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## Parliamentary Speech

### **The Honourable Tjekero Tweya, Deputy Minister of Finance On the Motion on the “Appropriateness of high bank charges and various penalties and their adverse effects on both businesses and the public as clients of banks and other creditors once they default” held in Windhoek at the National Assembly**

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25 OCTOBER 2005

Honourable Speaker,  
Honourable Members,

#### **Background**

A few months ago, during my maiden speech, I stated that, and I quote: *“The mandate given to us by the electorate, in particular the Ministry of Finance is to safeguard the financial and real assets of Namibia, as well as to grow the Namibia economy and to improve the living standards of all the peace-loving Namibians”*. Unquote.

For an economy to prosper and reach new heights, a number of components need to be in place, namely controlling inflation (which the government has managed to successfully control given the circumstances), improved trade, effective and efficient payment systems, financial system stability, amongst others. The concern raised during this debate relates to what many have termed as “high bank charges”, and unfair treatment of customers under the current payment systems, operated by our Commercial Banks.

A well established role of banking regulation is to ensure that commercial banks customers are provided with quality services at competitive prices. Thus it is imperative that banks disclose their fees structure, charges and commissions so that customers can make informed decisions regarding their choice of services with commercial banks.

On 14 December 1998, the Bank of Namibia issued determinations on the disclosure of bank charges, fees and commissions; and another determination on Compulsory Suspension of Cheque Accounts by Banking Institutions.

These determinations were issued in the spirit of ensuring that the Banking sector and the payment systems maintain integrity to enable economic activity to take place in the domestic, regional and international markets.

Since it is the responsibility of the Bank of Namibia to ensure safety and soundness of the payment systems in the country, suffice to say that the fact that a significant number of cheques are returned to drawer due to insufficient funds is indeed a matter of concern. However, this fact does in my opinion reflect that the payment system is functioning by protecting service providers against ill-disciplined consumers.

### **Legal Framework**

The Government of the Republic of Namibia has sought it most important to put in place The Banking Institutions Act, 1998 (Act No. 2, 1998), to assist in regulating some of the issues mentioned above.

Whilst it is important to ensure a sound, stable and efficient payment system (with fees and penalties), it would be equally important to find ways and means to keep it affordable to consumers.

### *Payment System*

In response to the above motion, it could be helpful to highlight the role or functions of the payment system in an economy.

A payment system is a system and process that facilitates inter-banks clearing and settlement, resulting from various economic transactions within a country or between

countries. It is composed of service providers, mainly but not exclusively, the financial institutions, a set of payment instruments, such as credit cards, cheques, and systems and procedures that enable people to move funds and make payments.

A **national payment system** is at the heart of the financial sector and is one of the pillars of financial stability.

### *RD Cheques*

As mentioned above, a cheque facility is one of the major payment instruments. Any significant deficiency in this facility will negatively impact on the creditability and efficiency of the payment system. It will cause the business community and the general public to lose confidence in the payment system and consequently may ground the economic activities in the country.

The prevalence of RD cheques in Namibia necessitated the Bank of Namibia to come up with some measures to curb or reduce this problem.

The primary objective of the determination is to ensure proper usage of cheque facility and to reduce the number of RD cheques.

The determination, amongst others, contains the following provisions:

- It encourages the banking institutions to always and continuously educate and inform their clients on the **proper management of the cheque accounts** and on the provisions of these determinations.
- Is to ensure that only persons who have the ability to properly manage their cheque accounts and therefore do not pose any threat to the confidence in the payment system and to ensure that the perpetrators do not move from one bank to another and commit the same Act, **banks are required to carry a thorough screening of new applications for cheque accounts.**

- Banks are expected to **improve their internal control system** in order for them to identify clients experiencing difficulty in the management of their accounts early enough.
- The determination goes on to set out **procedures** on the duration of the suspension periods for various offenders; e.g. 1<sup>st</sup> time offender six months, 2<sup>nd</sup> time offender one year and 3<sup>rd</sup> time offender five years.
- Banks are required to **maintain a database of suspended cheques**, which shall be updated three monthly.
- Alternative facilities may be provided to enable client to transact with the banks.
- The determination also provides that in exceptional cases, banks may approach the Bank of Namibia for **approval not to suspend a cheque account**.

### *Bank Charges*

From a conventional approach, it is a well known fact that banks are important institutions in any market economy. The retail banks such as the four commercial banks we have in Namibia performs the function of taking in deposits and lend money to the general public. Their main objective is maximizing profits for their shareholders and to earn income in two main ways: by charging borrowers higher rates of interest than what they pay savers (the interest rate spread), and by charging fees directly for particular financial services (the bank charges).

To maximize profits, banks are known for either setting their spreads and charges as high as possible to more than cover for the cost of their operations. During fair competition, however such high spreads and charges are constrained depending on what the competitive bank is charging in relation to other banks. In the case of Namibia, banks do operate in a “disguised” form of competition but actually do collude to fix flexibly spreads and charges through a formal consultative mechanism called the Bankers Association of Namibia. When such a collusive practice realizes, then the end result is that the banks in Namibia may benefit at the expense of the consumer.

It is in this light that the newly established Competition Commission of Namibia needs to engage in thorough investigation to determine whether such collusive anti-competitive practice of the banking industry does hurt the consumer, possibly through high bank charges. This investigation is important in the light of the absence of an ombudsman for consumer protection and the lack of enforcement from the Competition Commission to safeguard consumer protection.

### **Issues Raised**

The following issues raised in the motion moved by Honourable member of Parliament, Mr. Gertze, warrants specific comments.

#### *Bank charges versus suspension of cheques*

The motion seems to be more focused on the requirement for compulsory suspension of cheque facilities whilst providing no justifiable base for high bank charges from the commercial banks. An independent research institution, IPPR concluded in 2003 that it is not clear whether the bank charges are too high in Namibia. It has alluded to the fact that banks are private companies that are in the business of making profit for their shareholders without compromising their social developmental role in the economy. The report also indicated that banks argue that their charges are reasonable and reflect the cost structure in terms of market size, transport costs, economies of scale and additional security costs.

However, a reputable Stock-Broking firm, IJG, in 2002 found that the returns extracted from customers by banks over-compensate banks for any higher cost base that may exist. A recent study by Nepru, in 2005, has concluded that the banking sector in Namibia is oligopolistic and has resulted in social costs in terms of wider interest spreads and higher bank charges compared to South Africa. The report amongst others, recommends for a direct intervention by Government, or act as a catalyst for competition in the sector.

Notwithstanding, it should however be clear that given that our private sector is market driven, the Bank of Namibia does not regulate charges by banks but has endeavor to ensure a competitive level playing field by enabling more commercial banks into the Namibian market and by introducing regulation to disclose in a transparent and simplistic way bank fees and charges so that consumers make an informed choice regarding services offered by the banks.

### *Punitive Banking Regulations*

The motion claims that banking regulations which are intended to “control dishonored cheques” are punitive. These regulations have to be punitive if they are to have deterrent effect on the perpetrators and match up with the impact of RD cheques on the payment system.

Further, clients are given enough time (4 RD cheques before suspension) to rectify the problem. I am reliably informed that, the monitoring system at the Bank of Namibia also shows that the volume and level of dishonored cheques have been relatively stable which confirms that the introduction of the determinations in this regard has been effective in stemming the possible abuse of cheque accounts, thereby controlling the impact of dishonored cheques on the payment system.

### **Way forward**

A balance between reasonable fee for services rendered, penalties for those that intentionally misuse the current payment system and affordable services to the commoners must be found. I would also support the call to strengthen the legislation to protect those citizens that are unfairly penalized due to “weak” systems from the Financial Institutions. In this light, the Ministry of Finance intends to set up a technical team to investigate the establishment of the Ombudsman in the financial sector with the objective of ensuring protection of the consumer without undermining the stability of the financial system.

Having said that, I strongly believe that Financial Institutions should and can contribute immensely to vision 2030 and NPD II. Housing and infrastructure development still remain a big challenge, especially in the rural areas. I would like to call upon all Financial Institutions to join the government efforts to develop our rural communities and not only focus on maximizing their profits through all this ever increasing bank costs.

Certainly the following can be improved without increasing bank charges, the clearing of cheques takes 7 days, why so long? Is it because its in the banks interest to delay the clearing of the cheque as when it is deposited it starts to be ready as a transactional value for loan extension by the bank to other consumers to earn interest. I believe that the clearing delay of 7 days could be improved to a much shorter time. I am also reliably informed that the special clearance offered by banks within twenty four hours varies among Banks, and is exceedingly charged up to a maximum of N\$75 – 00 per transaction.

Our senior citizens, pensioners who are depositing their funds with the banks are also not escaping this level of high bank charges. The pensioners do also get charged just to transfer their monthly pension from a pension fund into a bank account of their choice and this can range from N\$14 – 00 to N\$45 – 00. Did you also know that banks do charge even for photocopying your ID for transaction purposes, let alone charges on requesting bank statements or closing of a savings account?

Some of the banks do not even publish the maximum general fees that they charged as required by banking regulations on the determinations on the disclosure of bank charges, fees and commissions. Even though some do publish, there are many fees that they charge that are not included in the printed lists of charges available to the public. The bank charges and fees are also complex, varied and hard to compare from one bank to the next. It is also hard to check bank charges on the bank statements hence making it difficult for an average customer to determine that the charges are correct and in so doing, work out ways to minimize its cost of banking. Final but crucial point I want to

put forward to this August House is how do banks in Namibia or any bank for that matter actually determine bank charges?.

Another issue that puzzles me is the credit cards. What justification is there to still have all cards, i.e credit, debit, garage petrol cards still coming from South Africa? Why can't this be done in Namibia? How long should we wait to have these done in Namibia? If the financial institutions don't take this call seriously, Government will respond to the call to intervene, in the interest of the people.

My challenge to the Financial Institutions, and other credit providers is to look in to the plight of our SME's, especially from previously disadvantaged groups. There seems to be a "silent suffering of these types of black businesses". Here are the points to support my argument:

- I am reliably informed that credit facilities availed to these "disadvantaged groups" is not conducive for businesses. These among other, is the shorter repayment period, very high interest rates, and 100% stringent collateral requirements for loan requests. All this add up to be enemies for a SME set-up. How can our people grow their businesses under such circumstances?
- Another typical example would be that of discounts that are offered by creditors. There seems not be a level playing field and SME's are often prevented from benefiting to the full extent from these discounts.
- There are still some financial agencies who profiles credit provision on race and background of the SME and not based on merit and viability of the business plan. Such a historical practice need to be discouraged and rooted out in the free independent country of our motherland.

The points above are not comprehensive, but just illustrate some of the "sufferings" faced by our SME's. Other sectors to be investigated are the service providers to the



“disadvantaged groups”, the Valuers, Assessors, Brokers etc. All businesses should be treated fairly, not base their professional work on the lines of racial discrimination.

We in government recognize the positive contributions that SMEs make to the economic development of our country. These contributions are generally reflected in the form of job creation, knowledge and skills development, wealth creation, to mention but a few. On the contrary, the support that financial institutions offer to the very SMEs leaves much to be desired. Financial institutions are well known for making good business through a process commonly referred to as OPM, i.e. Other People’s Money. They borrow from one person and lend the same resources to another, of course at a higher rate. I am not implying that this is wrong. After all, this is the basis upon which they are legally authorised to operate. The problem that I have is they do not apply their business principles fairly, equitably and transparently.

SMEs support from financial institutions is something that warrants very serious attention. SMEs hardly have access to available facilities and when they do, they are subject to financial torture through fulfillment of outdated and stringent conditions enforced upon them by financial institutions. They are not even properly informed and educated about suitable facilities at their disposal.

Some financial institutions are even so rigid that they forego opportunities that could add value to their operating results. For example, a SME approaches a financial institution for financial assistance on a tender they have been awarded. Instead of thinking outside the box and try to enter into an agreement between the institution that awarded the tender, the financial institution and the SME, the financial institution will simply turn away the SME on the basis of their so-called financial risk rating. Is this not a financial joke?

The message must be clear to the financial institutions that we in government have the resources, capacity and what it takes to support economic development activities in this country. If they are not prepared to support these initiatives, then they must be informed that we will have no choice but to intervene even if it means that we have to restructure

Development Bank of Namibia projects to introduce, implement and maintain highly competitive opportunities for SMEs and the like.

Many a times, financial institutions are seen to promote customer services to existing and prospective clients. There are some of the financial institutions that continuously inform and update a selected group of their clients on banking facilities available and suited to their needs. This approach is nothing else but a continuation of unjust practices of the past by some financial institutions resulting in the majority of our people finding it extremely difficult to have access to well deserved facilities. The irony of this practice is that those still suffering today are the ones contributing more to the coffers of financial institutions through ever-increasing bank charges. Needless to say, such practices would neither contribute towards economic development nor improve the living standards of our people in Namibia.

We do also have a situation whereby some of the financial service providers do also collude with local retailers in the sense that the credit sales agreements offered by the retailers to the consumers are stringent and exposes consumers to fine prints of hidden costs such as delivery charges which are also unnecessarily high.

In addition, I would also like to use this opportunity to send out a word of caution to all those involved into providing unregulated financial services to customers, known for charging exorbitant fees and interest. Namibia is tired of these abuses, the Namibian people has suffered enough, make sure you are not get caught red-handed!!

Such a chronic and pervasive situation of high bank charges and lack of access to finance to those who need it the most in Namibia can only let the Government to consider as a last resort instituting a legal recourse through legislative and executive channels to curb such abuses.

Mr. Speaker, against this background, I support and propose the motion to be referred to the Standing Committee on Economics, Natural Resources and Public Administration for

further investigation and appropriate recommendation to this House.

I THANK YOU