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Financial Inclusion through Regulation: A South African Perspective



Submitted in partial fulfilment of the requirements for the degree of Master of Laws by Coursework and Research Report at the University of the Witwatersrand, Johannesburg

By

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DECLARATION

I, Ané Pienaar, 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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ABSTRACT

This paper examines the meaning and importance of financial inclusion in South African society and the role financial regulation has to play in making it a reality.

In examining financial inclusion, regard is given to the different definitions thereof and particularly what it ought to entail in the South African context. The current state of inclusion in South Africa is explored and reasons for the financial exclusion of certain individuals are suggested.

The concept of shadow banking is explained and the consequences of not regulating the shadow banking system are explored with reference to reverse mortgage schemes in South Africa which have been considered in the Constitutional Court in the case of *ABSA v Moore*. Parallels are drawn with the shadow banking system in the United States of America and how a lack of regulation contributed to the eventual collapse of the housing market which triggered the 2008 Global Financial Crisis. Argument is made in favour of the existence of shadow banking institutions subject to better regulation in order to protect their vulnerable principal client base – low-income earners.

Arguments made for and against financial regulation are analysed and the conclusion made that the case in favour of regulation is the stronger of the two.

The penultimate part of this paper discusses the Financial Sector Regulation Act 9 of 2017 and the institutional changes it will bring about, in particular, the 'Twin Peaks model of financial regulation' and the relevancy of these changes in filling the gaps in an already sophisticated banking system.

Finally, suggestions are made for further regulation that would promote financial inclusion in South Africa to the benefit of the population.

TABLE OF CONTENTS

ACKNOWLEDGMENTS **1**

DECLARATION **2**

ABSTRACT **3**

TABLE OF CONTENTS **4**

I INTRODUCTION **6**

II BACKGROUND **7**

i. Defining Financial Inclusion 7

ii. Financial Inclusion in South Africa 10

iii. The Argument for Financial Inclusion 13

III SHADOW BANKING **15**

iv. Definition of Shadow Banking 15

v. Consequences of Non-Regulation 16

IV ARGUMENTS FOR AND AGAINST FINANCIAL REGULATION **24**

vi. Arguments for regulation 24

vii. Arguments against regulation 26

V PROPOSED REGULATION **27**

viii. Institutional changes 28

ix. Relevancy of the changes 30

VI FURTHER REGULATION THAT WOULD PROMOTE FINANCIAL INCLUSION **35**

VII CONCLUSION **37**

ANNEXURE A **38**

BIBLIOGRAPHY.....**44**

I INTRODUCTION

It is broadly accepted that capitalism embraces a *laissez-faire* approach to markets, permitting them to operate according to their own mechanisms, such as supply and demand. In the United States of America, during the drafting of their constitution in 1787 there was already disagreement amongst delegates about whether a central bank should be established.[1] In South Africa, proposals for the establishment of a central bank were first made around 1879, but the debate continued until the eventual establishment of the South African Reserve Bank ('SARB') in 1921.[2] Nonetheless, financial regulation has remained a constant talking point which has gained momentum following the 2007 – 2009 global financial crisis.

Recently, the Public Protector issued a report[3] wherein she suggested an amendment to the Constitution which would change the mandate of the SARB from a regulatory institution and lender of last resort to a state bank responsible for creating money and credit which she argues will create numerous benefits for the economically disadvantaged citizens of South Africa.[4] Similarly, the African National Congress ('ANC') emerged from its 2017 national policy conference with a declaration that the SARB should be nationalised 'to ensure its independence'.[5]

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1 Alejandro Komai and Gary Richardson 'A brief history of regulations regarding financial markets in the United States: 1789 to 2009' NBER Working Paper 17443 at 2 last accessed from <http://www.nber.org/papers/w17443> on 21 August 2017.

2 South African Reserve Bank History last accessed from <https://www.resbank.co.za/AboutUs/History/Pages/History-Home.aspx> on 22 December 2017.

3 Public Protector Report No:8 of 2017/18 'Alleged Failure to Recover Misappropriated Funds' last accessed from <http://www.pprotect.org/library/investigation_report/2016-17/Report%208%20of%202017&2018%20Public%20Protector%20South%20Africa.pdf> on 21 August 2017.

4 Op cit note 3 at 55.

5 Natasha Marrian 'ANC agrees Reserve Bank should be nationalised, 'to ensure its independence' *Business Day* 5 July 2017 last accessed from <https://www.businesslive.co.za/bd/economy/2017-07-05-anc-policy-commissions-put-forward-proposal-to-nationalise-reserve-bank/> on 21 August 2017.

The logical fallacy of these positions by the Public Protector and ANC will be discussed further below, but they illustrate a key contributor to the financial exclusion of millions of South Africans – a fundamental lack of understanding of the financial system and its regulatory mechanisms.

II BACKGROUND

i. Defining Financial Inclusion

According to the World Bank 'Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way'.[6] Differently put, 'At its most basic level, financial inclusion starts with having a deposit or transaction account at a bank or other financial institution or through a mobile money service provider, which can be used to make and receive payments and to store or save money'.[7] The World Bank measures financial inclusion with several indicators as set out in Figure 1 (annexure A hereto) below.[8]

The Banking Association South Africa ('BASA') defines Financial Inclusion as 'the access and usage of a broad range of affordable, quality financial services and products, in a manner convenient to the financially excluded, unbanked and under-banked; in an appropriate but simple and dignified manner with the requisite

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[6] Financial Inclusion Overview last accessed from <http://www.worldbank.org/en/topic/financialinclusion/overview> on 23 December 2017.

[7] Asli Demirguc-Kunt, Leora Klapper & Dorothe Singer 'Financial inclusion and inclusive growth: a review of recent empirical evidence.' World Bank Group Policy Research Working Paper WPS 8040 (2017) at 2 last accessed from <http://documents.worldbank.org/curated/en/403611493134249446/Financial-inclusion-and-inclusive-growth-a-review-of-recent-empirical-evidence> on 21 August 2017.

[8] Figure 1 reflects the most recent data available from the World Bank.

consideration to client protection. Accessibility should be accompanied by usage which should be supported through the financial education of clients.'[9]

BASA lists the following underlying principles for the working definition of financial inclusion: [10]

1. Access – this is the ability of the target market to utilise financial products, services and delivery channels that are affordable, relevant to their needs and universally accessible; for example, if the product is aimed at a rural farm worker, they should not have to travel to the closest town gain access to the products;

2. Affordability – the target market should have the ability to pay for the products and services in a way that does not lead to financial strain – in other words, the target market should not be 'scraping-by' to pay for financial products and services;

3. Appropriateness – the products must be tailored to suit the intended users, taking into account cultural, educational and language barriers to meet the needs of the clients;

4. Usage – the product or service must actually be used by the customer; a person cannot be financially included if they are not actively and effectively using the products or service;

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[9] 'What is Financial Inclusion' last accessed from <http://www.banking.org.za/what-we-do/overview/fi-definition> on 19 January 2018.

[10] BASA 'Working Definition of Financial Inclusion' last accessed from <http://www.banking.org.za/docs/default-source/financial-inclusion/fi-working-def/financial-inclusion-principles.pdf?sfvrsn=10> on 19 January 2018.

5. Quality – describes how financial services are provided. The products and services should be affordable, simple, convenient, safe, relevant and take into account the dignity and protection of the client. For quality financial inclusion, the products and services should add value to the customer's experience;

6. Consumer Financial Education – previously disadvantaged individuals are particularly vulnerable to being harmed through the use of financial products and services if it is not done in a productive and responsible way. Accordingly, it is critical that consumers are well informed about the financial products and services offered. It is not sufficient to simply present a complicated document littered with jargon and claim that the customer was educated, as is often the case with financial agreements. The customer must be educated with consideration for their background and circumstances;

7. Innovation and Diversification – a 'one-size-fits-all' approach is not feasible in driving financial inclusion. It is vital to promote and embrace innovative product design and new technologies that promote diversification of financial services so that it can reach across the spectrum;

8. Simplicity – the products and services need to be easy to use and understand by presenting them in simple language and delivery channels.

Section 1 of the Financial Sector Regulation Act No 9 of 2017 ('the Regulation Act') states that financial inclusion 'means that all persons have timely and fair access to appropriate, fair and affordable financial products and services'.

The definition provided in the Regulation Act is sparse and for the purposes of this work, I will include the BASA principles when referring to financial inclusion.

ii. Financial Inclusion in South Africa

The data in Figure 1 reflects what the Boston Consulting Group ('BCG') found in recent research into financial inclusion in South Africa – that South Africa remains largely a cash-based society.[11] The BCG generated two reports on financial inclusion in South Africa in 2017; the first report, titled 'How to Create and Sustain Financial Inclusion'[12] ('the first BCG report') focuses on the tools used for measuring financial inclusion or exclusion and suggests ways in which to remedy the lack of inclusion. The second report, titled 'Improving Financial Inclusion in South Africa'[13] ('the second BCG report') focuses on the root causes of financial exclusion in South Africa.

In the second BCG report, financial inclusion was measured across four products: transaction accounts, credit, insurance and savings. In contrast to the World Bank data in Figure 1 below, the researchers measured the usage and sustainability of these products instead of just measuring adoption.[14] This approach is valuable in that it is a more accurate reflection of financial inclusion because instead of only considering, for example, the amount of people who have transactional accounts, it also analyses the usage of these accounts. As the research indicates, more than 70% of South Africans have transactional accounts however the majority used the accounts to temporarily hold money and would withdraw their entire income as soon as they receive it.[15] What this shows is that although a large number of adults are included

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[11] Klaus Kessler et al 'Improving Financial Inclusion in South Africa' BCG (April 2017) at 4 last accessed from <https://www.bcg.com/it-it/publications/2017/globalization-improving-financial-inclusion-south-africa.aspx> on 23 December 2017.

[12] Klaus Kessler et al 'How to Create and Sustain Financial Inclusion' BCG (April 2017) last accessed from <https://www.bcg.com/publications/2017/globalization-how-create-sustain-financial-inclusion.aspx> on 23 December 2017.

[13] Op cit note 11.

[14] Op cit note 11 at 3.

[15] Op cit note 11 at 4 and 5.

in the formal financial system, the majority – who are mostly low-income earners – do not utilise the available products in a meaningful way, thus their 'inclusion' is superficial and they are not reaping the benefits.

Importantly, the BCG found that South Africa is overextended in informal credit.[16] It found the following:[17]

- The larger share of the credit market is made up of informal credit channels such as loan sharks, stokvels, and friends and family as opposed to formal channels such as commercial banks;
- Unsecured personal credit is increasing at a faster rate than GDP;
- At 12%, unsecured personal loan defaults have landed in the red zone;
- South Africa will fall in the red zone of the Key Performance Indicator – risk premium on personal loans – when it reaches 5%. Alarmingly, the current risk premium in South Africa is 4%. This means that consumers are bearing the brunt of all the credit that is being extended;
- When consumers experience cash flow problems, they frequently turn to borrowing to buy household goods and even to cover transport costs to and from work;
- The provision of credit is not aimed at productive goals such as starting a business or paying for education and often has more hazardous aims such as consumption and instant reward.

As will be discussed below, the danger in the reliance on the informal credit market lies in its lack of regulation. This lack in oversight allows unscrupulous opportunists to abuse this freedom and create schemes that end up costing economies millions, sometimes billions and as in the case of the USA, a complete crash of the market.

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16 Op cit note 11 at 5.

17 Ibid.

The BCG interviewed 1 500 low-income South Africans in both rural and urban settings across all low-income segments and major ethnic groups, conducted focus groups and conducted in-house interviews to establish the root causes of financial exclusion.[18] They found the following:[19]

- The strong adoption of transaction accounts is not necessarily a reflection of the extent of financial inclusion. Many South Africans have transaction accounts as a condition of employment or receipt of social payments, 'and many view them as constraints rather than enablers';
- Consumers without an account indicated that fees are too high, or bank branches are too far away. One surveyee commented that 'The mattress doesn't charge for small withdrawals';
- Surveyees indicated that cash is easier to manage and that although mobile banking and ATMs are less costly and more convenient than in-branch banking, they did not trust ATMs and found them too complex. The survey respondents indicated that 51% did not own smartphones, and of those that did own smartphones, only 15% used a banking app. The main reason for this, is fear of fraud.
- The irony is that use of brick-and-mortar branches is the most expensive channel.
- When it comes to credit, consumers fear default and are concerned about high fees.
- Respondents indicated that formal lenders have too much paperwork, are too far away and that their decision cycles were too long.
- Consumers were willing to use loan sharks despite usurious rates because they are more responsive.

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[18] Op cit note 11 at 7.

[19] Op cit note 11 at 7 and 8.

- In order for formal lenders to include low-income consumers in their systems, they would have to drastically lower operating costs, speed up their decision-making processes, add flexibility to their terms and add smaller loans to their offering.

iii. The Argument for Financial Inclusion

Naturally, the next question is why financial inclusion is important. Is it to promote social justice or does it have a broader function? The short answer is both. There is a constitutional imperative to promote the socio-economic rights of all citizens of South Africa. Mass poverty is not in anyone's interest. By including more people in the economy growth is stimulated, which benefits not only the previously excluded low-income individuals but also the middle class; which has been bearing the brunt of an erratic, almost static, economy for a significant period.

By helping people make forward-thinking investments, regulate their consumption and manage financial risks, financial inclusion can assist in reducing poverty and inequality.[20] As mentioned above, many low-income adults rely on informal financial services. Access to formal financial services assists low-income or poor individuals to lift themselves out of poverty; by making it possible to invest in education and business and allows for safer and more efficient financial transactions. Financial inclusion can prevent people from falling into poverty in the first place, by providing ways to manage income shocks; such as unemployment or the loss of the breadwinner.[21]

The efficiency and transparency of payments from governments or businesses to individuals and vice versa – which arises from the shift of payments from cash into

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[20] See generally Demirguc-Kunt et al op cit note 7 at 2.

[21] Ibid.

accounts – benefits society more broadly.[22] Conclusive evidence is lacking at present; however, it is believed that access to the financial system and appropriate credit could boost economic growth and productivity in the long-term by potentially facilitating investments in education and business opportunities.[23] It has been suggested that the lack of evidence relating to the relationship between financial inclusion and inequality and macroeconomic growth can be attributed to lack of data.[24] Until recently, data on financial inclusion on a comparable global level have not been available, which has been a stumbling block in establishing such a relationship because this requires analysis of decades of data.[25]

Fortunately, this does not prevent consideration of the benefits on a microeconomic level. The second BCG report explains how inclusion creates opportunity in each of the four abovementioned categories:[26]

1. Transaction Accounts: These can act as a gateway to other financial products and services to the consumer, and mitigate the risks of carrying cash, particularly in dangerous neighbourhoods where many low-income earners live. They also assist the banks in analysing customer preferences and assist governments in delivering social payments in a manner which reduces fraud and corruption.
2. Credit: This assists customers in the event of income fluctuations and can help small businesses expand. ‘Government has a vested interest in the increased economic activity which credit can stoke’.
3. Insurance: Insurance lowers risks for consumers and a government with a well-insured population can lower its social payment and emergency spending.

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22 Ibid.

23 Ibid.

24 Ibid.

25 Ibid.

26 Ibid.

4. Savings: 'Deposits provide a stable source of funding for banks and a financial cushion for consumers. That cushion helps lower overall government social spending'.

Although section (7)(1)(f) of the Regulation Act specifically lists the promotion of financial inclusion as one of its objects, it is clear from the BCG reports that financial inclusion in South Africa has a long way to go. What comes through very strongly in the reports, is that South Africans are heavily reliant on informal credit which is unregulated and open to abuse. Some informal lenders fall under the category of 'shadow banking'; which is an unregulated system that some estimates claim comprises 25% to 30% of the global financial system.[27] Thus, a discussion about financial inclusion cannot be held without regard to shadow banking and its regulation.

III SHADOW BANKING

iv. Definition of Shadow Banking

At an investment conference in 2007, the term 'Shadow Banking' was first used by economist Paul McCulley who defined the shadow banking system as financial institutions that do not take deposits in the traditional sense.[28]

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[27] Infra note 28.

[28] <http://www.investopedia.com/video/play/shadow-banking-system/> last accessed on 23 December 2017.

Shadow banks include institutions such as hedge funds,[29] special purpose entities/special purpose vehicles,[30] structured investment vehicles,[31] mutual funds[32] and in South Africa, stokvels.[33] What sets these entities apart from commercial banks, is that they do not take deposits and accordingly are not subject to the same regulations.

v. Consequences of Non-Regulation

The lack of regulation has serious implications for the consumers, particularly those in low-income households. As stated above, commercial banks have certain capital requirements in order to register and operate as banks. This regulatory requirement may be an obstacle for financial inclusion in certain instances, but on the other hand it acts as a guard against large-scale exploitation of the vulnerable in society. Where there are no capital requirements as a barrier to entry into the provision of financial

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[29] 'A hedge fund is an investment fund that pools capital from accredited individuals or institutional investors and invests in a variety of assets, often with complex portfolio-construction and risk-management techniques' Gerald T. Lins, Thomas P. Lemke, Kathryn L. Hoenig & Patricia Schoor Rube *Hedge Funds and Other Private Funds: Regulation and Compliance* (2013 - 2014 ed) at 5:23.

[30] 'An SPV, or a special purpose entity (SPE), is a legal entity created by a firm (known as the sponsor or originator) by transferring assets to the SPV, to carry out some specific purpose, or circumscribed activity, or a series of such transactions.' Gorton, Nicholas S.; Souleles, Gary. 'Special Purpose Vehicles and Securitization' National Bureau of Economic Research. NBER Working Paper No. 11190 available at <http://www.nber.org/papers/w11190.pdf> last accessed on 23 December 2017.

[31] 'A typical SIV is a company which seeks to "arbitrage" credit by issuing debt or debt-like liabilities and purchasing debt or debt-like assets, and earning the credit spread differential between its assets and liabilities' Frank Partnoy 'The Siskel and Ebert of Financial Markets?: Two Thumbs Down for the Credit Rating Agencies' (1999) 77 Wash. U. L. Q. 619 at 672. Available at: <http://openscholarship.wustl.edu/law_lawreview/vol77/iss3/1> last accessed on 23 December 2017.

[32] 'A mutual fund is at its core a managed portfolio of stocks and/or bonds. You can think of a mutual fund as a company that brings together a large group of people and invests their money on their behalf in this portfolio. Each investor owns shares of the mutual fund, which represent a portion of its holdings.' <http://www.investopedia.com/university/mutualfunds/mutualfunds.asp#ixzz4nggWATk9> last accessed on 27 December 2017.

[33] 'Stokvels have existed as voluntary groups of natural persons (members) bound by a common cause who pool financial resources for the benefit of the group.' <http://nasasa.co.za/site/#intro> last accessed on 23 December 2017.

services, the door is open to scammers to exploit low-income consumers who have little to no understanding of what they may be signing up for. A prime example of this kind of exploitation is the 'reverse mortgage scheme'.

The *modus operandi* of these schemes was elaborated on impeccably by Cameron J in the case of *Absa Bank Limited v Moore & Another*[34] and can be summarised as follows:

- The scam at the centre of this case was devised by Mr Mike Brusson who created Brusson Finance ('Brusson'), an apparent saviour of distressed property owners by giving them the opportunity to 'make money without capital or risk', as its brochure claimed. Brusson managed to fool several banks and homeowners with its seemingly legitimate operation.
- Brusson would advance a loan to the homeowner on favourable terms with the homeowner's property to serve as security. The repayment would, of course, be through Brusson.
- This would be made possible by having a 'Brusson partnership investor' – a person with a good credit score who can obtain a home loan from a commercial bank – purchase the homeowner's property, using and Offer to Purchase, but would immediately sell the property back in a Deed of Sale. In addition to these two documents, the homeowner and 'investor' complete and sign a Memorandum of Agreement recording their respective obligations, as well as those of Brusson.
- According to the brochure, the homeowner would not lose ownership of his/her home. But therein lies the scam – the homeowner, in the supposed immediate 'resale' had signed their ownership away. The 'Deed of Sale' was crafted for Brusson to obtain title and transfer ownership to the 'investor', who had provided it as security to the bank against a significant loan.

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[34] 2017 (1) SA 255 (CC) paras 3 to 14.

- The fallout caused losses to the banks and several homeowners running into tens of millions of Rands. In some cases, the bank providing the loan was the homeowner's own bank advancing money on the security of their property. The cash proceeds of the bond were split between the 'investor' and Brusson.
- To give the scheme an air of legitimacy and hide the fraud, Brusson did advance a loan to the homeowner to ensure that he/she would sign the misleading documents. The homeowner had their cashflow issues temporarily resolved and, in some cases, even made repayments to Brusson while the latter and the 'investor' made off with the cash advanced, courtesy of the homeowner's property presented as security to the equally clueless bank.
- Inevitably, the bond repayments were not sustained, and the banks proceeded with recovering the debt with the security of the home which would eventually be sold in execution. At this point, or where the homeowners were suddenly evicted from their property, the bank and homeowners lost their blissful ignorance, and came to the no-doubt horrifying realisation that they had been conned.
- In this case, the homeowners in question were the Moores who were financially distressed and had approached Brusson after seeing an advertisement offering an attractive, low-exposure loan. The Moores had relied on what Brusson told them – which was the pitch set out in the brochure – and signed the three documents, effectively signing away their home. They did not meet their 'investor', but this did not concern them as a cash amount of R157 651 was paid into their bank account. They were to repay Brusson in monthly instalments of R6 907.03 over three years.
- Unfortunately, the Moores' financial situation got even worse after they unwittingly gave up their home. Within six months, Mrs Moore had applied for debt review under the National Credit Act and her debt to Brusson was

restructured. Subsequently, the Moores did not make many repayments to Brusson under the debt review.

- Brusson had already capitalised a significant amount of money and the repayments were effectively a bit of extra pocket-money in comparison, so the failure of the Moores to make all the repayments ought not to have made a big difference to it. Nonetheless, Brusson's greed clearly got the better of it and a year later, the Moores received a lawyer's letter complaining about the missed instalments. Brusson seemingly did not pursue the Moores any further thereafter.
- When the 'investor' defaulted on his payments to Absa, the bank obtained default judgment against him and proceeded to take execution steps. This finally made the Moores aware that they no longer owned their property, and with the assistance of the Legal Resources Centre, the sale was interdicted. The Moores then instituted proceedings to recover their home which they asserted they never intended to sell.
- The High Court granted the following order to the Moores declaring that:
    a) the fraudulent agreements were invalid, unlawful and of no force and effect;
    b) the Moores were entitled to restitution of their property which was fraudulently transferred; and
    c) the mortgage bond registered by the 'investor' in favour of the Bank was invalid and set aside.
- Unsurprisingly, Absa appealed to the SCA which dismissed the appeal holding that the agreements were void based on the fact that the Moores, and other victims, were misled as to what they were actually agreeing to. It further held that the transactions were invalid due to fraud rather than for simulation and that the transfer of the property under the agreements was ineffectual in conveying valid title to the 'investor' because the Moores had no genuine intention to transfer

ownership – they had in fact been assured that they would retain ownership. Since the 'investor' had no valid title on which to offer Absa security and consequently, the mortgage bond was also rendered invalid.

- This decision was upheld by the Constitutional Court on further appeal.

Many may ask why the homeowners did not read the documents properly and familiarise themselves with what they were signing up for, or why they did not approach an attorney to vet the agreements for them. The answer strikes at the heart of the problem with unregulated shadow banking institutions; the target market is almost always individuals who do not have the resources or education to really understand what they are signing. They see these financiers as people with benevolent intentions to assist those of lesser means and trust them not to take advantage of them.

What the *Moore* case illustrates is the extent of the damage caused when a shadow banking institution (in this case Brusson Finance) grabs the opportunity presented by the lack of regulation to fraudulently enrich themselves. The damage is not only limited to the consumer or lender in this case, the regulated commercial banks end up losing millions in defaulting mortgages which they cannot recover through the ordinary debt collection process because the transactions were fraudulent. This has a domino effect in that the banks become far less likely to extend credit, in particular to low-income individuals, because the risk of default is too high, and the bank cannot reasonably know whether there is an underlying fraudulent transaction that will prevent it from recovering its losses upon default.

Naturally, the banks could opt for more strenuous investigations prior to extending credit but this is not without its cost either. This would become hugely onerous for the banks which would have to extend further resources in order to ensure that it is

not about to unwittingly become caught in a fraudulent scheme borne out of an unregulated shadow institution.

A parallel can be drawn with the shadow banking system in the United States and how it led to the eventual housing market crash and Global Financial Crisis in 2008. Eric Petroff explains the USA perspective in an article on Investopedia as follows: [35]

The Rise of Shadow Banking

- Prior to the Great Recession, access to capital limited the banks' ability to make significant profit from lending. In order to circumvent this, the banks started selling re-packaged loans to investors through securitisation via investment banks; thus the 'shadow banking system' was born which evaded regulation and created a demand for these securities.

- The process was simple: financial institutions would pump as much money as possible into home, consumer and vehicle loans and would collaborate with investment bankers to securitise these various assets. The funders of the shadow banking system, such as pension funds, endowments, mutual funds, hedge funds and other financial institutions would purchase these securities which came in many different forms such as asset-backed securities (ABS), collateralized debt obligations (CDO), mortgage-backed securities (MBS) and collateralized loan obligations (CLO).

- The profit to be made incentivised financial institutions to make a rising number of risky loans, which in turn meant that consumers had easier access to credit. This triggered the selling of loans by the lending institutions in the form of fixed-

[35] Eric Petroff 'The Rise and Fall Of The Shadow Banking System' last accessed from <http://www.investopedia.com/articles/economics/10/shadow-banking-system.asp#ixzz4nh42FeqJ> on 22 December 2017.

income securities. From all appearances, this was a universally beneficial arrangement. Consumers have access to cheap credit and investors earned higher returns with seemingly lower risk with desirable growth in the economy.

The Problem

- Petroff argues that things turned ugly due to the chronic habit of investors extrapolating current events too far in the future.* More simply put, they are under the impression that it is too good to fail. In the time leading up to the Global Financial Crisis, the pricing of risks implied that investors believed that the financial stability of the 2000s would continue. The pricing of premiums they required for bearing the credit risks associated with the abovementioned forms of security did not correlate with the level of the underlying risk.

What Went Wrong?

- The result of the under-pricing of premiums led to increasing total leverage in American society which was climbing towards its highest levels in history at an exponential rate. In simplified terms, leverage refers to the amount of debt used to finance assets.[36] Increased leverage means that the amount of debt starts to

* This is a logical fallacy known as 'neglect of probability'. In his book *The Art of Thinking Clearly* Rolf Dobelli explains that we inherently lack an intuitive grip of probability. We respond to the magnitude of events rather than the likelihood of them happening. This leads to many errors in decision making, particularly in investment scenarios. Another pertinent logical fallacy to which humans are susceptible is 'forecast illusion' where we believe the predictions of so-called 'experts'. Dobelli quotes fund manager Peter Lynch's summary of this phenomenon: 'There are 60,000 economists in the U.S., many of them employed full-time trying to forecast recessions and interest rates, and if they could do it successfully twice in a row, they'd all be millionaires by now…as far as I know, most of them are still gainfully employed, which ought to tell us something.' The takeaway from this and his book in general, is that we need to adopt a critical thinking approach in an attempt to avoid financial crises caused by our own ignorance and blindness to our limitations. [Rolf Dobelli *The Art of Thinking Clearly* (2013) at 64 and 94].

36 Definition of leverage taken from <https://www.investopedia.com/terms/l/leverage.asp> last accessed on 27 February 2018.

exceed the amount of equity in a particular item. If the entire economy relies on this system, it becomes unsustainable as the debt becomes overburdening. The converse of the high return on investment that leverage provides is that the losses are far greater as well.

- As a result of this new configuration of the US economy, corporations and home owners were dependent on low interest rates in order to meet their debt obligations. This situation was able to fester unnoticed in the unregulated shadow banking environment.

- In 2008, energy prices soared as did interest rates, and the US economy began to waiver. In addition, investors discounted a recession into their pricing of securities and risk appetite. The fragility of the economy and consumers' ability to service interest payments meant that investors needed more compensation for bearing risk and in turn, the cost of credit had increased.

- Consequently, the shadow banking system collapsed because the fear of economic weakness meant that investors were much more reluctant to lend money, and where there was lending, it was done at much higher interest rates. The increased interest rates and lack of available credit began to wear on the US economy which eventually toppled, causing the 'Great Recession' followed by the global financial crisis.

There is great value in shadow banking institutions in that they are accessible to members of the population who would ordinarily be excluded from the system due to the high cost of commercial banks or a lack of access to ATM's and branches of commercial banks. Some shadow banking mechanisms – such as stokvels – also help circumvent the mistrust of commercial banks held by many of the low-income,

uneducated segment of the population, as this is a traditional system that has been in place for centuries.

IV ARGUMENTS FOR AND AGAINST FINANCIAL REGULATION

vi. Arguments for regulation

Proponents for the regulation of financial markets argue that free markets are inherently unstable and susceptible to market failure.[37] Buckle and Beccalli examine the pros and cons of banking regulation in three domains, namely the fragility of banks, systemic risk and the protection of depositors.[38]

The above authors state that the fragility of banks stems from the role of the banks in providing liquidity insurance to households. Households deposit funds as insurance against circumstances that may affect their consumption needs. The bank may use part of these deposits to fund illiquid investments. If a large number of depositors simultaneously withdraw their funds, the bank will suddenly be faced with a liquidity crisis which in turn causes a 'bank panic' and a loss of confidence by the public in the banking system. In a regulated system, the liquidity crisis can be mitigated by the assistance of a central bank which could lend money to the distressed bank to restore liquidity.[39]

In an unregulated market, the banks do not have such a safety net and banks would be more likely to fail, causing further loss to the depositors and the economy.[40]

Stiglitz also argues this point and highlights the fact that self-regulating or free markets cannot be efficient by themselves when the markets are incomplete of

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37 M. Buckle and E. Beccalli *Principles of Banking and Finance* (2011) 91.

38 See generally Buckle and Beccalli op cit note 37 at 92.

39 See generally Buckle and Beccalli op cit note 37 at 92 and 93.

40 Ibid.

information in imperfect - which he notes is always.[41] As Buckle and Beccalli, Stiglitz proposes that regulations can 'mitigate the extent of *externalities*'.[42] This means that regulations serve to contain the external factors which may cause instability in the financial market.

Buckle and Beccalli explain that bank regulation is important in preventing systemic risk. Systemic risk is the 'risk that the failure of a particular bank spreads to other, solvent banks'.[43] The authors explain that this occurs due to depositors' inability to distinguish between good and bad banks.[44] When one bank fails, it leads to panic, and depositors attempt to withdraw their funds simultaneously from both good and bad banks. Because the banks will not have sufficient funds to meet all the withdrawal requests, depositors will attempt to run on the bank first because banks must serve on a first come, first served basis.[45] When a run occurs, banks may be required to sell their assets below value in order to meet the withdrawal demands of depositors which could cause a solvent bank to become insolvent. Given the integral part of banks in the economy, systemic failure can have severe implications which is one of the main reasons to justify external regulation.[46]

The final domain examined by Buckle and Beccalli is the protection of depositors. The authors propose that 'in the absence of any regulations, bank failures may have two consequences:

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41 Joseph E. Stiglitz 'Government Failure vs. Market Failure: Principles of Regulation' (Columbia University Academic Commons) 2008 at 2 last accessed from <http://hdl.handle.net/10022/AC:P:9091> on 25 September 2017.

42 See generally Stiglitz op cit note 41 at 3.

43 See generally Buckle and Beccalli op cit note 37 at 93.

44 Ibid.

45 See generally Buckle and Beccalli op cit note 37 at 54.

46 See generally Buckle and Beccalli op cit note 37 at 93.

- First, they are very costly, especially or the financers of the failing bank (such as the depositors and the bank's stockholders) and, to a lesser extent, to borrowers with a close relationship with the failing bank. In addition, they may also be very costly to other banks, because interbank lending accounts for a significant portion of banks' balance sheets.

- Second, bank failures interrupt the payment system because of the pivotal position of banks in the management of the payment system.'[47]

The crux of the argument for regulation of banks for the protection of depositors is that most depositors are uninformed and unsophisticated when it comes to evaluating whether or not an asset is safe – regulations serve to compensate for the shortcomings of the average depositor and evaluate the risk on their behalf.[48]

vii. Arguments against regulation

One of the main arguments against regulation of the financial sector, is the idea that markets are by themselves efficient, and that regulation makes them inefficient.[49]

Buckle and Beccalli note that one argument against regulation is the costs in the form of real resources. They lay out four types of costs:

- 'the administrative costs of the regulatory authorities (i.e. employing staff to monitor banks)

- the administrative costs associated with the banks' own compliance activities (i.e. staff to produce return required by the regulator)

- the cost of dedicated capital to comply with capital requirements

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47 See generally Buckle and Beccalli op cit note 37 at 94.

48 Ibid.

49 See generally Stiglitz op cit note 41 at 2.

- the contribution of funds needed to compensate the clients of other banks which have failed'.[50]

The next argument noted by the authors is the danger of over-regulating to the point where it reduces competition, raises costs and lowers the rate of financial innovation.[51] It is also argued that regulation creates 'moral hazard' because banks may take more risk if they know there is a safety-net in the form of a bail out if they face problems. Depositors in the other and become less vigilant if there is a regulator monitoring the banks on their behalves and if there is a deposit insurance scheme to cover them should the bank fail. Depositors are thus more likely to deposit with banks which have more favourable interest rates – the very banks which are likely to take more risks.[52] This seems to suggest that regulation may encourage the risk taking that it is intended to prevent.[53]

V PROPOSED REGULATION

Following the 2007 – 2009 global financial crisis, the South African legislature developed several new pieces of legislation to further regulate financial markets and attempt to avoid further financial crises including the South African Reserve Bank Amendment Act 4 of 2010 ('the SARBA'), the Financial Markets Act 19 of 2012 ('the FMA') and the Regulation Act. The Regulation Act will have the biggest impact on financial institutions and due to its purpose of regulating the financial sector, I will focus on this piece of legislation in discussing South Africa's reaction to the global financial crisis and the role regulation plays in absorbing the shock of such crashes.

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50 See generally Buckle and Beccalli op cit note 37 at 95.

51 Ibid.

52 Ibid.

53 Ibid.

viii. Institutional changes

The Regulation Act

The Regulation Act was first introduced as a bill in 2013 and was assented to on 21 August 2017. The Act, which does not yet have a commencement date, establishes the 'Twin Peaks institutional framework for financial regulation and supervision'.[54] According to the explanatory document accompanying the final draft of the regulation Bill:

> 'The proposed Twin Peaks system for regulating the financial sector is designed to make the financial sector safer, and to better protect financial customers in South Africa. It gives effect to the government policy paper published in February 2011, entitled *A safer financial sector to serve South Africa better*. That document, known commonly as the "Red Book", took into account the lessons learnt from the 2008 Global Financial Crisis, assessed the structure and characteristics of South Africa's financial sector for gaps and weaknesses, and set out proposals to reform the regulatory system for the financial sector.'[55]

The Twin Peaks model creates dedicated authorities for prudential and market conduct supervision.[56] Cabinet approved 15 principles to guide this reform. The relevant principles for our purposes are:

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[54] National Treasury Impact Study of the Twin Peaks Reforms, April 2016 at 1 last accessed from <http://www.treasury.gov.za/public%20comments/FSR2014/> on 25 September 2017.

[55] National Treasury 'Twin Peaks in South Africa: Response and Explanatory Document' December 2014 at 4 and 5 last accessed from <http://www.treasury.gov.za/public%20comments/FSR2014/> on 25 September 2017.

[56] See generally op cit note 55 at 5.

'**Principle 1:** Financial service providers must be appropriately licensed or regulated.

Principle 2: There should be a transparent approach to regulation and supervision. *Regulation and supervision should be risk-based, where appropriate, and proportional to the nature, scale and complexity of risks present in a regulated entity and the system as a whole.*

Principle 3: The quality of supervision must be sufficiently intense, intrusive and effective.

Principle 6: Regulations should be of universal applicability and comprehensive in scope in order to reduce regulatory arbitrage.

Principle 7: The legislative framework should allow for a lead authority for every financial institution that is regulated by a multiple set of financial authorities. All authorities involved must strive to coordinate their supervisory activities.

Principle 9: The regulatory framework must include responsibility for macroprudential supervision.

Principle 10: Special mechanisms are needed to deal with systemically important financial institutions (SIFIs).

Principle 11: Market conduct oversight must be sufficiently strong to complement prudential regulation, particularly in the banking sector. Market conduct oversight is critical for the financial sector and complements prudential oversight.

Principle 12: Financial integrity oversight should be effective to promote confidence in the system.'[57]

[57] See generally op cit note 55 at 5 and 6.

The Regulatory Act creates two new authorities: The Financial Sector Conduct Authority ('FSCA'), and the Prudential Authority ('PA'). According to the National Treasury Explanatory Document

> 'The FSCA will be a stand-alone market conduct authority, while the PA will be an authority established within the Reserve Bank. The FSB and the Bank Supervision Department will cease to exist. It is important to note that these existing regulatory institutions will not merely be 'renamed' under the Twin Peaks system. The new authorities will have clearly defined mandates relating to market conduct and financial soundness respectively and have broad jurisdiction over the financial sector. The Reserve Bank is given an express mandate for financial stability oversight.'[58]

The main objective of the Regulation Act is to do away with industry specific regulation and to create two oversight bodies to regulate the financial system in South Africa.

ix. Relevancy of the changes

Although South Africa already has a sophisticated financial market regulatory system, which largely contributed to a minimal impact on the country and a notable resilience during the global financial crisis, the International Monetary Fund ('IMF') found – during a 2014 financial system stability system analysis – that there are still gaps in the regulation and found that:

> 'The large fiscal and current account deficits, a weak growth outlook, the reliance of banks on money market funds (MMFs) for short-term wholesale funding, and banks' active trading in the

[58] See generally op cit note 55 at 10.

> over-the-counter (OTC) derivatives market make South Africa susceptible to contagion and sudden stops of capital flows. This susceptibility and potential for spill overs have been exacerbated by the significant concentration and interconnections in the financial system, and the substantial expansion of South African banks into sub-Saharan Africa.'[59]

The report suggests that the Twin Peaks reform should be adequate to address most of the issues in the current regulatory framework however it suggests that 'the SARB should have the resources and authority to collect granular data and perform regular stress testing, especially of systemically important financial institutions.'[60]

The IMF further draws attention to a major shortfall in the South African financial system, which is the lack of competition in the financial system.[61] The current regulations exclude small and medium enterprises (SMEs) and low-income households due to the low supply of financial intermediation services at lower costs.[62] Considering that the majority of the South African population are low-income households, and taking into account the high unemployment rate in the country, this exclusion passes up an opportunity for growth in the economy.

The IMF report suggests that this problem could be solved by 'reducing the amount of capital required for entry to encourage the establishment of smaller banks; adopting a transparent exit framework; closing regulatory and supervisory gaps on both prudential and conduct grounds that favour incumbents; and improving access to information on financial services that help users compare different products on

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[59] *Financial System Stability System Analysis* (IMF Country Report No. 14/340) at 7 last accessed from <https://www.imf.org/external/pubs/ft/scr/2014/cr14340.pdf> on 23 December 2017.

[60] Op cit note 60 at 8.

[61] Ibid.

[62] Ibid.

their terms, price, risks and benefits. While a careful balance is needed between financial stability and the objective of a less concentrated financial system, there is room to accommodate more competition in the current environment of strong prudential regulation and supervision.'[63]

Given the most recent fluctuations in the economy, it is prudent to implement better regulation of the financial system in order for the economy to remain stable during financial crises. The Regulation Act does place a heavy emphasis on financial stability and even establishes a Financial Stability Oversight Committee[64] which is intended to support the Reserve Bank in its responsibility 'for protecting and enhancing financial stability'.[65]

At this juncture, the ideas of the Public Protector and ANC must be considered. In her report, the Public Protector suggested a change to the Constitution and consequently the role of the SARB.

Section 224 of the Constitution[66] currently reads:

> **'Primary object**
>
> 224. (1) The primary object of the South African Reserve Bank is to protect the value of the currency in the interest of balanced and sustainable economic growth in the Republic.
>
> (2) The South African Reserve Bank, in pursuit of its primary object, must perform its functions independently and without fear, favour or prejudice, but there must be regular consultation between the Bank and the Cabinet member responsible for national financial matters.'

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63 Ibid.

64 Section 20 of the Regulation Act.

65 Section 11(1)(A) of the Regulation Act.

66 The Constitution of the Republic of South Africa, 1996.

The Public Protector's new wording reads:

> '224. (1) The primary object of the South African Reserve Bank is to promote balanced and sustainable economic growth in the Republic, whilst ensuring that the socio-economic well-being of the citizens is protected.
>
> (2) The South African Reserve Bank, in pursuit of its primary object, must perform its functions independently and without fear, favour or prejudice, while ensuring that there must be regular consultation between the Bank and Parliament to achieve meaningful socio-economic transformation.'[67]

The effect of this change was well summarised by Stephen Grootes in an article for The Daily Maverick in which he writes:

> 'This would be a fundamental change in the mandate of the bank. Currently, the bank uses interest rates to target inflation; the higher the interest rates, the less money we all have to spend (because we're spending on bonds and car payments etc), the less money there is in the economy, the lower the rate at which the price of a loaf of bread increases. If you change that policy, if you lower interest rates, you allow more money into the economy, and the price of bread will rise.
>
> If you are in any doubt, ask a Zimbabwean.'[68]

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[67] Op cit note 37 at 55 and 56.

[68] Stephen Grootes 'Analysis: Public Protector's strange Absa report, and disturbing attack on Reserve Bank' *The Daily Maverick* 19 June 2017 last accessed from <https://www.dailymaverick.co.za/article/2017-06-19-analysis-public-protectors-strange-absa-report-and-disturbing-attack-on-reserve-bank/#.WXSAN-lLfIU> on 22 December 2017.

The Public Protector seems to be aiming for the same goal as the ANC, state control of the SARB. In her report she further writes:

> 'It is in this believe that once the state takes control of creating money and credit, numerous benefits aimed at alleviating economic ails of ordinary economically disadvantaged people may be achieved, unlike our current purely commercial transaction system which only seeks to improve a particular financial sector'.[69]

What the Public Protector has missed with this statement, and the ANC with its desire to nationalise the SARB, is that the shareholding of the Bank makes no difference in its operation. The independence of the SARB is entrenched in the Constitution and whether it is owned by private shareholders or the State is irrelevant; the owner or owners of the Bank cannot interfere with its mandate or the way in which it is carried out. This leaves these suggestions as one of two things, either the Public Protector and ANC have a complete lack of comprehension of the Constitution, or this is a ploy to entice voters who do not understand the workings of the Constitution and economy by appearing to place the people in control of the money.

However, the ANC is not completely wrong in suggesting the creation of a State-owned bank. That is to say, rather than nationalising the SARB, the State could establish a State-owned bank which could provide financial services to low-income households such as no fee transactional accounts and subsidised insurance and savings. The next section will discuss the solutions implemented in other developing nations which have shown success in greater financial inclusion.

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[69] Op cit note 37 at 51.

VI FURTHER REGULATION THAT WOULD PROMOTE FINANCIAL INCLUSION

The first BCG report gives several examples of solutions implemented in other nations to promote financial inclusion. The report highlights the following successful measures:[70]

- The governments of India and Indonesia are collaborating with banks and other partners to help create simplistic financial services aimed at the low end of the market, for example, in India people who put money into their pensions will benefit from the provision of five years of matching funds by the government.
- Indonesia's 250 million strong population is largely unbanked with only about one-third of its people owning a bank account. One initiative, targeted partly at children to turn saving into a habit, introduced no-fee accounts with no required minimum balance into Indonesia's branchless banking system with the aim of increasing savings. The Laku Pandai initiative has already added 2 million customers in its first two years.
- The Indian Ministry of Finance distributes social payments through mandated no-frills accounts which come with built-in life and accident insurance.
- Indonesia, being made up of a group of islands, has attempted to reach more customers by experimenting with a branchless-banking program. The appointed agents transact using mobile phones and are subject to more streamlined regulation and documentation requirements than those applicable to bank employees. Banks in India have managed to secure 50 million new customers within six months who actively use new accounts by installing 10 000 solar-powered ATMs that are able to process biometric transactions.

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[70] Op cit note 11 at 10 to 12.

- Kenya has notably produced the M-Pesa mobile-payment system and has expanded its inclusive financial services portfolio with the Equitel mobile-banking service which offers a 0.1-millimetre thin card which sits on top of a traditional SIM card and enables the service. Within three months, the Equitel service has grown to 1.4 million customers.
- Grameen Bank in Bangladesh is not a traditional bank but has shown that provision of financial services can be both profitable and inclusive. It is aimed at serving low-income households.
- 'India has granted licenses to "small finance banks" which have lower capital requirements than traditional banks and limits to the size of loans they can underwrite. The government's Micro Units Development Refinance Agency and Small Industries Development Bank of India also arrange small no-fee loans, with a 7% interest rate, for small and midsize enterprises. Nearly $4 billion in credit has been distributed under this program'.

The next instinctive question is how is this relevant to financial regulation in South Africa? The above examples are illustrations from developing countries which are far less developed than South Africa. South Africa has an exceptionally sophisticated banking system which rivals and overshadows that of many first-world nations. Thus, it is difficult to imagine that implementing the systems and regulatory measures mentioned above would be an arduous or impossible task for South Africa.

India's initiative of installing solar-powered ATMs resulted in 50 million new customers with bank accounts, this is almost the equivalent of the entire population of South Africa. South Africa arguably has far more resources than India and has already implemented solar power initiatives in townships to power geysers for example – this suggests that providing access to financial services across the country is certainly an achievable goal.

In light of these facts, it is recommended that South Africa extends its regulatory framework to provide for the existence of microcredit providers, and government subsidised financial services – such as those in India – where the government matches pension fund contributions and provides no-frills accounts with no fees and low-cost insurance.

VII CONCLUSION

South Africa is well on its way to having financial regulation which is inclusive and will stimulate growth and ensure the protection of consumers. However, the current suggested regulations are still too macroscopic to truly address the issue of financial exclusion. To address this pervasive issue and reach the goal of economic transformation and socio-economic welfare, the legislature can take note of the reforms made in other developing countries which have shown tremendous success in implementation of relatively small measures.

By regulating the informal financial institutions such as shadow banks, measures can be put in place to protect the most vulnerable of our society from exploitation when they are simply attempting to enter into a financial system which has thrown up barriers that seem impossible to conquer.

ANNEXURE A

Figure 1 - G20 Financial Inclusion Indicators for South Africa in 2014[71]

	2014
Access to a mobile phone or internet at home (% age 15+)	86.8
Access to a mobile phone or internet at home, female (% age 15+)	85.8
Access to a mobile phone or internet at home, income, poorest 40% (% age 15+)	80.7
Access to a mobile phone or internet at home, income, richest 60% (% age 15+)	91.1
Access to a mobile phone or internet at home, male (% age 15+)	88.0
Access to a mobile phone or internet at home, older adults (% ages 35+)	84.1
Access to a mobile phone or internet at home, young adults (% ages 15-34)	89.3
Account (% age 15+)	70.3
Account, female (% age 15+)	70.4
Account, income, poorest 40% (% age 15+)	57.8
Account, income, richest 60% (% age 15+)	79.0
Account, male (% age 15+)	70.3
Account, older adults (% ages 35+)	77.7
Account, young adults (% ages 15-34)	63.9

71 <http://databank.worldbank.org/data/reports.aspx?source=g20-basic-set-of-financial-inclusion-indicators#> last accessed on 23 December 2017.

Agents of payment service providers per 100,000 adults	..
ATMs per 100,000 adults	66.3
Borrowed from a financial institution in the past year (% age 15+)	12.1
Borrowed from a financial institution in the past year, female (% age 15+)	11.4
Borrowed from a financial institution in the past year, income, poorest 40% (% age 15+)	4.3
Borrowed from a financial institution in the past year, income, richest 60% (% age 15+)	17.5
Borrowed from a financial institution in the past year, male (% age 15+)	12.9
Borrowed from a financial institution in the past year, older adults (% ages 35+)	14.6
Borrowed from a financial institution in the past year, young adults (% ages 15-34)	9.9
Branches per 100,000 adults	11.0
Debit cards per 1,000 adults	..
Deposit accounts per 1,000 adults	1,629.8
Disclosure index (0-5)	..
Dispute resolution index (0-1)	..
E-money accounts per 1,000 adults	..
Financial knowledge score (0-3)	..
Getting credit: Distance to frontier (0-100)	60.0
High frequency of account use (% age 15+)	14.7

High frequency of account use, female (% age 15+)	13.8
High frequency of account use, income, poorest 40% (% age 15+)	7.4
High frequency of account use, income, richest 60% (% age 15+)	19.8
High frequency of account use, male (% age 15+)	15.8
High frequency of account use, older adults (% ages 35+)	16.8
High frequency of account use, young adults (% ages 15-34)	12.9
Insurance policy holders per 1,000 adults (life)	..
Insurance policy holders per 1,000 adults (non-life)	..
Interoperability of ATM networks and interoperability of POS terminals (0-1)	..
Made or received digital payments (% age 15+)	66.0
Made or received digital payments, female (% age 15+)	67.4
Made or received digital payments, income, poorest 40% (% age 15+)	52.4
Made or received digital payments, income, richest 60% (% age 15+)	75.5
Made or received digital payments, male (% age 15+)	64.4
Made or received digital payments, older adults (% ages 35+)	74.4
Made or received digital payments, young adults (% ages 15-34)	58.7
Made payment using a debit card (% age 15+)	40.8
Made payment using a debit card, female (% age 15+)	39.6

Made payment using a debit card, income, poorest 40% (% age 15+)	24.8
Made payment using a debit card, income, richest 60% (% age 15+)	52.0
Made payment using a debit card, male (% age 15+)	42.2
Made payment using a debit card, older adults (% ages 35+)	45.7
Made payment using a debit card, young adults (% ages 15-34)	36.6
Made payment using a mobile a phone, male (% age 15+)	22.9
Made payment using a mobile phone (% age 15+)	21.3
Made payment using a mobile phone, female (% age 15+)	19.9
Made payment using a mobile phone, income, poorest 40% (% age 15+)	11.2
Made payment using a mobile phone, income, richest 60% (% age 15+)	28.3
Made payment using a mobile phone, older adults (% ages 35+)	22.4
Made payment using a mobile phone, young adults (% ages 15-34)	20.4
Made payment using the internet (% age 15+)	7.6
Made payment using the internet, female (% age 15+)	6.8
Made payment using the internet, income, poorest 40% (% age 15+)	3.1
Made payment using the internet, income, richest 60% (% age 15+)	10.7

Made payment using the internet, male (% age 15+)	8.5
Made payment using the internet, older adults (% ages 35+)	8.1
Made payment using the internet, young adults (% ages 15-34)	7.2
Main source of emergency funds: savings (% age 15+)	22.5
Main source of emergency funds: savings, female (% age 15+)	23.3
Main source of emergency funds: savings, income, poorest 40% (% age 15+)	10.9
Main source of emergency funds: savings, income, richest 60% (% age 15+)	30.5
Main source of emergency funds: savings, male (% age 15+)	21.5
Main source of emergency funds: savings, older adults (% ages 35+)	26.7
Main source of emergency funds: savings, young adults (% ages 15-34)	18.8
Mobile agent outlets per 100,000 adults	31.1
Mobile money transactions per 100,000 adults	16,126.3
Outstanding loans per 1,000 adults	454.8
POS terminals per 100,000 adults	..
Received wages or government transfers into an account (% age 15+)	47.5
Received wages or government transfers into an account, female (% age 15+)	48.7

Received wages or government transfers into an account, income, poorest 40% (% age 15+)	40.0
Received wages or government transfers into an account, income, richest 60% (% age 15+)	52.7
Received wages or government transfers into an account, male (% age 15+)	46.0
Received wages or government transfers into an account, older adults (% ages 35+)	58.2
Received wages or government transfers into an account, young adults (% ages 15-34)	38.1
Retail cashless transactions per 1,000 adults	..
Saved at a financial institution (% age 15+)	32.7
Saved at a financial institution, female (% age 15+)	31.2
Saved at a financial institution, income, poorest 40% (% age 15+)	21.1
Saved at a financial institution, income, richest 60% (% age 15+)	40.8
Saved at a financial institution, male (% age 15+)"	34.4
Saved at a financial institution, older adults (% ages 35+)	35.5
Saved at a financial institution, young adults (% ages 15-34)	30.3

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