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Economics of access in a developing country: an analysis of firm-conduct in financial services

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ABSTRACT:
The purpose of this paper is to assess the impact of industrial concentration on the level of access to financial services in a developing country context. In most studies, price is the only variable that is used to assess conduct. In this paper, we extend the standard approach by assessing the impact of concentration on the level of access to retail financial services in South Africa.

Design/methodology/approach – Two regression models have been specified and tested.

Findings: *It is found – as with most of the literature – that concentration has an impact on the conduct of retail financial services firms. Specifically, the study illustrates that the pricing of retail banking products in South Africa fits with the structure-performance hypothesis and secondly, the level of access to services is inadequate, does not meet the needs of consumers and is a symptom of market power and the absence of a competitive market in retail banking.*

Practical implications: *The findings imply that there is a need for greater regulatory focus on the enhancement of social welfare in the retail banking sector in South Africa. There is also a need to develop policy and increase provision of basic infrastructure, in particular, electricity so as to reduce the cost of distribution, supply and intermediation of retail bank products.*

Originality/value: *The key contribution of this paper is that it delineates conduct into two parts. It separately illustrates that concentration in the financial services sector can adversely affect social welfare in two ways. First, as is well known, it increases prices second, it reduces the level of supply and access provided to points of need. This is believed to be the first study to explicitly do this in a developing country context.*

Keywords:
Banking, Developing countries, Financial services, Social values, South Africa