



Chapter 6

Are Banks Doing Enough to Address Inequality?

Johan Coetzee 

Introduction

President Ramaphosa indicated in the 2023 State of the Nation Address that a state bank “will provide financial services to SMMEs, youth- and women-owned businesses, and underserved communities” on the back of the Postbank’s infrastructure and a pending banking licence.¹ This ‘developmental agenda’ has been reiterated by several government officials in recent years, including former South African Reserve Bank Governor Tito Mboweni² and current Secretary General Fikile Mbalula,³ although Minister of Finance Enoch Godongwana stated in 2022 that South Africa cannot afford such a bank.⁴ At its core, such a state bank is seen by the South African government as a key enabler to address the inequality problem in South Africa as part of their broader developmental policy agenda.

There has been a lot of to-ing and fro-ing with the idea of a state bank. This is mainly because the management of State-Owned Enterprises (SOEs) has been nothing short of deplorable. Yet, it is seen as providing a solution to addressing gaps that commercial banks have failed to address – or failed to address speedily enough. Driven by excessive mismanagement and looting,⁵ the bailouts of SOEs by the fiscus has totalled R331 billion since 2013/14, with the national power supplier Eskom accounting for 55% of this amount.⁶ The constant channelling of taxpayer money to save delinquent government-managed institutions does not bode well for the likely success of such a state bank. Understandably, commercial banks themselves have also questioned proposals for it, especially if it is expected to abide to the same (stringent) prudential requirements expected from

these commercial banks.⁷ If there is ample evidence of failing SOEs constantly under financial distress due to corruption and poor management,⁸ what would make a state-owned bank any different? Virtue signalling from ministers such as Mbalula stating the “uncompromising, unapologetic role of the interventionist role of the state” *vis-à-vis* the state bank, has become par for the course. The proof is in the pudding, as they say.

It is all good and well to propose such an intervention, but does it say something about the strides that South African private commercial banks have made – or, perhaps more aptly, not made – with regards to this broader developmental agenda? Notwithstanding the notion of a well-run state bank, the private commercial banks are commonly regarded as being one of the shining lights in an otherwise lacklustre South African economy, internationally regarded as being well managed and capitalised. So, if such a state bank is indeed necessary, have the South African commercial banks not done enough? In this chapter, I address this question.

The South African Banking Industry

The South African banking industry is highly complex and well developed,⁹ and plays a critical role in facilitating financial transactions and promoting economic growth. In a country that performs poorly in most macroeconomic spheres, its role to allocate resources to the most vulnerable cannot be underplayed.

The banking industry provides a wide range of services and products catering to the diverse needs of individuals, businesses, and the public sector. These include consumer banking, corporate and commercial banking, investment banking, and complementary financial product offerings such as insurance, financial planning, and fiduciary services.¹⁰ Under consumer banking, individuals are serviced and range from those with high net worth (wealth) to the typically rural-based mass market where banks have increased their reach in recent years.¹¹ Banks also extend insurance products encompassing life insurance, health insurance, and general insurance through the so-called ‘bancassurance’ strategy that has been inherent to the business

model adopted by South African banks.¹² Other types of banking representation include development banks whose primary purpose is to offer financing for development purposes of various forms. These include the Industrial Development Corporation (IDC), the Development Bank of Southern Africa (DBSA), and the Land Bank. Mutual banks also offer simple transaction accounts and minimal loan facilities, targeting specific communities.¹³

The industry itself is well regulated and has a robust infrastructure¹⁴ comparable to the best in the world, especially in terms of its soundness and ability to meet the needs of local business.¹⁵ Table 1 provides a summary of selected indicators relating to the South African banking industry.

Table 1 Selected indicators for the South African banking industry¹⁶

Indicator	2019	2020	2021	2022	2023
Market share of assets* (R billions)	90.37	89.99	89.84	89.55	89.44
Total assets (R billions)	5769.3	6457.3	6562.3	7020.1	7342.5
Total capital adequacy ratio (%)	16.53	16.21	17.49	17.68	17.80
Total loans and advances (R billions)	4249.5	4542.5	4643.1	4984.0	5282.6
Impaired advances to gross loans and advances (%)	3.8	4.7	4.9	4.5	4.7
Return on equity (%)	15.31	10.22	10.62	14.27	14.91
Operating expenses to gross income (%)	58.22	58.26	58.73	58.09	56.66
Interest margin to gross income (%)	56.80	58.17	58.65	58.77	59.52
Liquidity coverage ratio (%)	146.9	142.2	144.1	145.7	149.8

* Five largest banks: Standard Bank Group, FirstRand, Absa Bank, Nedbank, and Investec Bank.

The indicators in Table 1 show that the industry is highly concentrated, with five main banking groups, namely the Standard Bank Group, FirstRand, Absa Bank, Nedbank, and Investec Bank holding most of the assets. While this is the case from an assets point of view, Capitec Bank has a substantially larger customer

base, serving almost one-third of the South African population by the end of February 2023.¹⁷ In the retail banking context, Capitec Bank has the dominant presence in terms of customers.

The industry is also well capitalised, complying to the Basel Committee on Banking Supervision (BCBS) and the South African Reserve Bank (SARB)’s regulatory requirements pertaining to – amongst others – capital adequacy and liquidity coverage. This aspect is particularly noteworthy and often cited as one of the main factors that define a resilient South African banking industry.¹⁸ Until recently, the South African banks – and the financial sector at large – have been regarded as some of the most developed in the world, where banks have consistently been ranked in the top ten most sound banks globally (see Figure 1). The more recent dropping off has been driven predominantly by the sovereign credit downgrade to non-investment grade¹⁹ and the Steinhoff corporate fraud debacle that particularly questioned corporate governance and ethical practices.²⁰

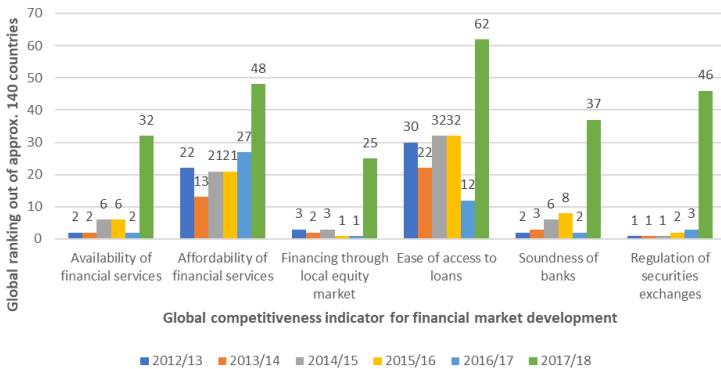


Fig. 1 Selected financial market development indicators for South Africa indicating global competitiveness

The operating expenses to gross income (or cost-to-income) ratio is also better than the universally considered 60% benchmark, and is driven primarily through disciplined cost management and a digitally led focus to streamline technological architecture in the operating models of banks.²¹ Furthermore, the liquidity coverage

ratio exceeds the 100% required by the Prudential Authority to abide by the Basel capital requirements as from 1 January 2019.²²

The evidence above therefore suggests that not only are the banks profitable and efficient in what they do, but they are also well regulated and resultantly comparable to banks in much larger and more developed economies than South Africa. Although smaller in size and global influence, this is no mean feat.

Banks and Financial Inclusion

Banks are critical institutions in any economy as they provide a means to build wealth through the provision of access to financial products and services. Evidence, however, suggests that this follows a U-shape: inequality is initially reduced, after which surpassing a so-called 'optimal' level, inequality increases.²³ This raises an interesting question: should banks focus more on equal opportunity of access, or on equal opportunity of outcome due to access? In other words, through the process of financial intermediation and what it represents (access to accounts, transaction ability, loans, financial advice, etc.), should banks be more focused on providing equal opportunities to access these facilities, or rather be more focused on the outcome of the use of these facilities? The former implies that banks must do all that they can – within the confines of the regulatory and compliance requirements to which they are subjected to – to ensure equal and fair opportunity to access financial products and services for all South Africans; the latter implies that, once the access to these financial products and services has been provided, they ensure that the outcome of the access is maximised *vis-à-vis* more favourable socioeconomic outcomes.

What are these socioeconomic outcomes? Ultimately, access results in economic empowerment through, for example, a reduction in inequality, poverty alleviation, or wealth creation and captures the economic dimension of financial inclusion. Coupled with these explicit economic benefits are qualitative benefits such as feeling part of society, personal pride, providing for your family, and so on. Figure 2 reflects this continuum of financial

inclusion from having access through to the ultimate benefit – economic empowerment.

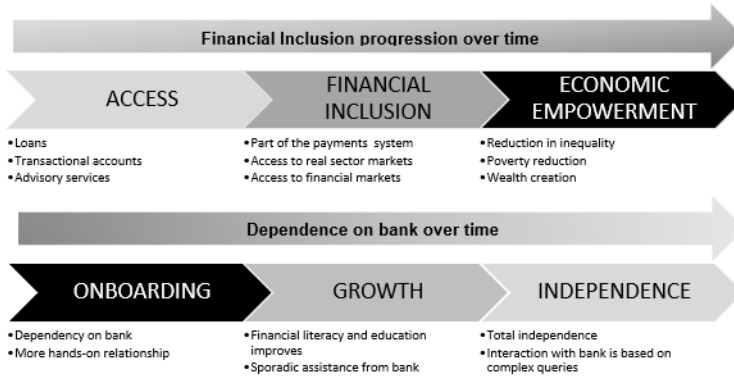


Fig. 2 The financial inclusion continuum and the dependence of banks²⁴

There is another dimension to this financial inclusion continuum relating to the dependence on the bank. This dependence by customers, especially if they come from impoverished backgrounds where there has been no or minimal interaction with banks, is one of *learning* due to a lack of trust. Initially there is onboarding, where the bank – through its staff – is very hands-on to ensure that the use and benefits of using banking products and services are effectively conveyed. As time passes, customers learn to use bank products and services, thereby becoming more financially literate, with assistance from the bank becoming more sporadic and less committal in nature. Over time, the customer becomes totally independent and the hands-on involvement by the bank dwindles. Ultimately, the more empowered customers become due to the benefits of financial inclusion and financial education paying off, the less involved banks become in allocating resources to support the process of economic empowerment. Banks can therefore contribute to reducing inequality by not only providing access to financial services, but also by promoting financial literacy and education. By equipping customers with the knowledge and skills to make more informed financial decisions, they promote economic empowerment to better manage their

finances, save, invest, and plan more effectively. There is therefore an inverse relationship between economic empowerment through financial inclusion and the allocation of resources by banks to address this socioeconomic objective.

Having said this, there is a distinctly important issue that needs to be considered when the historical imbalances of the past define the economic situation of the financially excluded. This is best described by considering Figure 3, which presents the typical life-cycle phases of relationship banking. The life cycle encompasses the four phases that bank customers go through – dependency, growth, maturity, and retirement – where they earn income, spend on consumption, accumulate wealth over time, and then consume the wealth in retirement. As consumption (C) increases over time through the life cycle, so too does savings – both of these are a function of disposable income (YD_1 , YD_2 , and YD_3) which also peters off as the retirement phase is entered. Tracking the trajectory of consumption is the accumulation of wealth (or net asset value, NAV) which typically accumulates in the first three working phases but is utilised (used up) as a function of the respective petering off of disposable income (NAV_{YD1} , NAV_{YD2} , and NAV_{YD3}). As can be seen in the figure, central to the ultimate accumulation of wealth at retirement is the consistent application of savings in the growth and maturity phases. For the financially excluded (see the red functions), this is not always possible given their likely economic status as living in poverty and having sporadic or low incomes.²⁵ By implication, therefore, their level of dissaving will tend to continue beyond the dependency phase into the growth and maybe even maturity phase (C_{FE}). Upon retirement, there may not be sufficient wealth accumulation and retirement (NAV_{FE}) in the traditional sense – that is, to discontinue working and live off the accumulated wealth is not an option.

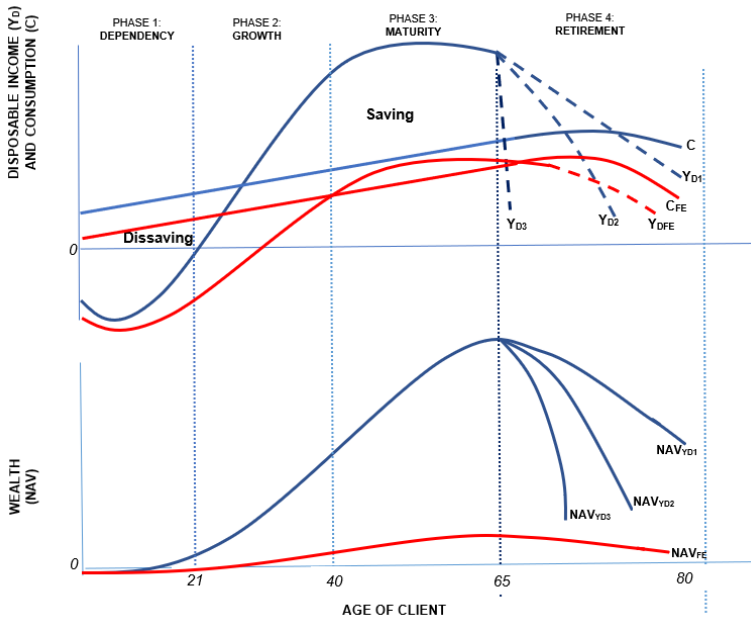


Fig. 3 The life-cycle phases of relationship banking²⁶

Why is this important? Because banks provide not only the *access* to financial products and services but also their *use*. In other words, financial inclusion is not only defined by access – it is also defined by usage, and thus the resultant empowerment. This is no more reflected than in the realities regarding the Mzansi account – a cheap, minimal-functionality transaction account offered by South African banks to ‘bank the unbanked’. Although seen to be successful in terms of the number opened, usage was low, resulting in a large proportion of dormant accounts²⁷ and its ultimate demise in the early 2010s.²⁸ Access driven by banks is therefore not the sole and exclusive determinant of economic empowerment. Customers also need to have jobs, to have sustainable incomes that service the loans borrowed from the banks. And these jobs are in turn a function of the state of the economy. In a South African economy that still has deeply entrenched inequalities, coupled with poor economic growth, high unemployment levels, and excessive poverty, the proposed

savings and wealth accumulation as depicted in Figure 3 is not as achievable for the majority of South Africans where this is a reality. By implication, therefore, banks – and what they offer in the inequality debate – are only part of the larger puzzle of socioeconomic inequality in the broader sense. It is a much more complex and pervasive issue. The ultimate responsibility in the inequality debate must therefore not be shifted disproportionately to the banking industry due to deficiencies in the progress made from a policy perspective, and specifically, a fiscal policy perspective.

How Do Banks Address Inequality through Financial Inclusion?

Although technological advancements such as digital banking and fintech innovations present opportunities to enhance efficiency, reach new customer segments, and provide innovative financial services, the socioeconomic constraints facing the majority of South Africans who are financially excluded makes the role of banks more complex.

As argued above, financial inclusion is not *only* about having access to financial products and services. It relates explicitly to being part of the financial system – to participate in it and have equal access to opportunities to improve standards of living²⁹ by potentially eradicating poverty, boosting economic prosperity, reducing systemic inequalities, and promoting financial development.³⁰ To be more specific, access to financial services requires four pre-requisites: the options available; the reliability of the financial services; the flexibility they offer; and the continuity of access provided.³¹ In South Africa, the challenge is therefore beyond merely ‘providing banking products’ or ‘banking the unbanked’. It has a deeper socioeconomic and morally driven purpose related to addressing deeply rooted inequalities. This creates several challenges for banks. For one, access typically requires accessing physical bank branches, but due to geographic constraints or limited banking infrastructure in rural areas, this is not always possible. Affordability of traditional banking services has also been a problem due to the fees associated with

maintaining a bank account and making transactions being too excessive. In the past, this resulted in banks offering the Mzansi account, which was an attempt to reduce fees, but at the same time functionality was limited.³² Further problems like the lack of adequate documentation (such as identification documents or proof of address) has made it more difficult for banks.³³ Moreover, the preference for informal financial instruments such as *stokvels* has discouraged the historical uptake of formal banking services, largely due to the embedded lack of trust in the formal banking industry, as well as strong cultural ties that rely heavily on a savings culture within informal rural communities.³⁴ Although banks such as FNB have aggressively marketed group savings options through digital adoption and attracted over R1.8 billion from over 102 000 *stokvel* members,³⁵ uptake has been predominantly from households with higher income levels.³⁶ Added to these studies, this suggests that financial exclusion is characterised by distinct features: smaller, uneducated, black households, not headed by middle-aged and employed family members.³⁷ This further re-enforces the entrenched demographic characteristics attached to the financially excluded. Recent evidence does, however, suggest improvement. A 2021 report released by the World Bank indicated that 85% of adults in South Africa had bank accounts, rising from 54% in 2011,³⁸ with technology contributing largely to this uptick. As long as people have cell phones, be it through USSD technology on less sophisticated devices³⁹ or apps on smarter devices, the access to mobile money in its various guises has become common practice.

Given this background, how do banks address inequality? There are typically three main ways: access to financial products and services, support for SMMEs, and the provision of financial education.

From an access point of view, the infrastructure of banks facilitates transactions amongst different participants in the economy, enabling various functions such as the transfer of remittances to rural areas and across borders, as well as the distribution of social grants.⁴⁰ The payments system ensures that workers are able to access wages, and debit and credit cards enable convenient transacting at any store with point-of-

sale devices.⁴¹ Figure 4 indicates that the average proportion of banking accounts by South Africans is favourable when compared to global averages. In fact, South Africa exceeds the global average by nine percentage points (85% vs 76%). This is in fact a remarkable achievement, given that in 2001/2, only 37% of the adult population was banked.⁴²

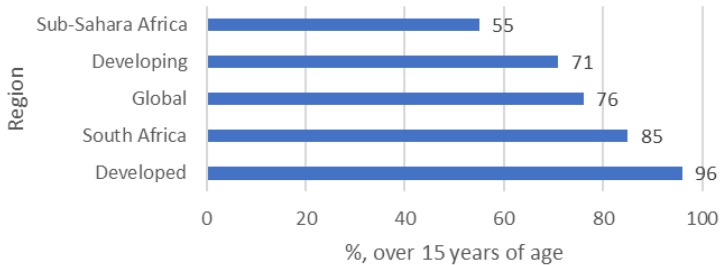


Fig. 4 Average proportion of banking accounts⁴³

Although a large proportion of the unbanked live in remote, rural areas with limited physical bank representation,⁴⁴ South African banks have substantially improved access by expanding their branch networks. In 2004, there were 4.7 commercial bank branches per 100 000 adults, with this number almost doubling to 8 in 2021 after peaking at 10.8 in 2014⁴⁵ (see Figure 5). Those who live in low-income, deeply rural communities are, however, severely hampered by a lack of access, especially if they are less likely to adopt digital platforms to do their banking.⁴⁶ This potentially not only widens the wealth gap, but also prevents full participation in the formal economy through a lack of access to the financial system.

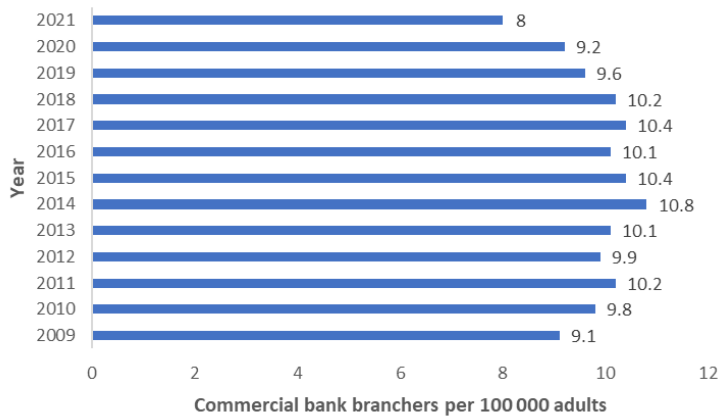


Fig. 5 Commercial bank branches per 100 000 adults in South Africa⁴⁷

Through the expansion of branch networks, banks can provide a means of contact with the marginalised, and improve access to financial products and services. However, a challenge relates to the use of digital platforms to access these products and services due to limited internet availability in deeply rural South Africa – especially the rural mass market. Coupled with this is the trust deficit that the mass market has as innovation in this digital space is constantly bringing new applications, processes, and features to the fore that require constant adaptation. As stated by one of the major South African banks, physical representation is a crucially important strategic consideration to address trust concerns: “Through all this innovation, one key factor for acquiring clients is, however, being lost: consumer trust. As technology advances, financial services companies are becoming increasingly distant from the person who is buying the product or service. Because of this lack of personal connection, the sales funnel suffers...[and] the reason people don’t buy these [financial services] in rural South Africa is because they can’t ‘see’ the provider, as they are forced to engage electronically.”

Support for SMMEs is a further way that banks can address inequality. Due to people living in rural areas having limited access to financial services, those who do not have a credit history or who

have a poor credit history may have difficulty obtaining credit or loans, which in turn hinders their ability to start businesses. Further reasons – such as the lack of financial and management skills, poor business plans, low levels of education, and poor or non-existent technical expertise – are the most common reasons cited to justify the rejection of loans to prospective SMMEs.⁴⁸ Added to this, the lack of documentation of financial records by existing SMMEs has been a major reason for South African banks' unwillingness to provide loans.⁴⁹ As can be seen in Table 2, SMMEs play a vital role in South Africa, contributing substantially to the number of jobs in specifically the trade and accommodation industries. Given a total of approximately 16 million employed South Africans as of the 1st quarter in 2023, SMMEs account for approximately 63% of South Africa's total employed. Taken even further, with approximately 10 million, they employ roughly 91% of South Africa's employed in the formal, non-agricultural sector.⁵⁰ There is no doubt that SMMEs are a major driver of economic activity in South Africa and contribute substantially to job creation and the reduction of inequality. The role that banks play in providing access to credit to SMMEs is therefore without question.

Table 2 Selected indicators of SMMEs in South Africa⁵¹

	2016Q3	2020Q3	2022Q3
Number of SMMEs	2,343,058	2,363,513	2,683,602
Number of formal SMMEs	657,707	653,530	792,838
Number of informal SMMEs	1,593,816	1,580,355	1,791,317
Number of jobs provided	9,683,639	10,058,355	n/a
% operating in trade & accommodation	40.30%	39.00%	39.20%
% operating in community services	13.00%	12.90%	14.60%
% operating in construction	15.10%	14.30%	14.40%
% operating in financial & business services	12.60%	13.10%	12.10%
% black-owned formal SMMEs	71.80%	75.20%	75.70%

	2016Q3	2020Q3	2022Q3
% contribution of SMEs* to turnover of all enterprises#	41.20%	38.60%	36.10%

** excludes micro enterprises; # excludes agriculture, financial intermediation, insurance, and government institutions*

Access is, however, only part of the problem to ensure sustainable SMMEs, as banks can develop specialised initiatives to not only provide financing, but also offer mentorship, training, and financial education. The major South African banks all offer some sort of initiative pertaining to this: ABSA offers development finance and business development support;⁵² First National Bank offers the Fundaba initiative that provides local business owners with a holistic business education journey;⁵³ Nedbank offers a fully tailored solution to meet the needs of up-and-coming SMMEs through its Small Business Services portal;⁵⁴ and Standard Bank offers a comprehensive business resource platform called Bizconnect that offers a full range of business support resources, industry trends, and customer success stories.⁵⁵ This support in its various forms enables business owners from disadvantaged backgrounds to establish and grow their businesses with the added mentorship and guidance of expertise from banks. This not only increases the opportunities for business owners to ultimately reduce inequality, but also allows banks the opportunity to reduce loan delinquencies through the improvement of the skills required to better manage the ongoing business operations, especially given that South African SMMEs functioning in the early stages of their life cycle are more likely to have access to finance as an obstacle for growth.⁵⁶

South African banks have also become more explicit in their role in promoting financial literacy through, for example, consumer education programmes,⁵⁷ and financial health initiatives related to budgeting, savings, understanding credit, education planning, insurance, bank fees, and money-related tips.⁵⁸ Financial education therefore not only ensures the development and education of its customers, but in doing this, they implicitly reduce the likelihood of delinquent customers, to resultantly reduce the risk profile of their customer base

and improve profitability.⁵⁹ More specifically, the inability of borrowers to make *prudent* rather than poor decisions (such as deciding to default on a loan), is a common reason explaining loan delinquency.⁶⁰ The sensibilities that financial education bring to the fore therefore extend beyond merely being more informed, but also result in a wiser and increasingly more cautious approach to handling finances.

Banks and Risk-aversion

The notion that banks exclusively offer *only* banking products and services is no longer the case. In fact, the word 'bank' is somewhat of a misnomer in that they are essentially a one-stop financial services provider, offering a wider range of financial services products and services.⁶¹ This no doubt implies a wider regulatory net that they must comply to, and adds to the daily complexity in the management of operations and customer service. By implication, the very nature of banking implies the management of risk, and doing so has many dimensions.

The regulatory environment for banks has changed dramatically over the past decade. The South African Reserve Bank (SARB) is responsible for maintaining financial stability in the financial sector. It oversees monetary policy, banking supervision, and the regulation of the payments system. The introduction of the Twin Peaks Framework resulted in respectively the prudential and market conduct regulation splitting into two separate regulators: the Financial Sector Conduct Authority (FSCA) – which oversees market conduct – and the Prudential Authority (PA) – which oversees prudential requirements for banks, insurers, co-operative financial institutions, financial conglomerates, and certain types of market infrastructures.⁶² The prudential requirements for banks are stringently based on the Basel Capital Accords from as early as 1992.⁶³ These require banks to adopt an explicit risk management approach that incorporates capital requirements based on credit, liquidity, market, interest rate, and operational risks. In addition, capital buffers are required to reduce systemic risk on the back of business and credit cycles.⁶⁴ The purpose of the Capital Accords is

to voluntarily impose standardisation across the world in terms of regulatory requirements and the assessment, measurement, and interpretation of risk. In effect, by complying, the South African banking industry ensures that it is comparable to other countries who also comply, and from a global point of view, this allows regulators to better manage systemic risk situations that could be to the detriment of global economic and financial system stability. Compliance to the Basel capital standards is one of the main reasons that the South African banking industry is commended on its stability and soundness.

Having said this, banks can contribute to inequality by promoting risky financial practices that benefit a certain group of people at the expense of others. For example, predatory lending practices, similar to those offered to subprime customers in the lead-up to the Global Financial Crisis (GFC) of 2007/8,⁶⁵ implied granting loans to those who either 1) could not afford the loan, or 2) were not able to service the loan. This led to financial distress for the borrowers and resulted in excessive non-performing loans for banks that ultimately had systemic implications. To 'rid' balance sheets of the risk within these subprime loans, banks engaged in complex securitisation practices to sell off the risk to fellow financial institutions willing to take on the excessive risk. What followed was the GFC and the burden ultimately fell onto governments to bail out under-capitalised banks. Effectively, the taxpayer paid for the predatory lending practices. There is thus always a cost to engaging in more risky behaviour. The issue is therefore not whether more risk should be taken *per se*, but to what extent this risk can be mitigated. In the case of the GFC, the risk was too excessive to justify.

South Africa was largely unscathed – at least directly – by the GFC. Several key legislative changes occurred prior to it that essentially prevented South African banks from taking on excessive and unmitigated risk. Besides the obvious compliance to the Basel Capital Accords, the Financial Advisory and Intermediary Services Act (FAIS), the Financial Intelligence Centre Act (FICA), and the National Credit Act (NCA) all resulted in a more risk-averse local operating environment.⁶⁶ Practically, this resulted in an explicit drive towards providing more appropriate financial

advice, more transparency in transactions, and more stringent credit-granting criteria. The Basel II capital requirements of 2006/7 re-enforced this regulatory environment. South African banks were therefore more resilient, and – because the industry is relatively small in global terms, and not that competitive globally in the corporate and investment banking space⁶⁷ – they were largely able to withstand the severe aftermath of the GFC. South African banks can therefore be regarded as being largely risk averse.⁶⁸

Does this resilience suggest that there is more room for South African banks to take on riskier projects and invariably increase their tolerance for risk?

Being risk averse suggests that the industry as a whole is less likely to be susceptible to systemic shocks, as it is more likely to be well capitalised, resulting in less risky projects being financed. By implication, the safety of customer deposits would be maintained, which in itself promotes the overall financial stability in the economy.⁶⁹ In general, the macroeconomic operating environment would be more stable and disciplined, and risks would be well mitigated and ring-fenced in policies and procedures that err on the side of caution and conservatism within the policies and procedures of banks.

When one considers that the primary function of banks is to act as an intermediary between surplus and deficit units to efficiently allocate (financial) resources from ‘passive’ savings to asset-purchasing lending, one can understand the pro-growth, developmental, and wealth-generating role that they fulfil. Credit provided by banks allows borrowers the opportunity to access resources for wealth creation and purchasing goods beyond their means. This ‘wealth creation’ function is facilitated through the process of financial intermediation and, if done responsibly (which in turn is a function of a robust internal risk management environment that ensures regulatory compliance), empowers people to improve their standard of living and accumulate wealth by investing, expanding business opportunities, and acquiring valuable assets to build personal wealth. In doing so, credit empowers individuals to enhance their quality and standard of

living.⁷⁰ The issue for a bank is therefore not the act of lending as such, but rather the risk attached to the borrower when granting the loan, and how the risk is mitigated (through effective management and credit policies on the one hand, and through effective compliance to regulatory requirements on the other). As such, the higher the assessed risk of a particular borrower, the higher the risk premium banks allocate to the borrower. By implication, riskier borrowers have more stringent criteria attached to the loan's conditions, that include higher fees and interest rates, higher collateral requirements, or shorter payback periods. As indicated in Figure 6, there are four possible outcomes at play here.

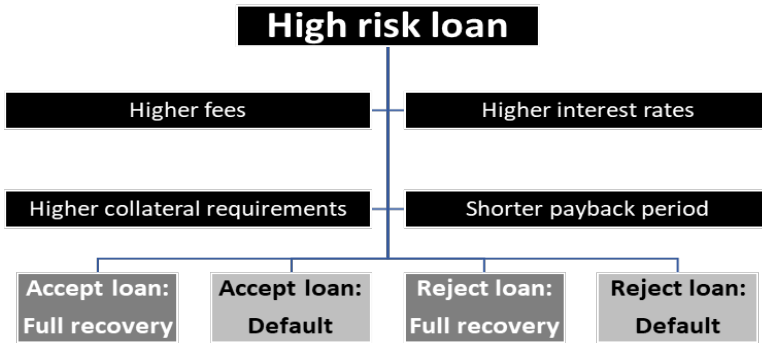


Fig. 6 The risk–return tradeoff for high–risk loans

High-risk loans, like all other loans, follow a credit review process, where the risk is assessed and then priced into the contractual agreement. Higher-risk loans have a higher risk premium, and this risk premium is priced into the monthly payments. For higher-risk loans, the monthly payments will be higher, driven by all the conditions (fees, interest rates, collateral requirements, payback period), to compensate the bank for the higher risk. The borrower can subsequently pay back the loan in full as per the conditions, or default (either partially or fully) on the payback. If a loan application is rejected, the bank has an opportunity cost equalling the full recovery (capital plus interest) or does not incur the losses associated with the possible default. *Ceteris paribus*, a higher-risk loan is more profitable than a

lower-risk loan. However, due to the higher risk, the probability of default is higher. This does not mean that higher-risk loans necessarily incur greater losses per loan, but rather that the probability of defaulting is higher per loan, which is more likely to translate into higher credit losses for a bank. A non-performing loan, whether high or low in risk to the bank, incurs the same losses – the difference has to do with the probability of the loss incurring. By implication, the more higher-risk loans a bank approves, the higher the probability of default for the portfolio, and thus the larger the potential credit losses. In and by itself, a loan portfolio with disproportionately higher-risk loans has a higher probability of incurring greater losses, and therefore requires greater mitigation measures to be put in place, such as holding more capital according to the Basel Capital Accords.

The concern for banks is therefore not the higher risk of a loan *per se*, but rather its ability to mitigate the risk of this (or a portfolio of these) loan(s), as failure to do so results in higher capital requirements, which is costly. This suggests that, for banks, it is not an issue of not being willing to take *on* risks, but rather that they are not willing to take on certain *types* of risks that will result in unwieldy costs, whether in loss of profit or extra capital requirements.

Future Challenges and the State Bank

Although South African banks have shown themselves to be resilient, they face several challenges that are out of their direct control. For example, load shedding has placed immense pressure on their ability to maintain service delivery to their customers. The number of equivalent full days of load shedding has increased from six days in the entire year of 2018 to 136 in the year-to-date in May 2023 alone.⁷¹ Load shedding has placed immense pressure on the South African economy, resulting in depressed economic activity, lower agricultural output, a weaker exchange rate, rising input costs in the manufacturing sector, supply chain disruptions, and reduced job creation,⁷² to name only a few. Load shedding therefore provides a real threat to not only the survival of SMMEs, but also to the sustainability of jobs and livelihoods of many South Africans, especially those at the lower end of the income spectrum.

Following this, macroeconomic challenges in South Africa are pervasive and play directly into inequality. Dealt with elsewhere in this book, the triple challenges of poverty, unemployment, and inequality are a direct result of a poor economic climate that is, by all accounts, worsening.⁷³ Without decisive leadership from policymakers that ensures an environment conducive to growth, the macroeconomic challenges will not be addressed. Naturally, this economic environment adds pressure on borrowers to service their debt with banks, which may further exacerbate inequalities.

Having said this, banks themselves can also contribute to inequality through discriminatory lending practices, limiting access to financial services, and promoting risky financial practices. Human biases in decision-making processes may place additional pressures on regulatory bodies and the government to promote equal opportunities and access to financial services to build wealth to participate fully in the economy, as banks have in the past discriminated against certain groups of people, including racial and ethnic minorities, women, and people with disabilities. Artificial intelligence (AI), for example, may be seen to address these human biases, but their outputs are a function of the data inputted into them and have raised ethical concerns.⁷⁴ In fact, AI has been known to exhibit racial biases more predominantly in banking and financial services through algorithmic discrimination in lending.⁷⁵ This has put into question the moral and ethical soundness of AI and become increasingly concerning for ethicists, given its role in promoting misinformation, racial, and gender biases.⁷⁶

In South Africa this is particularly concerning, given that wealth inequality has been estimated to be worse than income inequality⁷⁷ (albeit the latter is regarded as being of the worst in the world, driven, primarily, by the legacy of apartheid).⁷⁸ According to a World Bank report, the distribution of household wealth in South Africa reveals significant inequality – the wealthiest 10% of the population possesses over 85% of the total wealth, while most of the population holds more liabilities than assets.⁷⁹ These figures underscore the stark wealth disparity, emphasising the concentration of wealth amongst a small portion of the population (who are predominantly from the

white population group).⁸⁰ Further to this, in February 2023, the Financial Action Task Force (FATF) placed South Africa on the so-called 'greylist', which identifies countries with strategic deficiencies in their Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) systems.⁸¹ This greylisting has put into question the integrity of the South African financial system to counter money laundering and terrorist financing. Driven predominantly by state capture, corruption, and inadequate record-keeping, the greylisting puts severe pressure on investment opportunities and capital flows into South Africa.⁸²

Where does this leave us with regard to the banks' willingness to grant loans to the financially excluded market segment that exhibits all the features of what would characterise a high-risk loan: high probability of default, sporadic incomes, unemployment, previous loan defaults in a macroeconomic environment characterised by massive inequalities and challenges? Is it that South African commercial banks are not willing to service this market segment, or rather that they have not done it adequately enough to address the development agenda of the government? The answer is clearly the latter, as the arguments and evidence provided in this chapter argue that South African banks *are* engaged and committed to financial inclusion. The state bank, however, is seen by the government as an alternative option to speed up the development agenda.

As things stand, I do not believe that a state bank will be successful. I provide four reasons for this.

First, if the state bank is to be defined and function as a bank in South Africa, it will need to comply with the regulatory requirements set for all banks. This includes, *inter alia* and arguably most importantly, complying to the Basel capital standards. In its simplest form, these capital standards work on the principle that banks need to hold more capital as the risk they hold on their balance sheet increases. By implication, having a more concentrated loan book – both in terms of type of borrower and risk type – will require the state bank to hold more capital. The state bank will not be able to comply with the stringent capital requirements set by the Basel Capital Accords because it

is both costly and imposes a restrictive environment by implicitly discouraging higher-risk lending practices. Does this therefore imply that the state bank will not have to comply to the same regulations that the commercial banks have to?

Secondly, the management of SOEs in South Africa has been poor. The management of banks requires rigorous application of corporate governance principles, as well as the adoption of internal capital adequacy standards aligned to prudent risk management according to the Basel capital standards. What will make the state bank any different, specifically given the credibility that government has? Failure will result directly in further potential bailouts paid by taxpayers' money.

Third, the financial system is built on trust, and banks cannot survive with a lack of it. Coupled with the devastating effect of the so-called 'state capture' era, the downgrade of South Africa's long-term foreign currency credit rating to 'junk status' in recent years does not bode well for promoting trust. By implication, there are potential systemic risk implications at play here, suggesting even more capital requirement. The evidence suggests that a state bank will not encourage an environment that is conducive to building trust that promotes systemic stability in an extremely vulnerable South African economy.

Finally, South African commercial banks are efficient at what they do and how they do it – the Postbank, which is the infrastructure that the state bank is planned to function upon – is not. Irregular expenditure,⁸³ poor IT systems,⁸⁴ and poor administration for the payout of social grants⁸⁵ are but a few of the operational concerns attributed to the Postbank. With the seeming urgency that government is placing on getting the banking licence approved in 2023, one has to question its economic merits rather than the politicking taking place, given that the next national election will be held in 2024. If the state bank has been on the government's agenda for the best part of the past decade, why the sudden aggressive drive to establish it? To me, this commitment will be measured rather by the government's (perceived) commitment to its establishment after the 2024

national elections, rather than by what is being portrayed in the lead-up to the election.

The establishment of a state bank raises more questions than it answers. These four reasons that I use to argue against the current implementation of a state bank all imply a higher appetite for risk that has the potential to spread to the rest of the financial system and threaten financial stability. To mitigate this, more stringent capital requirements would be required, which by themselves inhibit the ability of such a state bank to service a market that commercial banks do not find financially viable. Surely, if commercial banks found these markets viable business propositions, they would already be servicing them and there would be no need for a state bank. Therefore, one must assume that, by implication, the market that the state bank proposes servicing is risky, if not highly risky. How will this risk be managed if the state bank does not have to comply with the capital standards expected from commercial banks? Following this, if the state bank does not have to comply, what regulatory requirements will be put in place to ensure that it is run in such a way that taxpayers are not the ultimate losers? A state bank will merely put more pressure on state coffers and, ultimately, the South African taxpayer.

Concluding Thoughts

Is it the banking industry's responsibility to explicitly address the socioeconomic challenges in South Africa? The answer to this is two-pronged in nature. On the one hand, the answer is *yes* because they are critical in providing the means to access financial products and services that promote poverty eradication through access to financial markets and wealth creation – in effect, they facilitate financial development through access to the financial system. Financial inclusion is, however, beyond merely access as it also includes usage, quality, and welfare. This is crucial, as banks play a critical role in providing financial services such as loans but can simultaneously contribute to economic inequality by perpetuating discrimination, limiting access to financial services, and promoting risky financial practices. For this reason, governance – both external by regulators and supervisors, and

internal by management and compliance functions – is essential to ensure a robust and efficient banking industry.

On the other hand, however, banks are *not* responsible for ensuring that the access itself ensures the expected outcome of the use. Yes, they must promote financial literacy and educate to the extent that better and more-informed decisions are made in order to fulfil the potential use embedded within the respective financial product or service – but no, they are not responsible to explicitly reduce poverty *per se*. Rather, banks should be enablers of this developmental agenda. They are indeed a vital cog within the chain required to empower the marginalised, but the outcome itself of financial development is an issue deeper entrenched in the socioeconomic challenges embedded in the inequality faced by so many South Africans. The government, therefore, is the ultimate custodian of this socioeconomic upliftment and, without a prudent and well-managed fiscal policy agenda, the work conducted by banks cannot manifest into making concrete inroads into addressing inequality.

Having said this, a state bank is not the answer, as it will be required to abide to the same prudential requirements expected from commercial banks. If this is the case, why allow the establishment of such an SOE that, from all historical evidence, will most likely follow similar management practices as those SOEs in deep financial decline now? This does not bode well for establishing a sense of trust in the economy and especially in the financial sector – a feature inherent to ensuring a stable economic and financial system.

So, where does this leave us?

In my view, it is quite simple. The government needs to be more deliberate, decisive, efficient, and prudent in the implementation (that is policy development *and* the delivery thereof) of its macroeconomic policies. The South African economy needs policy certainty that will create an environment more conducive to allaying the fears of investors. Decisions that make economic sense (within the budgetary constraints that the country faces) need to be given preference over short-sighted, politically driven decisions that have manifested themselves in

Are Banks Doing Enough to Address Inequality?

the broader South African political landscape, and specifically in the management of SOEs. If this is realised, there will be no need for a state bank and the potential risks of further burdening the South African taxpayer.

Endnotes

- 1 Ramaphosa, C. (2023). *State of the Nation Address*. Available at <https://www.parliament.gov.za/state-nation-address-president-cyril-ramaphosa-9-february-2023> [Accessed 3 March 2023].
- 2 Zwane, T. (2021). "Does South Africa need a state bank?". *City Press*. Available at <https://www.news24.com/citypress/business/does-south-africa-need-a-state-bank-20210526> [Accessed 5 July 2023].
- 3 Maliti, S. (2023). "Fresh from China, Mbalula drums up support for state bank while KZN ANC punts Ithala as parallel". *News24*. Available at <https://www.news24.com/news24/politics/government/fresh-from-china-mbalula-drums-up-support-for-state-bank-while-kzn-anc-punts-ithala-as-parallel-20230618> [Accessed 5 July 2023].
- 4 Bloomberg. (2022). "Godongwana rules out creation of a new state bank". *BusinessTech*. Available at <https://businesstech.co.za/news/banking/570908/godongwana-rules-out-creation-of-a-new-state-bank/> [Accessed 5 July 2023].
- 5 Mutize, M. & Gossel, S. (2017). "Corrupt state owned enterprises lie at the heart of South Africa's economic woes". *The Conversation*, 19 June. Available at <https://theconversation.com/corrupt-state-owned-enterprises-lie-at-the-heart-of-south-africas-economic-woes-79135> [Accessed 5 March 2023].
- 6 National Treasury. (2023a). *Presentation to Standing Committee on Public Accounts, Briefing on State-Owned Company (SOC) bailouts and government guarantees*. Available at https://static.pmg.org.za/230314_NT_-_SCOPA_Presentation_-_13_March_v2_-_SOEs_bailouts_and_guarantees.pdf [Accessed 5 July 2023].
- 7 Omarjee, L. (2020). "SA bankers: We don't see the logic behind a commercial state bank". *News24*, 27 February. Available at <https://www.news24.com/fin24/Budget/sa-bankers-we-dont-see-the-logic-behind-a-commercial-state-bank-20200226-3> [Accessed 15 March 2023].
- 8 Mutize, M. & Gossel, S. (2017). "Corrupt state owned enterprises lie at the heart of South Africa's economic woes". *The Conversation*, 19 June. Available at <https://theconversation.com/corrupt-state-owned-enterprises-lie-at-the-heart-of-south-africas-economic-woes-79135> [Accessed 4 June 2023].
- 9 Coetzee, J. (2016a). "Financial Intermediation Theory". In Coetzee, J. (ed). *Bank Management in South Africa: A risk-based perspective*. Cape Town: Juta. pp. 3-28.
- 10 Coetzee, J. (2016c). "Financial Intermediation Theory". In Coetzee, J. (ed). *Bank Management in South Africa: A risk-based perspective*. Cape Town: Juta. pp. 3-28.
- 11 Ibid.
- 12 Grosskopf, J. et al. (2014). "South Africa – Major banks analysis". *Executing on African ambitions South Africa – Major banks analysis*. (March), pp. 1-40. Available at <https://www.pwc.co.za/en/assets/pdf/banking-analysis-march2014.pdf> [Accessed 10 June 2023].
- 13 Coetzee, J. & De Beer, J. (2016b). "Financial Regulation in the South African Banking Industry". In Coetzee, J. (ed). *Bank Management in South Africa: A risk-based perspective*. Cape Town: Juta. pp. 63-94.

Endnotes

- 14 South African Reserve Bank. (2018). *Financial Stability Review*. Pretoria: SARB.
- 15 World Economic Forum. (2016). *The Global Competitiveness Report, 2016-2017*. Geneva: World Economic Forum.
- 16 South African Reserve Bank. (2023a). *Financial Stability Review*, Pretoria: SARB.
- 17 Capitec Bank. (2023). *The bank now serves a third of South Africa's population, Media brief*. Available at <https://www.capitecbank.co.za/blog/news/2023/2023-audited-financial-results/> [Accessed 28 June 2023].
- 18 PwC. (2023). *South Africa - Major banks analysis*. Available at <https://www.pwc.co.za/en/publications/major-banks-analysis.html> [Accessed 15 May 2023]
- 19 Wasserman, H. (2023). "S&P downgrades SA's outlook". *News24*. Available at [https://www.news24.com/fin24/economy/just-in-sp-downgrades-sas-outlook-20230309#:~:text=A%20junk%](https://www.news24.com/fin24/economy/just-in-sp-downgrades-sas-outlook-20230309#:~:text=A%20junk%20) [Accessed 23 June 2023].
- 20 Naudé, P. et al. (2018). *Business perspectives on the Steinhoff saga*. USB Special Report. Available at https://www.researchgate.net/publication/337740231_BUSINESS_PERSPECTIVES_ON_THE_STEINHOFF_SAGA_SPECIAL_REPORT_JUNE_2018 [Accessed 26 June 2023].
- 21 PwC. (2023). *South Africa - Major banks analysis*. Available at <https://www.pwc.co.za/en/publications/major-banks-analysis.html> [Accessed 15 May 2023].
- 22 Coetzee, J. & De Beer, J. (2016a). "Banks and Capital Adequacy". In Coetzee, J. (ed). *Bank Management in South Africa: A risk-based perspective*. Cape Town: Juta. pp. 387-430.
- 23 De Moraes, C. O. & Cruz, G. (2023). "What do we know about the relationship between banks and income inequality? Empirical evidence for emerging and low-income countries". *Journal of Economics and Business*, Elsevier, vol. 123(C). <https://doi.org/10.1016/j.jeconbus.2022.106086>
- 24 Coetzee, J. & De Beer, J. (2016). "Banks and Capital Adequacy". In Coetzee, J. (ed). *Bank Management in South Africa: A risk-based perspective*. Cape Town: Juta. pp. 387-430.
- 25 Coetzee, J. (2019). "Risk aversion and the adoption of Fintech by South African banks". *African Journal of Business and Economic Research*, 14(4), pp. 133-153. <https://doi.org/10.31920/1750-4562/2019/14n4a6>
- 26 Coetzee, J. (2016d). "Relationship Banking in South Africa". In Coetzee, J. (ed). *Bank Management in South Africa: A risk-based perspective*. Cape Town: Juta. pp. 95-124.
- 27 Kostov, P., Arun, T. & Annim, S. (2014). "Banking the unbanked: The Mzansi intervention in South Africa". *Indian Growth and Development Review*, 7(2), pp. 118-141. <https://doi.org/10.1108/IGDR-11-2012-0046>
- 28 French, M.F. (2012). "Mzansi accounts reach dead end". *The Mail & Guardian*, 17 February. Available at <https://mg.co.za/article/2012-02-17-mzansi-accounts-reach-dead-end/> [Accessed 13 June 2023].

- 29 Simatele, M. & Maciko, L. (2022). "Financial Inclusion in Rural South Africa: A Qualitative Approach". *Journal of Risk and Financial Management*, 15(9). <https://doi.org/10.3390/jrfm15090376>
- 30 Matsebula, V. & Yu, D. (2020). "An analysis of financial inclusion in South Africa African Review of Economics and Finance". *African Review of Economics and Finance*, 12(1), p. 2020.
- 31 Kostov, P., Arun, T. & Annim, S. (2014). "Banking the unbanked: The Mzansi intervention in South Africa". *Indian Growth and Development Review*, 7(2), pp. 118-141. <https://doi.org/10.1108/IGDR-11-2012-0046>
- 32 Coetzee, J. (2009). "Banking the unbanked in South Africa". *South African Journal of Economic and Management Sciences*, 12(4), pp. 448-461. <https://doi.org/10.4102/sajems.v12i4.188>
- 33 Ikdal, A. (2017). "6 challenges to financial inclusion in South Africa". *World Economic Forum on Africa*. World Economic Forum. Available at <https://www.weforum.org/agenda/2017/04/financial-inclusion-south-africa/> [Accessed 4 June 2023].
- 34 Simatele, M. & Maciko, L. (2022). "Financial Inclusion in Rural South Africa: A Qualitative Approach". *Journal of Risk and Financial Management*, 15(9). <https://doi.org/10.3390/jrfm15090376>
- 35 ITWeb. (2022). "FNB stokvel contributions balloon as members go digital". *ITWeb*, 15 November. Available at <https://www.itweb.co.za/content/VgZeyvJmQaMdjX9> [Accessed 3 July 2023].
- 36 Matsebula, V. & Yu, D. (2020). "An analysis of financial inclusion in South Africa African Review of Economics and Finance". *African Review of Economics and Finance*, 12(1), p. 2020.
- 37 Ibid.
- 38 Demirgüç-Kunt, A. et al. (2022). *The Global Findex Database 2021: Financial Inclusion, Digital Payments, and Resilience in the Age of COVID-19*. The Global Findex Database. <https://doi.org/10.1596/978-1-4648-1897-4>
- 39 Coetzee, J. (2019). "Risk aversion and the adoption of Fintech by South African banks". *African Journal of Business and Economic Research*, 14(4), pp. 133-153. <https://doi.org/10.31920/1750-4562/2019/14n4a6>
- 40 Banking Association South Africa. (2017). *The Banking Association South Africa submission on transformation in the financial sector*. Available at <chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://static.pmg.org.za/170314BASA.pdf> [Accessed 9 June 2023].
- 41 Ibid.
- 42 Hawkins, P. (2004). "South Africa's financial sector ten years on: Performance since democracy". *Development Southern Africa*, 21(1), pp. 179-204. <https://doi.org/10.1080/0376835042000181471>
- 43 Banking Association South Africa. (2022). *Transformation report 2022*. Available at https://www.banking.org.za/wp-content/uploads/2022/10/BASA_integrated-report-2021.pdf [Accessed 11 June 2023]
- 44 Coetzee, J. (2019). "Risk aversion and the adoption of Fintech by South African banks". *African Journal of Business and Economic Research*, 14(4), pp. 133-153. <https://doi.org/10.31920/1750-4562/2019/14n4a6>

Endnotes

- 45 World Bank. (2021). *Commercial bank branches per 100,000 adults – South Africa, World Bank Data*. Available at <https://data.worldbank.org/indicator/FB.CBK.BRCH.P5?end=2021&locations=ZA&start=2004&view=chart> [Accessed 3 July 2023].
- 46 Coetzee, J. (2019). “Risk aversion and the adoption of Fintech by South African banks”. *African Journal of Business and Economic Research*, 14(4), pp. 133-153. <https://doi.org/10.31920/1750-4562/2019/14.n4a6>
- 47 World Bank. (2021). *Commercial bank branches per 100,000 adults – South Africa, World Bank Data*. Available at <https://data.worldbank.org/indicator/FB.CBK.BRCH.P5?end=2021&locations=ZA&start=2004&view=chart> [Accessed 3 July 2023].
- 48 Jordaan, H. & Coetzee, J. (2021). “Access To Finance Perceived As an Obstacle and the Characteristics of the Smme and Its Owner: Evidence From the Free State ...”. *International Journal of Economics and Finance ...*, 8055(November), pp. 373-404. doi: 10.34109/ijefs.202112238.
- 49 Ibid.
- 50 Statistics South Africa. (2023). *Quarterly Labour Force Survey: Quarter 1, 2023*. Pretoria: StatsSA.
- 51 SEDA. (2018). *SMME Quarterly 2017-Q3*. pp. 1-27.; SEDA. (2023). *SMME Quarterly 2022-Q3*. pp. 1-31.
- 52 ABSA. (2023). “Getting Business advice and support for your business”. Available at <https://www.absa.co.za/business/starting-my-business/setting-up-my-business/enterprise-and-supplier-development/> [Accessed 20 June 2023].
- 53 FNB. (2023). “A free business coach in the palm of your hands”. Available at <https://www.fnb.co.za/business-banking/fundaba/index.html> [Accessed 20 June 2023]
- 54 Nedbank. (2023). “Small business services”. Available at <https://business.nedbank.co.za/small-business.html> [Accessed 20 June 2023].
- 55 Standard Bank. (2023). “BizConnect”. Available at <https://www.standardbank.co.za/southafrica/business/bizconnect> [Accessed 20 June 2023].
- 56 Jordaan, H. & Coetzee, J. (2021). “Access To Finance Perceived As an Obstacle and the Characteristics of the Smme and Its Owner: Evidence From the Free State ...”. *International Journal of Economics and Finance ...*, 8055(November). pp. 373-404. doi: 10.34109/ijefs.202112238.
- 57 ABSA. (2023). “ABSA consumer education program”. Available at <https://www.handinhand-sa.org/absa-cep/> [Accessed 23 June 2023].
- 58 Nedbank. (2023). “Financial Education”. Available at <https://www.nedbank.co.za/content/nedbank/desktop/gt/en/personal/bank/consumer-financial-education/consumer-financial-education.html> [Accessed 23 June 2023]; FNB. (2023). “Become financially smart”. Available at <https://www.fnb.co.za/education/be-financially-smart.html> [Accessed 23 June 2023].

- 59 Mori, N., Nyantori, T. & Olom, D. (2016). "Effects of Clients' Literacy on Default and Delinquency of Savings and Credit Co-Operative Societies in Tanzania". *Business Management Review*, 19(2), pp. 1-12.
- 60 Ibid.
- 61 Coetzee, J. (2016c). "Financial Intermediation Theory". In Coetzee, J. (ed). *Bank Management in South Africa: A risk-based perspective*. Cape Town: Juta. pp. 3-28.
- 62 South African Reserve Bank. (2023). *Prudential regulation: The Twin Peaks model*. Available at <https://www.resbank.co.za/en/home/what-we-do/Prudentialregulation> [Accessed 3 July 2023].
- 63 Coetzee, J. & De Beer, J. (2016a). "Banks and Capital Adequacy". In Coetzee, J. (ed). *Bank Management in South Africa: A risk-based perspective*. Cape Town: Juta. pp. 387-430.
- 64 Ibid.
- 65 Coetzee, J. (2016b). "Establishing a Risk Philosophy in Banks". In Coetzee, J. (ed). *Bank Management in South Africa: A risk-based perspective*. Cape Town: Juta. pp. 229-248.
- 66 Coetzee, J. & De Beer, J. (2016b). "Financial Regulation in the South African Banking Industry". In Coetzee, J. (ed). *Bank Management in South Africa: A risk-based perspective*. Cape Town: Juta. pp. 63-94.
- 67 Coetzee, J. (2019). "Risk aversion and the adoption of Fintech by South African banks". *African Journal of Business and Economic Research*, 14(4), pp. 133-153. <https://doi.org/10.31920/1750-4562/2019/14n4a6>
- 68 Ibid.
- 69 Jacobs, S. (2023). "South African banks among the best in the world". *MyBroadBand*. Available at <https://mybroadband.co.za/news/investing/487113-south-african-banks-among-the-best-in-the-world.html> [Accessed 29 June 2023].
- 70 Coetzee, J. (2016c). "Financial Intermediation Theory". In Coetzee, J. (ed). *Bank Management in South Africa: A risk-based perspective*. Cape Town: Juta. pp. 3-28.
- 71 South African Reserve Bank. (2023a). "Financial Stability Review". *Financial Stability Review*, 1st Edition(February), pp. 1-45.
- 72 South African Reserve Bank. (2023b). *Quarterly Bulletin: March 2023*. Pretoria: SARB.
- 73 Ibid.
- 74 Deloitte. (2023). "Banking on the bots: unintended bias in AI". Deloitte. Available at <https://www2.deloitte.com/uk/en/pages/financial-services/articles/banking-on-the-bots-unintended-bias-in-ai.html#> [Accessed 14 June 2023].
- 75 Browne, R. & Sigalos, M. (2023). "A.I. has a discrimination problem. In banking, the consequences can be severe". *CNBC*. Available at <https://www.cnbc.com/2023/06/23/ai-has-a-discrimination-problem-in-banking-that-can-be-devastating.html> [Accessed 17 July 2023].
- 76 Lazaro, G. (2022). *Understanding Gender and Racial Bias in AI: A Conversation with Dr. Alex Hanna*. Harvard Technology Innovation in Social Impact Series. Harvard Advanced Leadership Initiative. Available at <https://www.sir.advancedleadership.harvard.edu/>

- articles/understanding-gender-and-racial-bias-in-ai [Accessed 17 July 2023].
- Browne, R. & Sigalos, M. (2023). "A.I. has a discrimination problem. In banking, the consequences can be severe". *CNBC*. Available at <https://www.cnbc.com/2023/06/23/ai-has-a-discrimination-problem-in-banking-that-can-be-devastating.html> [Accessed 17 July 2023].
- 77 Von Fintel, D. & Orthofer, A. (2020). "Wealth inequality and financial inclusion: Evidence from South African tax and survey records". *Economic Modelling*, Elsevier, 91(C), pp. 568–578. <https://doi.org/10.1016/j.econmod.2020.02.001>
- 78 World Bank. (2022). *Inequality in Southern Africa: An assessment of the Southern African customs union*. Available at <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099125303072236903/p1649270c02a1f06b0a3ae02e57eadd7a82%0Ahttps://documents1.worldbank.org/curated/en/099125303072236903/pdf/P1649270c02a1f06b0a3ae02e57eadd7a82.pdf> [Accessed 26 July 2023].
- 79 Ibid.
- 80 Sguazzin, A. (2021). "South Africa Wealth Gap Unchanged Since Apartheid, Says World Inequality Lab". *Time*. Available at <https://time.com/6087699/south-africa-wealth-gap-unchanged-since-apartheid/> [Accessed 3 July 2023].
- 81 National Treasury. (2023b). *What Does FATF Greylisting Mean For a Country?* Pretoria: National Treasury.
- 82 Gillmer, J. et al. (2023). *Understanding South Africa's FATF greylisting*. Cliffe Dekker Hofmeyr. Available at <https://www.cliffedekkerhofmeyr.com/en/news/publications/2023/Practice/Corporate/corporate-and-commercial-alert-29-march-Understanding-South-Africas-FATF-greylisting-.html> [Accessed 10 July 2023].
- 83 Ndlovu, M. (2022). "Postbank's irregular spending rises by R118 million". *Mail & Guardian*, 15 November. Available at <https://mg.co.za/business/2022-11-15-postbanks-irregular-spending-rises-by-r118-million/> [Accessed 25 June 2023].
- 84 Malinga, S. (2023), "Postbank's IT systems overhaul will be complete by April: minister". *ITWeb*, 20 January. Available at <https://www.itweb.co.za/content/Kjlyr7wB95Qvk6am> [Accessed 25 June 2023].
- 85 Human, L. (2023). "Social grant payments are a mess – and the public needs answers from Sassa, Sapo and Postbank". *MyBroadBand*, 1 May. Available at <https://mybroadband.co.za/news/banking/489511-postbank-launches-cardless-payments-for-social-grants.html> [Accessed 23 June 2023].