



THE COMPOSITION AND REGULATION OF THE FINANCIAL SERVICES SECTOR IN ZIMBABWE

Miriam Zhanero Mugwati

Midlands State University, Faculty of Commerce, Department of Marketing Management

Doreen Nkala

Midlands State University, Faculty of Commerce, Department of Marketing Management

Costain Mukanganiki

Midlands State University, Graduate School of Business Leadership

ABSTRACT

Zimbabwe's financial services sector continues to be found falling short in terms of observing corporate governance principles. The majority of the problems racking the sector are due to the existence of a number of regulatory bodies regulating the components that make it up. The country is currently in the process of crafting its National Code of Corporate Governance, and unless what constitutes the financial services sector in Zimbabwe is clearly defined, specific requirements for governance in the sector likely to be contained within the Code may fail to bring sanity to it. It is in this vein that the paper seeks to define what constitutes the financial services sector in Zimbabwe. The paper outlines the composition of the financial services sector in Zimbabwe by taking a comparative approach in the scope of these institutions from a regional and international dimension vis-a-vis its dynamism. The authors adopt the documentary review research method to define the composition of the financial services sector in Zimbabwe. The paper demonstrates that Zimbabwe's financial services sector comprises of financial banking and non-financial banking institutions. The type of institutions that fall under these two major categories does not differ from what constitutes the financial services sector in other countries but what differs is the way the sector is regulated and supervised thus making Zimbabwe's financial services sector sophisticated.

Keywords: Financial Services Sector, Regulation, Composition

Paper Type: Discussion paper



INTRODUCTION

World wide experience confirms that the countries with well-developed and market-oriented financial systems have grown faster and more steadily than those with weaker and closely regulated systems (World Economic Outlook, 2006; Subramanian and Williamson, 2009). The financial sector in general and banking system, in particular, in many of the developing countries have been plagued by various systemic problems which necessitated drastic structural changes as also a re-orientation of approach in order to develop a more efficient and well functioning financial system (Sarkar, 2010). Zimbabwe has not been spared these problems that have bedeviled the financial institutions the world over. The situation has also been worsened by developments in technology which have brought in new products and players into the sector. For example, mobile banking has resulted in strategic alliances between banking institutions and network service providers thus making network service providers players within the sector. As a result of these new players joining the sector, (Falkena *et al.*, 2001) argue that “A major issue in regulation, especially as financial institutions become more complex and diversified, relates to the structure of regulatory bodies and, in particular, whether regulation and supervision should be conducted on the basis of multiplicity of specialist agencies or by a single regulatory authority,”. This discussion paper has therefore, made an attempt to come up with a clear scope of what constitutes the financial services sector in Zimbabwe taking into account the current state and what may also be perceived to be what the country is aspiring, suggesting that issues of corporate governance in Zimbabwe may take a unique form.

There seems to be no universally accepted definition which accurately defines the financial services sector. The definitions seem to differ according to one’s perspective or place within the sector. To arrive at a suggested definition which suits the Zimbabwean context there is great need to review international and regional countries’ dimensions. The countries have been randomly selected taking note of those countries which have codes on corporate governance in the region as well as internationally whose economies are seen to perform better as a result of good corporate governance practices.

Godspeed (2011) is of the opinion that defining financial services as “any services that has a financial association” would be too wide to be meaningful. He therefore defines the South African financial services sector as comprising banks, insurers, fund managers, the Johannesburg Stock Exchange, microfinance companies and pension funds. The sector is backed by a sound regulatory and legal framework. In South Africa the sector has been segmented into two categories, in line with the regulatory system which governs the institutions. The Financial Services Board oversees the regulation of financial institutions, including insurers, fund managers, and broking operations



but excluding banks, which fall under the South African Reserve Bank. It is important to note that South Africa has a robust, well regulated market due to the country's central bank maintaining its independence from government (Mayer and Onyango, 2005) (Department of Trade and Industry Report, 2010).

South Africa's financial regulatory system has undergone enormous changes including the transfer of responsibility for banking supervision from the Department of Finance (now known as the National Treasury) to the South African Reserve Bank in 1987, the establishment of the Financial Services Board in 1989 and the creation of the Policy Board for Financial Services and Regulatory by Act of Parliament in 1993 (Falkena *et al.*, 2001).

The National Payment System Act of 1998 for South Africa was introduced to bring the South African financial settlement system in line with international practice on settlement systems and systematic risk management procedures. The Act provides greater powers to the South African Reserve Bank, in respect of providing clearing and settlement facilities. The Financial Services Board is a unique independent institution which is a creation of statute and it oversees South Africa's non-banking financial services industry in the public interest. Major financial institutions regulated by the board include the country's exchanges and insurers, both short term and long term (Falkena *et al.*, 2001).

The South African perspective thus reflects that the financial services sector is comprised of banking institutions which include commercial, mortgage finance, building societies and merchant banking as constituting the most famous in the area and these have a different regulatory structure altogether (Ferhani and Sayeh, 2008). The sector includes other businesses with a financial association such as insurance companies, stock exchange market, equity fund managers and investment houses (Gordhan, 2011). It is not very clear whether the real estate group should also be included here since they also hold trust funds for their clients. Under the non-banking institutions are micro finance or money lending companies and according to (Meagher, 2002) these are regulated by South Africa's Micro Finance Regulatory Council.

(The United Kingdom Foresight Financial Services Report, 2010) acknowledges that they could not find a universally accepted definition of the financial services sector. The report does not therefore adopt a rigid or precise definition of financial services and places its prime emphasis on banking, insurance and financial markets rather on areas such as law and accountancy. However, in terms of regulating the sector, the UK has adopted the mega-regulator concept where all regulation is placed within a single all embracing agency (Gordhan, 2011). Australia, on the other hand has adopted a "Twin Peak" approach whereby two agencies are created: a single prudential regulator



for all institutions, and a single conduct of business regulator for all financial services (Falkena *et al.*, 2001).

Mwatela (2007) describes the Kenya sector as composed of the banking industry, micro-finance institutions, savings and credit corporations (SACCOs), capital markets, insurance companies, mutual funds, pension funds, and development finance institutions. The sector is regulated through various instruments focusing on the nature of business being provided. The Central Bank of Kenya plays a pivotal role in supervising all banking institutions including administering the Micro Finance Institutions Act (Central Bank of Kenya, 2003).

According Phathak (2011) the financial services sector of India is composed of the central bank, commercial banks, credit rating agencies, insurance companies, credit reporting and debt collection, financial authorities, merchant banks, mutual fund, specialized financial institutions and venture capitalists. The country has four regulatory boards, namely; Reserve Bank of India (RBI), Securities Exchange Board of India, Forward Markets Commission and Insurance Regulatory and Development Authority (Cho, 2010).

METHODOLOGY

This paper is based on the documentary reviews of countries' financial services sectors that were randomly selected to assist in defining Zimbabwe's financial sector and to spell out any differences that may exist between these countries and Zimbabwe. Documents reviewed included financial sector policy documents and research articles carried out for the different countries.

FINDINGS AND DISCUSSION

Zimbabwe's financial services sector comprises commercial banks, merchant banks, finance houses, building societies, the People's Own Savings Bank (POSB), credit unions and housing cooperatives, money lenders, numerous insurance companies and pension funds (Klinkhamer, 2009). (r t., 2005) in relation to the above list, further adds venture capital companies, asset management companies, developmental institutions and the Zimbabwe Stock Exchange. An analysis of Zimbabwe's financial services sector reveals that it is similar to that of Kenya, South Africa, the United Kingdom and India. However, (Hanke, 2008) posits that the regulations governing the financial services sector in Zimbabwe are currently fragmented. This is because commercial banks, asset management companies, unit trusts and microfinance institutions are regulated by the Reserve Bank of Zimbabwe (RBZ), whilst insurance companies and pension funds are regulated by the Registrar of Insurance. The Zimbabwe Stock Exchange is a self regulating



Authority under the direction of the Ministry of Finance although the Securities Commission supervises its work (Tsumba, 2001). The People's Own Savings Bank (POSB) is regulated by Ministry of Finance and yet credit unions are under the regulation of the Ministry of Youth, Gender and Employment Creation. With respect to the manner in which Zimbabwe's financial services sector is regulated (Zengeni, 2011) cites Zimbabwe's Minister of Finance, as advocating for a single financial services authority, a regulator that regulates the entire financial services so that the country does not have an eclectic piecemeal regulation where insurance, banks, asset management, equity houses, venture capital and companies listed on the stock exchange, each having its own regulator.

Given the current trends in Zimbabwe and some deliberate attempts through policy interventions as was the case in Kenya as well as some experiences in South Africa, the attempt to define the composition of the financial services sector should thus encompass the legal and regulatory framework as policy interventions. The current legal framework is comprised of numerous legal instruments as well as various regulatory frameworks which see the country's financial services sector continuing to have disharmony due to weak policies. The fragmentation of the sector resulted in some institutions in the country being put under curatorship as they failed to observe and implement corporate governance principles. Furthermore, this led to some of the institutions in the country coming under the RBZ'S supervisory arm after some financial misdemeanors of 2003 and 2004 in which players in the sector were engaged in illegal activities which involved depositors' funds. This step was a reactive measure to the systemic risk which had rocked the sector. As a result the Reserve Bank of Zimbabwe now regulates and supervises the banking institutions as well as micro-finance houses and even registers the asset management companies.

The regulation and supervising of the sector in Zimbabwe has also been difficult due to high intervention from the government. Decisions made by inexperienced government officials have always tended to override decisions made by experts in the sector and in the majority of the cases these imposed decisions have been disastrous to both the sector and the economy at large. The economy has deteriorated due to some ill informed decisions by the government.

CONCLUSION

Given this discussion it may be necessary to harness together what constitute the financial sector in Zimbabwe. The sector is comprised of the banking sector which is supervised by the RBZ, as well as the micro-finance institutions and fund managers. The insurance sector is governed and regulated by the Registrar of Insurances, Stock Exchange by the Stock Exchange Commission. However, recently due to the challenges which the country faced, the RBZ's hand was visible in



almost all these constituencies. However to define the composition of the current financial services sector, the regulatory approach and the mix of the nature of business for such presumed companies as well as the current deliberate policies to empower the previously disadvantaged and also to minimize systemic risk it can be safely concluded that the sector is made up of the banking industry, insurance (both short-term and long-term), micro finance institutions, pension companies and capital markets.

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