

BANKERS ASSOCIATION OF BOTSWANA

BANKING AND WEALTH EXPO

Keynote Address

by

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Distinguished Ladies and Gentlemen, it is indeed an honour and great pleasure for the Bank of Botswana to co-host this Executive Networking Dinner as part of the events of the inaugural Banking and Wealth Expo organised by the Bankers Association of Botswana. In line with the theme of the Expo, “Bridging the Inclusion Gap through Financial Literacy”, my remarks this evening will focus on four areas, namely, (a) importance of financial inclusion, especially for inclusive economic growth (b) financial literacy as an essential ingredient for inclusive financial sector; (c) impact of financial sector regulation and (d) the role of sound and stable macroeconomic environment, with emphasis on price stability.

As His Honour the Vice President indicated, in his official opening remarks yesterday, financial inclusion has been identified as one of the key strategic priorities for financial sector development in Botswana. In this regard, a number of related initiatives form part of key policy documents such as National Development Plans, and the Financial Sector Development Strategy (2012 - 2016).

Distinguished Guests, the basic elements of financial inclusion can be summarised as a state in which individuals and businesses have access to a full suite of quality financial services, at affordable prices, provided by

a range of financial institutions, in a stable competitive market, in a convenient manner, with respect and dignity, to financially capable clients. In this way, households and businesses, regardless of income level, are able to have access to and can effectively use appropriate financial services, to meet their needs. Therefore, an indicator of financial inclusion would be the proportion of firms and individuals using financial products and services. These typically include transactions, payments, savings and insurance provided in a responsible and sustainable manner.

The Alliance for Financial Inclusion, which is the world's leading organisation on financial inclusion policy and related regulation, estimates that about 2 billion adults, globally, that is, more than half of the total adult population of the world, do not have an account in a formal financial institution. About 90 percent of these unbanked adults are in developing countries. However, the good news is that, according to the 2015 Bill Gates Annual Letter, it is estimated that by 2030, about 2 billion people who do not have bank accounts today, will be storing money and making payments with their mobile phones. It is anticipated that, by then, mobile money providers will be offering the full range of financial services, including interest-bearing accounts, credit and insurance.

Research by the World Bank, conducted in 137 countries from 2005 to 2011, observes that lack of access to finance constitutes a major problem for households and acts as a barrier to the growth of small enterprises. It is therefore evident that financial inclusion empowers poor households and small enterprises by bringing them into the mainstream economy thereby reducing extreme levels of poverty and inequality. There is also evidence, based on a number of research work, that financial inclusion promotes economic development, especially for women, and that financially empowered women are more likely to improve social welfare. Overall, women's financial exclusion limits the growth-promoting potential

of finance and it may also prove costly in terms of elevated risks to financial stability.

Distinguished Guests, in recognition of this developmental impact, financial inclusion is becoming a global priority for policy makers, regulators and development agencies. Among others, financial inclusion has been identified as an enabler for seven of the 17 Sustainable Development Goals. In this regard, the World Bank Group considers financial inclusion as a key enabler in reducing extreme poverty and boosting shared prosperity, and has, therefore, put forward an ambitious global goal to attain universal financial access by 2020. Furthermore, the G20 has committed to advancing financial inclusion worldwide.

Distinguished guests, one area in Botswana where there has been a significant impact, and continues to provide a huge potential, is the non-discretionary savings, in the form of defined contribution pension schemes. It is notable that the Pension Fund industry in Botswana has grown substantially in the last two decades, mostly driven by establishment of the Botswana Public Officers Pension Fund in 2001. As at the end of 2016, pension funds assets amounted to P75 billion or 44 percent of national income (nominal GDP) compared to total banking assets of P81 billion.

In this regard, the pension industry was a major driving force behind the cumulative expansion of the financial sector in the past ten years; 100 percent growth in real terms, compared to 52 percent for the economy as a whole. However, the main beneficiaries and industry customers continue to be the long-term employed, to the exclusion of the traditionally disadvantaged cohorts. Therefore, national policy and the financial sector should increasingly find solutions to provide wider coverage for retirement funds to include the self-employed and younger generation.

Distinguished Ladies and Gentlemen, let me now to turn to financial literacy as a key component of financial inclusion. Experience has shown that low levels of financial literacy and capability in developing countries form a significant barrier to accessing and effectively using financial services. Financial literacy is the acquisition of knowledge on financial products and services; while financial capability refers to the application of the financial knowledge gained into desirable financial behaviour. Without financial capabilities, a financially literate individual may not increase savings and investment or reduce debt and risky financial behaviour. Therefore, financial institutions have to re-direct their financial inclusion strategies to incorporate enhancement of the financial capabilities of their customers. It is in this regard that financial capability is an integral part of financial inclusion; hence, effective empowerment strategies for financial capability need to focus on providing practical, easy-to-understand and impartial advice so that consumers can make informed decisions.

As you would be aware, in general, the rate of financial inclusion is relatively low in sub-Saharan Africa and other the emerging market economies. For example, according to the 2014 Finscope Survey, more than 68 percent of the adult population in Botswana have access to financial services; this compares with 58 percent in Namibia, 70.3 percent for South Africa; 39 percent in Mexico and 53 percent in India. Overall, the average financial inclusion measures for South Asia and Latin America as well as the Caribbean are lower than those for Botswana at 46.6 percent and 51.4 percent, respectively. In contrast, financial inclusion is high in the developed countries. According to the World Bank, 94 percent of adults in 35 high income Organisation for Economic Co-operation and Development (OECD) countries had access to financial services in 2015.

Ladies and Gentlemen, as in other countries, the main policy objective of the financial inclusion agenda in Botswana is to improve household welfare, increase economic efficiency and support inclusive and sustainable economic growth. In this regard, advances in technology, have engendered an increase in opportunities and scaling up of financial inclusion. Thus, modern communications infrastructure, particularly mobile money and advances in the payment systems and platforms, play a significant role in financial inclusion. Thus, the availability of user-friendly and cost-effective information and communication products and platforms play an important role in broadening safe and secure access to financial services.

Notably, we have seen a significant increase in the number and functionality of automated teller machines, including deposit-taking machines; mobile money remittances and payments service; internet and web-based access and transacting; and the promotion of card payments. These platforms augur well for enhanced financial inclusion. Notwithstanding, I wish to implore banks to move at a measured pace, taking into account the resilience of public infrastructure and other development needs, in transitioning from brick and mortar banking branches to e-channels. There is anecdotal evidence which suggests, for various reasons, such as, cultural, literacy and human psychology factors, that customers, even in this digital age, need physical access and engagement with a human being and not “Siri” to access financial services, to understand and resolve account queries.

I am well aware and commend financial institutions engaged in various financial literacy programmes that also reach out to school going children, in the form of booklets, drama and radio quizzes on financial products and services. In this regard, it is equally important to engage customers on ways and means for optimising the benefits of digital and electronic

platforms, but also highlighting the associated risks and mitigation measures. It is worth mentioning that banks need to practice, at all times, acceptable market conduct through increased transparency, fair pricing, quick and timely resolution of both failed transactions and fraud incidents.

Distinguished Guests, in line with the 2012 - 2016 Financial Sector Development Strategy, a number of initiatives are underway to enhance cost-effective access to finance, including the establishment of a robust and effective credit information system as well as promulgation of electronic payments services regulations. Also, as announced by the Minister of Finance and Economic Development in the 2015 Budget Speech, Government has adopted Making Access Possible approaches to financial inclusion. This is a multi-country initiative to support financial inclusion using a process of evidence-based country diagnostic and stakeholder dialogue. Some of the Making Access Possible priorities include, improving the payments eco-system, both domestic and cross-border transactions, facilitating low cost, accessible savings products through the use of mobile savings accounts and less onerous Know Your Customer requirements for low risk savings accounts.

I will now address financial regulation as a perceived barrier to financial inclusion. Distinguished guests, the domestic regulatory framework is gradually being modernised to keep pace with financial innovation. I must admit that, given the dynamic, evolving and innovative financial sector, it is always going to be a challenge to come with smart and cost-effective regulations. This challenge is even greater for digital finance, which is currently and prospectively, the main conduit of the financial inclusion, especially in a sparsely populated country like Botswana.

It is generally accepted that rigid and excessive regulation can be an obstacle to financial inclusion. Therefore, the Bank and other domestic

financial sector supervisors endeavour to regularly review and amend, where necessary, those provisions of the law that can impede effective access to finance. The immediate regulatory issues are the provisions relating to the sharing of customer creditworthiness information, both positive and negative data, know your customer requirements and the Anti-Money Laundering and Combatting of the Financing of Terrorism protocols. The Banking Act confidentiality provisions are also being reviewed to allow for the sharing of customer creditworthiness information and to facilitate the establishment of credit bureaux.

As regards the anti-money laundering and combatting the financing of terrorism measures, much as both the Financial Intelligence Agency and the Bank of Botswana subscribe to a risk-based approach and seek to avoid undue regulatory burden, it is equally important to safeguard the integrity and overall stability of the country financial system by implementing and adhering to the international standards on AML-CFT matters. Moreover, there is need to guard against the impact of de-risking and loss of correspondent banking relationships that could be detrimental to trade, procurement, financing and payments arrangements.

Distinguished guests, the Bank of Botswana, as a primary partner in the evolution of the financial landscape, is committed to ensuring that there exists an enabling environment for enhanced financial inclusion of the unbanked members of our society. For the Bank, greater financial inclusion enhances the potency of its policies and functions. In particular, given that monetary policy is transmitted by the financial sector, it has a greater and wider effect when a greater part of the population and businesses use financial services and products. For example, an individual or business that use the financial system to save or borrow is affected by a change in interest rates; therefore, their reactions in that

regard, collectively affects the rate of increase in prices and economic activity.

It is, therefore, notable that the key mandates of the Bank collectively relate to protecting the intrinsic value of the national currency; and that achievement of the Bank's objectives promotes financial inclusion, literacy and capability. In particular, the Bank has responsibility for issuance of good quality banknotes and coin, while pursuing stability with respect to domestic prices, the exchange rate and the financial sector. To the extent that these objectives are met, the Bank helps to minimise erosion of the purchasing power of the currency, while ensuring that it remains integral to storage of value, monetary valuations, means of payment, and access to foreign currencies as needed, as well as credibility of the domestic financial system. In the horizon, there are issues of digital currencies and block chain technologies. While Distributed Ledger Technologies, albeit not yet mature, offer hope and opportunities for enhancing the efficiency and resilience of the payment infrastructure, for central banks, digital currencies are not yet convincing and, in my view, rightly remain an area for other stakeholders. This is not to suggest that these developments are not keenly watched and monitored.

The Bank has also entrenched a transparent and, I would say, effective policy framework for management of inflation and related expectations that has so far been successful. Since 2013, inflation has been within and, at times, even below the objective range of 3 – 6 percent. In this environment, there is scope for affordable access to financial resources, their productive deployment and greater opportunities for generating real returns. The transparency of the exchange rate framework and absence of exchange controls removes uncertainty and encourages use of various platforms for financial inclusion, as well as informed decision-making and

planning by economic agents. Effective supervision of the banking sector and oversight of the payments system and related infrastructure also contributes to financial inclusion. In particular, this is to the extent that policy, legislative and regulatory developments embrace advances in the provision of financial services, new technology and payments methods, while ensuring that integrity, resilience and stability of the financial system is maintained. In this regard, there is continuing patronage and growth in usage of the financial sector and related services, as evidenced by the sustained expansion of financial services and increasing share in GDP.

In concluding, Distinguished Guests, Ladies and Gentlemen, a stable macroeconomic environment, characterised by low and predictable levels of inflation, safe, sound and inclusive financial sector, supportive regulatory environment and well-informed consumers of financial services is positive for wealth creation and preservation, as well as inclusive growth.

I thank you for your kind attention.