skills – putting education to work', 2012.
[64] Making Cents, 'State of the field in Youth Enterprise, Employment and Livelihoods Development', 2010.
[65] Ibid.
[66] Mirriam Altman, Zitha Mokomane, Gemma Wight and Gerard Boyce "Policy framework on social security for youth in South Africa" Human Sciences Research Council, March 2012 at 25, Christy McConnell "Youth and Employment: An analysis of South African government youth policies with a focus on eThekwini Municipality" July 2009 at 9.
[67] OECD/INFE Survey and Findings "Financial education, savings and investments" June 2013 at 9-15 (available at https://www.fsb.co.za/Departments/consumerEducation/Documents/3%20-%20Financial%20Education%20Savings%20and%20Investments%20-%20Survey%20and%20Findings.pdf).
[68] Save the Children, "What do Youth Savers Want: Results from Market Research in Four Countries" 2012.

4. IMPLEMENTED INITIAVES AND POLICIES ENABLING FINANCIAL INCLUSION

In the recent years, government and other stakeholders have undertaken a number of initiatives to enhance financial inclusion. This thesis seeks to further delve into those and determine whether the intended objectives were or are achieved.

4.1 Regulatory changes

Despite the barriers experienced by many people, there have been significant steps taken to facilitate financial inclusion, viz. regulatory changes which have affected the development of remittance markets. The South African regulatory environment impacts the remittance market in all South Africa-SADC remitting country pairs. Changes in this system thus have potential to substantially impact the regional market.

"A key change, which occurred in 2014, was that the South African Reserve Bank dropped the requirement for cross-border remittance service providers to hold either an authorised dealer license themselves or operate in partnership with an authorised dealer (typically a bank)".[69] They introduced a new type of authorised dealer license, namely, the Authorised Dealer with Limited Authority (ADLA) Category 3 license.[70] "ADLA 3 licenses allowed money transfer operators (MTOs) to set up shop independently. This removed obstacles that had been caused by the partnership model, as "many banks were unwilling to work in the sector due to the regulatory burden, perceived risks and restricted business model and services that could be undertaken."[71] Four new operators have been issued these licenses, and this is likely to provide a substantial boost to competition in the market.[72]

There have also been regulatory changes with respect to "know-your-customer" (KYC) regulations in cross-border remittances between South Africa and other SADC countries.[73]Specifically, the Financial Intelligence Centre Act has been amended to allow cross-border remitters to abstain from providing proof of address - as long as not more than R3 000 is sent at a time, or more than R10

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[69] Sarah Truen, Kemedi Kgaphola, Motshidi Mokoena 'Updating the South Africa-SADC remittance channel estimates' Prepared for FinMark Trust, December 2016.
[70] Ibid.
[71] Ibid.
[72] Ibid.
[73] Truen, Kgaphola and Mokoena op cite note 69.

000 in a month.[74] This amendment was introduced in July 2015, and to the extent that it succeeds in lowering access to finance barriers for migrants, it will be likely to facilitate the development of the market."[75]

4.2 Remittance market developments

"The cost of remitting in sub-Saharan Africa (SSA) is argued to be relatively high compared to other regions of the world.[76] Moreover, South Africa itself is a particularly expensive country to send money from. World Bank data suggests that South Africa is in fact the most expensive G20 country to remit from."[77]

Finmark Trust has stated in its 2016 report that

"Several formal remittance channels, however, are now available to migrants, including money transfer operators (MTOs), commercial banks, Post-Office services and money transfers via telecommunications companies, retail outlets and even courier services. These channels vary substantially in product characteristics and relative attractiveness to consumers. Nonetheless, there has been a great deal of market entry and product innovation in recent years in an attempt to draw customers from informal methods to formal remitting channels. For example, a study by Eighty20 in 2016 found that the number of remittance service providers operating in the corridors from South Africa to the DRC, Lesotho, Mozambique and Zimbabwe had increased from 8 in 2011 to 19 in 2015."[78]

There has been an increase in competition in these markets. This is because more participants are coming on board and with new product offerings.[79] With greater competition usually comes lower

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[74] Sarah Truen, KemediKgaphola, MotshidiMokoena 'Updating the South Africa-SADC remittance channel estimates' Prepared for FinMark Trust, December 2016.
[75] Ibid.
[76] Finmark Trust "Cross-border remittance pricing: Does market structure drive the prices for cross-border remittance in South Africa" Final report. March 2017 at 1-5 (available at http://www.finmark.org.za/wp-content/uploads/2017/06/cross-border-remittance-pricing.pdf).
[77] The World Bank, "Remittance Prices Worldwide" 21 March 2017 at 7 (available at https://remittanceprices.worldbank.org/sites/default/files/rpw_report_march_2017.pdf); The World Bank: edited by David Moore "Development, Poverty and Hegemony" 2007at 171 – 200.
[78] Sarah Truen, Kemedi Kgaphola, Motshidi Mokoena 'Updating the South Africa-SADC remittance channel estimates' Prepared for FinMark Trust, December 2016 at 41 (available at http://www.finmark.org.za/wp-content/uploads/2017/06/updating-the-south-africa-sadc-remittance-channel-estimates.pdf).
[79] Ibid at 42.

prices and given that one of the key factors that influences remitting behaviour is the cost of remitting, this might well increase the market. The cost of remitting within SADC varies substantially by country pair.

4.3 The Financial Sector Charter

This is one good policy that drives financial inclusion is South Africa and was prepared in terms of the Broad-Based Black Economic Empowerment (B-BBEE) Act 53 of 2003.[80]"The Code commits all participants to actively promote a transformed, vibrant and globally competitive financial sector that reflects the demographics of South Africa, and which contributes to the establishment of an equitable society by providing accessible financial services to black people and by directing investment into targeted sectors of the economy."[81]

The FSC was a social pact between government, organized civil society, labour and the financial services sector with the objective of transforming the sector and for the sector to play a reckonable and meaningful role in steering the use of financial services towards developmental objectives.[82] The FSC was formalised in 2004.[83]

Lessons from the Charter process have been and are being incorporated into policy measures and initiatives by National Treasury.[84]The National Treasury being the one that represented the government in the Charter process. The reason for this is that it has particular focus on financial sector development and financial inclusion and it carries the mandate for financial sector policy.[85]

The Charter commits participants in the banking and financial services industry to providing basic banking services to lower income groups. It incentivizes financial inclusion by tying acquisition of government contracts to achievement of Financial Sector Charter targets. This was the driving force behind the development of the Mzansi Account by the four big banks, including ABSA Bank,

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[80] NEF submission to the Parliament of the Republic of South Africa, Standing Committee on Finance (Transformation of the Financial Sector) "The quest for inclusive growth" March 2017 at 8 (available at https://africacheck.org/wp-content/uploads/2017/08/The-quest-for-inclusive-growth-FA-6.pdf).

[81] Broad-Based Black Economic Empowerment (B-BBEE) Act 53 of 2003; Graunt Kruger "Turning on the townships: A study of discourses of financial inclusion in South Africa" August 2015 at 81.

[82] National Treasury, "The Use of Financial Inclusion Data Country Case Study: South Africa *The Mzansi Story and Beyond" (2014)* at 3.

[83] Ibid.

[84] National Treasury, "The Use of Financial Inclusion Data Country Case Study: South Africa *The Mzansi Story and Beyond*" (2014) at 4.

[85] Ibid.

Standard Bank, First National Bank and Nedbank. These banks do not profit from the project, but this is offset by profit derived from lucrative government business.[86]

Several innovative schemes have granted exemptions to some of the documentation requirements impeding use of formal financial services. The exemptions were designed to facilitate specific market innovations. In preparing to launch the Mzansi initiative in 2004, the Minister of Finance amended Exemption 17 (2004) of the Financial Intelligence Centre Act of 2001, exempting banks from having to verify a customer's address for some lower risk accounts (including a maximum balance of R25,000 and maximum daily and monthly transaction limits ofR5,000 and R25,000respectively). [87]

Initially, the Mzansi initiative was a success, facilitating the opening of around 4,6million accounts. However, not all are still open today. This is because the banks eventually started increasing monthly charges. Therefore, we need another strategy that can drive financial inclusion.

4.4 The National Treasury Policy

The National Treasury also prioritise financial inclusion as an economic development goal.[88]In its policy document of 2011, it emphasised the fact that achieving sustainable and inclusive development in the financial sector goes hand-in-hand with improving access to financial services, particularly for the poor and vulnerable.[89] In 2010, 37 per cent of 33 million South African adults did not have a bank account and only 40 per cent had a formal long-term insurance product.[90] The National Treasury undertook a number of initiatives that would contribute to developing a financial sector that provides access to the poor and thereby contributing to economic growth, job creation and poverty alleviation.[91]

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[86] Bankable Frontier Associates "The Mzansi bank account initiative in South Africa" FinMark Trust, 20 March 2009at18(availableathttp://www.finmark.org.za/wpcontent/uploads/2016/02/Rep_MsanziBankAccInitiativeSA_2009.pdf)

[87] The World Bank 'South Africa Economic Update: Focus on Financial Inclusion' May 2013 at 27.

[88] National Treasury Policy "A Safer Financial Sector to Serve South Africa Better" 2011 at 1(available athttp://www.treasury.gov.za/twinpeaks/20131211%20%20Item%202%20A%20safer%20financial%20sector%20to%20serve%20South%20Africa%20better.pdf).

[89] Ibid at 59, Budget Review 2016 "Financial sector regulatory and reform" at 169 -173 (available at http://www.treasury.gov.za/documents/national%20budget/2016/review/Annexure%20d.pdf).

[90] National Treasury op cite note 86.

[91] Ibid.

The initiatives included strengthening the Postbank, introducing a micro insurance framework and developing the role of Co-operative and Dedicated Banks.[92] Additionally, to achieve this objective, the National Treasury also worked with the financial sector, the trade unions and other stakeholders to finalise the gaze ting and converting of the Financial Sector Charter into a Sector Code that will become binding on all reporting institution.[93]

Despite these undertaking by the National Treasury, South Africa still finds itself with 12million people that are considered financially excluded. Much as one may appreciate the initiatives that have been implemented to date, much still needs to be done to boost financial inclusion.

4.5 Money transfer or low value payments services (Easypay, Pay@, Ewallet, M-Pesa, etc)

Products similar to M-Pesa have been launched in developing countries. M-Pesa is a Kenyan product that was launched in 2007 by a mobile network operator (MNO), Safaricom.[94] This is a mobile phone money transfer mechanism originally developed to enable microfinance borrowers to receive and send money using a network of Safaricom airtime reseller.[95]

Research has shown that prior to the launch of M-Pesa, only 19 per cent of the Kenyan population had access to financial services.[96] In a study that was conducted by FinAccess in 2013, 66.7 percent of adults accessed financial services through various financial service providers.[97] According to this study, 11.5 million people accessed financial services through their mobile phones, while 5.4 million used banks.[98] This was a huge access.

South Africa launched Wizzit. This product however, did not experience the same level of success as M-Pesa.[99] It recently also launched E-Wallet in an attempt to boost financial inclusion without

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[92] David Saunders "The South African Microinsurance Regulatory Framework: National Treasury Policy Document" Cenfri December 2017 at https://cenfri.org/news-and-events/south-africa-draft-insurance-bill-released-for-public-comment-cenfri-and-finmark-trust-feedback/attachment/policy-document-micro-insurance/.

[93] Ibid.

[94] William Cook and Claudia McKay "Banking in the M-PESA Age: Lessons from Kenya" CGAP Working Paper, September 2017 at 1-3,Chijioke op cite note 18 at 10, The Economist "Why does Kenya lead the world in mobile money? 2015 (available at https://www.economist.com/blogs/economist-explains/2013/05/economist-explains-18).

[95] Ibid; Nick Hughes and Susie Lonie "M-PESA: Mobile Money for the "Unbanked" Turning Cellphones into 24-Hour Tellers in Kenya" 2007 at 63.

[96] Ignacio Mas and Dan Radcliffe "Mobile Payments Go Viral M-PESA in Kenya" World Bank 2010 at 353, available at http://siteresources.worldbank.org/AFRICAEXT/Resources/258643-1271798012256/YAC_chpt_20.pdf

[97] FinAccess National Survey "Profiling developments in financial access and usage in Kenya" 2013 at 15.

[98] FinAccess op cite note 95.

[99] Chjioke op cite note 18 at 11.

much success.[100] A number of factors are reasons for this. It is suggested by experts that these relate to regulatory issues and business model development responsible for the success of M-Pesa are missing in the structuring of the mobile payment systems in South Africa.[101]While South Africa use banks as the channel leaders in mobile payment systems, the MNO Safaricom is M-Pesa's channel leader.[102]

5. OTHER INITIATIVES

The 2007 - 2009 financial crisis in the financial sector also contribution to financial exclusion. The collapse of the banks caused people to lose confidence in them and therefore reluctant to open accounts or seek financial services. The following initiatives, however, were taken as a measure to mitigate the effects.

5.1 Regulating systematically important financial institutions

To prevent an extreme tumult in financial markets due to the collapse of those banks that were systematically important during the financial crisis, governments were forced to bail them out.[103]There are, however, financial institutions that are not subject to market discipline and this creates a moral hazard.[104] These institutions may face the enticement to take on excessively risky investments, because they know that government will bail them out.[105]

The measure taken to support institutions during the crisis, particularly the global banking sector, are not satisfactory to many. This has created substantial moral hazards issues that will remain a challenge well into the future, and could lead to a future crisis.[106] The regulation of global systematically important financial institutions (G-SIFIs) has therefore become one of the biggest regulatory challenges since the crisis.[107]

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[100] Ignacio Mas and Olga Morawczynski "Designing Mobile Money Services: Lessons from M-PESA" 2009 at 77 (https://www.mitpressjournals.org/doi/pdf/10.1162/itgg.2009.4.2.77).
[101] Ibid.
[102] Ibid.
[103] The National Treasury: Policy Document "A Safer Financial Sector to Serve South Africa Better" 2011 at 20
[104] Ibid.
[105] Ibid.
[106] House of Commons Treasury Committee "Banking Crisis: regulation and supervision" Fourteenth Report of Session 31 July 2009 at 27.
[107] Report of the Financial Stability Board to G20 Leaders "Overview of Progress in the Implementation of the G20 Recommendations for Strengthening Financial Stability" 18 June 2010 at 4.

In November 2010, the Financial Stability Board presented the initial proposals it had developed for the regulation of such institutions- referred to as SIFIs, to G-20 leaders at the Seoul Summit.[108] The mechanisms seek to achieve the following objectives:

- To reduce the probability of failure in future. Possibly throughout systematic capital and liquidity surcharges, these measures will improve the ability of every SIFI to absorb loses.[109]
- To improve framework for resolution. The measures seek to reduce or prevent the spread of contagion resulting from the collapse of a large, cross-border financial institution.[110] The measures also seek to limit the use of taxpayer money in an attempt to bail these institutions out. Creation of colleges of supervisors and living wills, which explain how the institution is to be wound up if in distress, seem to be an effective resolution framework.[111]
- To strengthen core market infrastructure. Authorities must improve market infrastructure to ensure that over-the-counter derivatives and complex financial transactions take place on a centralized clearing exchange in order to prevent contagion spreading from one market or financial institution to another.[112]

5.2 Expanding the scope of financial regulation.

The aim here is to bring all sources of systematic risk into the supervisory net, including the regulation of all private pools of capital, which can be an important source of systematic risk.[113] Furthermore, there is a development of international rules on the regulation of over-the-counter derivatives markets.[114] To deal with the more intricate financial institutions, standard-setters are in the process of refining high-quality accounting standards.[115] The Financial Stability Board has outlined reforms that seek to guide against encouragement to financial institutions from excessive

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[108] Financial Stability Board Report "Progress in the Implementation of the G20 Recommendations for Strengthening Financial Stability" 15 February 2011 at 2; Seoul Summit Document 'Finance: Systematically Important Financial Institutions' 2010; Graunt Kruger "Turning on the townships: A study of discourses of financial inclusion in South Africa" August 2015 at 105- 107.

[109] Ibid.

[110] D. J Rossouw "Modelling the impact of regulatory policy on the banking system" March 2004 at 24 -26.

[111] Consultative Document, Effective Resolution of Systemically Important Financial Institutions, Financial Stability Board (Basel) 19 July 2011.accessible at http/www.financialstabilityboard.org/publications/r110219.pdf

[112] Ibid.

[113] Steven L. Schwarcz "Systematic Risk" The Georgetown Law Journal Vol 97:193 (2008) at 209.

[114] Ibid.

[115] Financial Stability Board (FSB) "Financial Stability Implications from FinTech: Supervisory and Regulated Issues that Merit Authorities' Attention" 27 June 2017 at 24.

risk-taking. Measures to regulate credit rating agencies which contributed towards excessive risk-taking leading up to a financial crisis, has also been considered.[116] South Africa for example, has taken steps to extend regulation to private tools of capital. These include hedge funds, unregulated financial institutions such as the over-the-counter derivatives market as well as the functioning of credit rating agencies.[117]

5.3 Improving the financial crisis resolution framework

Over the past years, substantial progress on strengthening South Africa's resolution and crisis management framework has taken place focusing mainly on improving interagency coordination.[118]. The phases that follows include a comprehensive joint review of the crisis contingency framework, "including making legal changes where necessary to ensure that the authorities have all the appropriate tools available in the unlikely event of a crisis".[119] It is therefore important that the perimeter of the regulation be extent to cover previously unregulated pools of capital and activities.[120]

6. RECOMMENDATIONS

While some of the above initiatives contribute a great deal towards creating a financial system that is inclusive of everybody in South Africa, additional work still need to be done and a consultation between the government, National Treasury, the regulators and the financial sector is required.

6.1 Re-assessment of legislation

It would be ideal if government were tore-assess policies and legislations that have been implemented to regulate the financial industry. FICA is rules based. This means that financial institutions are not at liberty to decide which clients it can exempt, in other words, which clients are low risk. They must follow rules that detect which clients they need to exempt and which rules

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[116] Simon Ashby "The 2007-09 Financial Crisis: Learning the Risk Management Lessons" January 2010 at 32 – 40 (available at https://www.nottingham.ac.uk/business/businesscentres/crbfs/documents/researchreports/paper65.pdf); Policy Document explaining the Financial Markets Bill "Reviewing the regulation of financial market in South Africa" August 2011 at 12.

[117] FBS: IMN Survey of the National Progress in the Implementation of G20/FBS Recommendations (2014) at 5 – 9 (available at http://www.fsb.org/wp-content/uploads/South-Africa_2014.pdf).

[118] Ibid.

[119] National Treasury Policy Document "A Safer financial sector to serve South Africa better" February 2011 at 21.

[120] Ibid.

need to be put around or on a product. This, however, is going to fall away as the FICA amendment has recently been signed by the president.[121] Institutions may now apply a risk-based approach to decide for themselves which clients to collect all the information from, which information to verify and who is low risk. This might boost financial inclusion.

Some writes seem to suggest that the starting point in trying to bring about reform in the financial sector would be "a new consensus that contextualises financial inclusion to suit the South African milieu".[122] The argument is that the current policy characterisation is narrow and only defines financial inclusion in relation to a bank account.[123] It trivializes issues by focusing on a single variable and overlooks other factors. The quality of the financial product as well a service offered, for example, should also be factored in.[124]

Other writers also raise the need for government to realise the fact that people need banking rather than, necessarily, banks today.[125] Furthermore, the need by government, to reshape banking not only through regulation but also by way of new paradigms that encourage new banking models, is one of the recommendations for reform by writes.[126] Re-shaping is proposed to include embracing of inexpensive and innovative technologies through which transactions that were traditionally accomplished through banks can now be undertaken online.[127] Much as such a proactive response would be responsive to demographic and behavioral changes in the new generation of customers, as well as new trends in banking, it is believed it would as well culminate in the new market participants.[128] The private banking sector should not therefore be relegated with the task of achieving financial inclusion alone.[129]

6.2 Effective awareness and financial literacy/education

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[121] Section 21A of the Financial Intelligence Centre Act.
[122] Kawadza op cite note 28 at 49.
[123] Kawadza op cite note 28 at 49.
[124] Ibid.
[125] R Ghandi "New paradigm in banking: banking is necessary, not banks-really?" Bank for International Settlements (2016).
[126] G20 Financial Inclusion Experts Group "Innovative financial inclusion'- Principles and report on innovative financial inclusion from the access through innovation" Sub-Group of the G20 Financial Inclusion Experts Group (May 2010).
[127] Ibid.
[128] Ibid.
[129] See kawadza op cite note 122.

More and more programs need to be put in place with the objective of educating people on financial behaviour. There is a link between financial inclusion and financial education.[130] In order to keep customers informed, government needs to step up its consumer education policies. Notably, financial education can serve as an instrument for financial inclusion.[131]

6.3 Regulation and supervising the banking sector

Regulating and supervising of the banking sector is of great importance as it manages and controls the sector, ensuring that rules or policies are complied with. For example, regulation of bank charges. This may be done by setting a maximum amount that a bank can charge for different products. This may have a huge impact, as some people, especially the poor, cite expensive bank charges as the reason why they cannot open bank accounts.[132]In addition to this, "the government should, through collaboration and partnerships tap into the expertise that the private institutions have gathered over the years to craft policy that would work towards achieving financial inclusion."[133]

6.4 Relaxation of FICA/KYC requirements

Although the stringent obligations on the accountable institutions are justifiable in ensuring compliance with measure aimed at deferring financial crime, they constitute barriers to inclusion, especially to those persons residing in rural communities where government-issued documents are not easily accessible.[134]To cater for the affected individuals, the regulators need to relax the requirements for the opening of bank accounts by those currently excluded, and facilitate the availability of simple accounts with fewer functions.[135]

6.5 Advancing financial inclusion to improve the lives of the poor

We need continued product and business model innovation so we can reach more people with a broader range of products at lower costs. Poor families face various financial challenges and have

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[130] CGAP 2012 "Financial inclusion and the linkages to stability, integrity and protection: Insights from the South African experience" at 10.
[131] Bell, Gorin and Hogarth "Financial education-Does it work and how do we know? Research findings from a study of financial education among soldiers" 2008 *Community Invest 15.*
[132] CGAP "Advancing financial inclusion to improve the lives of the poor"
[133] Kawadza op cite note 28 at 50.
[134] Kawadza op cite note 28 at 46.
[135] Ibid at 50.

differing financial needs. Their income may be varied and irregular, in other words, generated from different sources throughout the year or even within a single day. The death of a parent, a sick child or a bad crop yield can quickly upset a family's financial balancing act. Managing these complicated demands to achieve short- and long-term goals requires a full range of financial services designed with the customer firmly in mind.

Although there are many, examples of financial needs experienced by poor people might include: smallholder farmers needing finance for fertilizer or seeds; observant Muslims needing products not based on accumulation of interest; women needing a way to save discreetly; youth who would benefit from small-balance savings accounts; city labourers needing convenient ways to send money to family members in remote areas.

Given financial needs such as these, poor customers need to truly experience financial inclusion to improve their lives. Savings, credit, payments, remittances, insurance and pensions are generally the basic basket of financial products.[136] In recent years, more and more providers have attempted to expand offerings, but not without challenges. Traditional microfinance institutions have found it difficult to go beyond credit. While digital financial services show great promise, digital payment is the only service to have reached scale so far. The business case for offering products such as insurance and small-balance savings is not always obvious. Also, in all scenarios, providers struggle to go beyond adoption to active use of a product or service.[137]

6.5.1 Financial education

Education to combat financial illiteracy is vital, even in urban areas. It is key to improving individual fiscal discipline, preventing over-indebtedness, protecting clients, contributing to market development and ensuring financial stability.[138] Financial education also makes a

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[136] FinMark Trust: Making financial markets work for the poor "Retailers' motivation for offering financial services" prepared by eighty20, 2014 at 2 (available at http://www.finmark.org.za/wp content/uploads/2016/01/Rep_Retailersmotivation_financialservices_20141.pdf); Donian C. & Eltringham M. 2011. The Profile of Retail Payment Services and Models in South Africa. Available at: http://www.finmark.org.za/wp-content/uploads/pubs/Rep_Profile_ofRPSmodelsinSA.pdf.

[137] Ibid.

[138] Lilian Diaz and Sarinee Achavanuntakul "Financial Literacy: Findings and Recommendations Report" Kingdom of Thailand: TA7998 (THA) - Development of a Strategic Framework for Financial Inclusion in Thailand, August 2013 at 3.

fundamental contribution to the development of inclusive financial systems and to broader economic and social development goals.[139]

Too often, national financial education strategies are developed and implemented with insurance not included or only added as a bit of an afterthought. This is something that needs to be looked at, as insurance is also a financial product that is essential to consumers.

6.5.2 Digital financial services

"Digital financial services have significant potential to provide a range of affordable, convenient, and secure banking services to poor people in developing countries."[140]

One of the major obstacles of extending financial services to the poor is the high cost of constructing and operating physical bank structures. These are expensive to build, maintain and operate especially in communities afar from the developed cities, while travelling to urban areas by rural customers is expensive. However, unbanked individuals are increasingly gaining access to financial services through digital channels.[141]

Third-party providers such as microfinance institutions, mobile operators and banks are taking advantage of point-of-sale devices in association with small scale agents[142]. They also are leveraging mobile phones. These are of greater convenience in offering basic financial services and are as well lower in cost than what traditional banking amounts to. We now have institutions that are helping build a far more reaching and efficient digital finance ecosystem.[143] These are emerging sets of institutions such as agent network managers, payment aggregators, etc.

"According to estimates, more than 400 million people are linked globally through basic mobile payments services, allowing them to send money, pay bills and purchase prepaid electricity with

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[139] Sibongile Sibanda and Tawanda Sibanda at International Labour Office "Innovative Finance for Social Justice: Financial Education in South Africa" 2016 at 6 (available at http://www.ilo.org/wcmsp5/groups/public/---ed_emp/documents/publication/wcms_545803.pdf).

[140] CGAP "Advancing financial inclusion to improve the lives of the poor" (available at http://www.cgap.org/topics/digital-financial-services).

[141] Ibid.

[142] Ibid.

[143] Denise Dias and Stefan Staschen "Data Collection by Supervisors of Digital Financial Services" CGAP Working Paper, December 2017 at 1 (available at http://www.cgap.org/sites/default/files/Working-Paper-Data-Collection-by-Supervisors-of-DFS-Dec-2017.pdf).

greater ease, affordability and access (GSMA Global Adoption Survey, 2015). Increasingly, governments are adopting digital finance to deliver social safety net cash payments and trying to make collection of fees/tariffs more efficient".[144]

There are barriers that impede the progression from payments to solutions "beyond payments." This is because ecosystems take a long while to grow, therefore digital finance will still take time to develop. It can take years before one-quarter to a half of adults begin to use basic payment services.[145] For example, the integration of a broader range of solutions into existing payment platforms is costly and cumbersome because many payment services remain relatively closed. Also, financial services such as savings and loans require face-to-face interaction between the customer and service providers and this is making them difficult to scale.[146]

With the acknowledgement of these barriers, the industry is being explored by CGAP on how it can leverage the depth and reach of existing digital payments platforms and come up with a bigger range of financial solutions that are relevant to the needy and poor. CGAP focuses on the following areas as listed in their 2016 report:

- "**Open APIs** seek to support the development of open payment platforms that enable a broad range of providers to offer new solutions on top of existing payment rails to the mass market";
- "**Interoperability** seeks to help low-income users transact more easily across digital financial services networks";
- "**Digital Delivery Models** explores the impact of emerging technologies and innovations that can be delivered through remote, automated, fully digital delivery models to financially excluded customer segments";
- "**Smartphone UI/UX** explores how using an intuitive front-end interface can enhance the user experience, while effectively communicating relevant data and influencing customer behaviour";

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[144] THIS DAY "Expanding Financial Services through Digital Payments" 1 February 2017 (available at https://www.thisdaylive.com/index.php/2017/02/01/expanding-financial-services-through-digital-payments/).
[145] CGAP "Advancing financial inclusion to improve the lives of the poor" (available at http://www.cgap.org/topics/digital-financial-services).
[146] Ibid.

- "**Data Analytics** focuses on how financial service providers can operationalize digital data and advanced analytics in the provision of financial services to the mass market";
- "**Digital Finance "Plus"** explores how the digital processing of small-value payments can help extend critical services and utilities such as clean water, health, energy, and education to previously underserved communities";
- "**Digital Person-to-Government (P2G) Payments** explores the financial inclusion potential of digitizing person-to-government payment flows";
- "**Merchant Payments** seeks to understand the pain points of merchants and consumers around retail transactions and to identify bottlenecks and opportunities for digital solutions to add value to retail payment ecosystems".[147]

"A theoretical ideology has been warmly embraced around developing societies in the recent past that digitalizing cash transfers can bring together financially excluded groups to formal financial services."[148] However, Soursourian dissents from the theory and argues that regardless of the medium or channel used, recipients of digital transfers withdraw the whole amount immediately, do not add their funds to their accounts, and do not avail themselves of additional services offered through their accounts. What this means is that despite their potential for increased efficiency, decreased leakage and better targeting, digitalized cash transfers are not leading to financial inclusion.[149] On this context he argues that it is not necessarily a solution.

Soursourian argues further that the transfer programs are often shorter term and the transfer amounts are less than the recipients' total household needs. Because of these factors, there is less "hands-on" time for participants to become familiar with the transfer mechanism, and they are more likely to withdraw the entire amount of the transfer without building up any savings.[150] Therefore in Soursourian's opinion, these patterns are more acute in humanitarian transfer programs that target displaced people and those affected by conflicts and disasters.[151]

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[147] CGAP "Advancing financial inclusion to improve the lives of the poor" (available at http://www.cgap.org/topics/digital-financial-services).
[148] Matthew Soursourian 'Financial Services in Humanitarian Crises: Can emergence cash transfers lead to financial inclusion? 2017.
[149] Ibid.
[150] Ibid.
[151] Ibid.

With the acknowledgement of these observations, using a digital channel to deliver transfers will lead to sustained uptake and consumption of financial services. However, cash transfers might play a complementary role in advancing financial inclusion if humanitarian actors can unlock their potential.[152]

The following are recommendations on how a stronger connection between humanitarian cash transfers and financial inclusion can be created for improvement and humanitarian actors.

- **Specify financial inclusion as a programmatic objective.** Not all transfer programs will achieve financial inclusion, but their chances increase greatly if inclusion is a central focus. Three case studies have been recently published by Mercy Corps on humanitarian programs that used digital platforms for cash transfers. [153]Among them, only one program used e-transfers explicitly to assist in achieving financial inclusion goals. It was the most successful program so much such that at its end, 100% of the participants were using their new mobile money accounts to save. If funders and implementers wish to see participants using financial services beyond the life of a program, they need to articulate that objective and make the necessary investments. Of course, not all programs will aim for financial inclusion. Depending on the context, other objectives may take priority.[154]
- **Take measurement seriously and grow the evidence base.** Measurement is essential is identify status. Financial inclusion is rarely included, rarely tracked or even evaluated as an objective in humanitarian cash transfer projects. This articulates a lack of information about how and under what circumstances the digital delivery of humanitarian transfers can lead to sustainable use of financial services. If donors begin to integrate financial inclusion objectives into their transfer programs, we can start to build a body of evidence showing the most effective ways to ensure that transfer recipients are empowered to continue using financial services.[155]

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[152] CGAP "Advancing financial inclusion to improve the lives of the poor" (available at http://www.cgap.org/topics/digital-financial-services).
[153] Ibid.
[154] Ibid.
[155] Ibid.

- **Partner with the right providers or help partners improve.** It would be wise for donors to partner with providers that have great acceptance rates and strong liquidity management in these areas.[156] If local merchants do not accept the use of the services such as transfers made to debit cards or mobile money accounts, then the recipients' failure to use these services is completely rational. Customers will indispensably revert to cash-based money management, since it's free and easy to access.
- **Address misperceptions about poor customers.** Studies have proven that the poorest people lead ineffective financial lives and can make use of a number of different financial services. This is contrary to the often assumption of financial services providers and mobile network operators that poor people do not need financial services because of their shortage of money. This misperception can lead providers not focusing on serving the end-users as their main client.[157]

  Providers should recognize the business potential in serving poor populations and realize that a smoothly executed humanitarian transfer service could be the on-ramp for a new segment of customers. Ultimately, it will be up to providers themselves to come up with affordable and reliable alternatives to the popular informal services. However, donors can help them to see this opportunity by sharing examples from other markets or by using smart, targeted subsidies to increase uptake and enable innovation.

- **Remove policy constraints.** Donors must recognize that even if providers see potential to serve these communities, they may face policy constraints that prevent them from seizing the opportunity. Donors and humanitarian actors can work with governments to address these challenges.[158]

People in crisis environments share the same financial needs as the rest of us: a safe place to store money, the ability to send and receive cash, and protection from shocks. So far, using cash transfers to link recipients to formal financial services has not lived up to consumers' expectations. But with the right adjustments and investments, cash transfers have great potential.[159]

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[156] Ibid.
[157] Matthew Soursourian 'Financial Services in Humanitarian Crises: Can emergence cash transfers lead to financial inclusion? 2017.
[158] Ibid.
[159] Ibid.

7. CONCLUDING REMARKS

Although there have been initiatives undertaken to advance financial inclusion, many of these have failed to achieve satisfactory results. Financial inclusion is a global priority because it seeks to bridge a gap of inequalities previously experienced in various countries, at the same time increasing economic growth in such countries. It is clear from the statistics, surveys, research and reports that has been done that South Africa still has a long way to go, more needs to be done to promote financial inclusion. The less privileged, the rural poor and youth will still remain excluded if the relevant stakeholders do not come together for reform in the financial sector. To increase access to affordability, convenient and appropriate financial services and products, effective financial interventions are necessary.

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