The Nexus Between Competition and Financial Inclusion in the South African Banking Sector

Nomasomi Ngonyama
University of Fort Hare,South Africa
nngonyama@ufh.ac.za

Abstract:

Competition and access to financial services are lauded as key ingredients in the fight against poverty. While competition enhances markets, fosters innovation, productivity and growth, financial inclusion allows the poor to save, access credit and insurance thereby allowing them to not only meaningfully contribute to economic growth that also smooth their consumption. Moreover, competition reduces the cost of finance there by further expanding the availability of financial services. This suggests an important relationship between competition in the banking sector and financial inclusion. Research in this area is still in its infancy and little consensus exists on both whether the relationship is a robust one or not. There is no unanimity on the direction of causality or whether competition in the financial sector is good or bad for markets. This paper examines the nexus between banking competition and financial inclusion in South Africa. The literature suggests that concentration (as a measure competition amongst others) does not imply lack of competition in the banking sector and that the nature of the banking business entails that most banking sectors have evidence of monopolistic competition. The threat of entry allows banks to behave in a competitive manner and size enhances performance rather than hindering competition. Anecdotal evidence however, suggests that there is collusion. Both globally and within South Africa, competition commissions have successfully prosecuted cartels in the banking sector. This study uses a time series data over the period 1994 to 2018 to assess the nexus between competition and financial inclusion in the South African banking sector. The findings have implications for both policy and future research.

Keywords: Financial Sector, Competition, Financial Inclusion, South Africa

JEL Codes: D4