SOUTH AFRICAN BANKING SECTOR OVERVIEW
TABLE OF CONTENTS

Sections | Page
---|---
1. Background | 1
2. Total Assets | 1
3. Total liabilities | 3
4. Credit extension | 4
5. Branches and ATMs | 5
6. Usage of payment systems | 6
7. Employment | 7
8. Regulation | 8
9. Financial Inclusion | 9
10. Conclusion | 10

1. Number of banks in SA | 1
2. Total banking sector assets | 2
3. Loans and advances | 2
4. Banks’ market share | 3
5. Total liabilities of the banking sector | 3
6. Composition of deposits | 4
7. Growth in unsecured credit | 5
8. Employment | 7

Tables

1. Credit extension by all monetary institutions | 4
2. Number of ATMs and branches | 6
3. Usage of payment systems | 6

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SOUTH AFRICAN BANKING SECTOR OVERVIEW

1. Background

South Africa has a developed and well regulated banking system which compares favourably with those of industrialised countries. Although the South African banking sector has been through a process of volatility and change in the past, it has attracted a lot of interest from abroad with a number of foreign banks establishing presence in the country and others acquiring stakes in major banks. The SA banking sector has been ranked 3rd out of 148 countries in the 2013/14 World Economic Forum Global Competitiveness Survey.

There have been a number of changes in respect of the regulatory environment, product offerings, and the number of participants resulting in a greater level of competition from smaller banks, which have targeted the low-income and the previously unbanked market.

The SA banking industry is currently made up of 17 registered banks, 2 mutual banks, 14 local branches of foreign banks, 2 cooperative banks and 43 foreign banks with approved local representative offices (Figure 1).

1.1 Figure 1 - Number of banks in SA

2. Total Assets

The assets of the banking sector increased by 3 per cent to a level of R3,9 trillion between December 2013 and March 2014 (Figure 2). This was a 7 per cent more than the value recorded during the same period in the previous year.
2.1 **Figure 2 – Total banking sector assets**

![Graph showing total banking sector assets]

Source: SA Reserve Bank

**Figure 3** below depicts the composition of loans and advances as at end March 2014, with home loans representing the largest component at 27 per cent.

2.2 **Figure 3 – Loans and advances (March 2014)**

![Pie chart showing composition of loans and advances]

Source: SA Reserve Bank

**Figure 4** below illustrates the market share of banks as at end March 2014. The four major banks represented about 83 per cent of total banking assets. Standard Bank, the largest bank
in terms of assets, had a market share of 25 per cent, followed by ABSA and FNB both at 20 per cent.

2.3 Figure 4 – Banks’ market share (March 2014)

![Market share (March 2014)](image)

Source: SA Reserve Bank

3. Total liabilities

After a slight decline in September 2013, total liabilities of the banking sector increased by 3 per cent between December 2013 and March 2014 (Figure 5).

3.1 Figure 5 – Total liabilities of the banking sector

![Total liabilities](image)

Source: SA Reserve Bank

Deposits represented about 85 per cent of total liabilities at the end of March 2014 (Figure 6). Fixed and notice deposits constituted the largest part at 31 per cent, followed by call deposits at 19 per cent.
4. Credit extension

4.1 Credit extended by all monetary institutions

Despite the subdued economic environment, credit extension increased moderately by 5 per cent in 2013 (Table 1). Credit extension contributes to consumer consumption which in turn stimulates the economy. According to the SA Reserve Bank, real consumption expenditure by households moderated from 3.5 per cent in 2012 to 2.6 per cent in 2013. This moderation can mainly be ascribed to rising inflation, slower growth in the disposable income of households, lower consumer confidence levels and the moderation in credit extension. Sluggish growth in respect of mortgage advances was recorded in 2013, as this category increased by only 2 per cent. A slowdown in leasing finance and credit extended to the government sector was also recorded.

4.1.1 Table 1 – Credit extension by all monetary institutions

<table>
<thead>
<tr>
<th>Description</th>
<th>Dec 2012</th>
<th>Dec 2013</th>
<th>% growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total credit extended to private sector</td>
<td>2 438 231</td>
<td>2 587 939</td>
<td>6%</td>
</tr>
<tr>
<td>Investments</td>
<td>135 521</td>
<td>137 428</td>
<td>1%</td>
</tr>
<tr>
<td>Bills discounted</td>
<td>9 533</td>
<td>10 362</td>
<td>9%</td>
</tr>
<tr>
<td>Total loans and advances</td>
<td>2 293 176</td>
<td>2 440 148</td>
<td>5%</td>
</tr>
<tr>
<td>Instalment sales credit</td>
<td>275 563</td>
<td>315 966</td>
<td>15%</td>
</tr>
<tr>
<td>Leasing finance</td>
<td>16 235</td>
<td>14 608</td>
<td>-10%</td>
</tr>
<tr>
<td>Mortgage advances</td>
<td>1 089 016</td>
<td>1 109 659</td>
<td>2%</td>
</tr>
<tr>
<td>Other loans and advances</td>
<td>912 363</td>
<td>999 915</td>
<td>10%</td>
</tr>
</tbody>
</table>
### 4.2 Unsecured credit lending

The rapid increase in unsecured lending has been a cause for concern in the past few years. The growth in unsecured credit now appears to be subsiding (Figure 7). The unsecured lending market was faced with challenges in 2013 as evident in the decline credit extension to this segment. Over-indebtedness has also played a role in the moderation in overall credit extension - about 10 million people with impaired credit records were recorded in 2013. Over-indebtedness affects the ability to service debt, take credit or save.

#### 4.2.1 Figure 7 – Growth in unsecured credit

![Growth in Gross Unsecured Credit](source: SA Reserve Bank)

### 5. Branches and ATMs

According to the Deposits Global Bank Intelligence, the total number of banks’ ATMs and branches are currently around 5 144 and 27 953 respectively (Table 2).

---

1 ABSA, Capitec, FNB, Nedbank, Standard Bank
5.1 Table 2 – Number of ATMs and branches

<table>
<thead>
<tr>
<th>Bank</th>
<th>No. of branches</th>
<th>No. of ATMs</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABSA Bank</td>
<td>892</td>
<td>10 000</td>
</tr>
<tr>
<td>Capitec Bank</td>
<td>500</td>
<td>2 168</td>
</tr>
<tr>
<td>First National Bank</td>
<td>775</td>
<td>4 969</td>
</tr>
<tr>
<td>Nedbank</td>
<td>2 272</td>
<td>2 716</td>
</tr>
<tr>
<td>Standard Bank</td>
<td>705</td>
<td>8 100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5 144</strong></td>
<td><strong>27 953</strong></td>
</tr>
</tbody>
</table>

Source: Deposits – Global Bank Intelligence

6. Usage of payment systems

The usage of payment systems for the period 2005 to June 2013 is illustrated in Table 3 below. The figures below only represent domestic transactions.

6.1 Table 3 – Usage of payment systems

### ATM Transactions

<table>
<thead>
<tr>
<th>Period</th>
<th>Volume</th>
<th>% Change</th>
<th>Value (Rands)</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>166 891 507</td>
<td>6.1%</td>
<td>40 554 418 390</td>
<td>8.4%</td>
</tr>
<tr>
<td>2006</td>
<td>192 734 194</td>
<td>15.5%</td>
<td>47 463 298 261</td>
<td>17.0%</td>
</tr>
<tr>
<td>2007</td>
<td>234 322 151</td>
<td>21.6%</td>
<td>59 058 301 908</td>
<td>24.4%</td>
</tr>
<tr>
<td>2008</td>
<td>268 438 678</td>
<td>14.6%</td>
<td>71 370 586 351</td>
<td>20.8%</td>
</tr>
<tr>
<td>2009</td>
<td>276 211 771</td>
<td>2.9%</td>
<td>77 182 864 413</td>
<td>8.1%</td>
</tr>
<tr>
<td>2010</td>
<td>301 666 404</td>
<td>9.2%</td>
<td>91 233 209 852</td>
<td>18.2%</td>
</tr>
<tr>
<td>2011</td>
<td>322 665 574</td>
<td>7.0%</td>
<td>104 152 565 199</td>
<td>14.2%</td>
</tr>
<tr>
<td>2012</td>
<td>350 676 400</td>
<td>9%</td>
<td>118 784 275 296</td>
<td>14%</td>
</tr>
<tr>
<td>June 2013</td>
<td>174 898 263</td>
<td>50%</td>
<td>59 868 954 783</td>
<td>50%</td>
</tr>
</tbody>
</table>

### Credit Card Clearing & Settlement (POS) Transactions

<table>
<thead>
<tr>
<th>Period</th>
<th>Volume</th>
<th>% Change</th>
<th>Value (Rands)</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>121 392 698*</td>
<td>-</td>
<td>41 792 537 747*</td>
<td>-</td>
</tr>
<tr>
<td>2006</td>
<td>257 008 611</td>
<td>93 223 327 767</td>
<td>13.0%</td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>278 539 563</td>
<td>8.4%</td>
<td>105 372 094 855</td>
<td>2.6%</td>
</tr>
<tr>
<td>2008</td>
<td>265 480 842</td>
<td>-4.7%</td>
<td>108 087 430 784</td>
<td>1.1%</td>
</tr>
<tr>
<td>2009</td>
<td>260 834 540</td>
<td>-1.8%</td>
<td>109 262 373 476</td>
<td>33.7%</td>
</tr>
<tr>
<td>2010</td>
<td>324 870 477</td>
<td>24.6%</td>
<td>146 032 278 784</td>
<td>17.4%</td>
</tr>
<tr>
<td>2011</td>
<td>358 936 392</td>
<td>10.5%</td>
<td>171 498 694 610</td>
<td>9.0%</td>
</tr>
<tr>
<td>2012</td>
<td>303 641 790</td>
<td>-15.4%</td>
<td>156 138 304 754</td>
<td>-9.0%</td>
</tr>
<tr>
<td>June 2013</td>
<td>151 574 793</td>
<td>-</td>
<td>80 097 369 808</td>
<td>-</td>
</tr>
</tbody>
</table>

### Debit Card (POS) Transactions

<table>
<thead>
<tr>
<th>Period</th>
<th>Volume</th>
<th>% Change</th>
<th>Value (Rands)</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>68 769 674</td>
<td>77.0%</td>
<td>15 319 086 087</td>
<td>97.6%</td>
</tr>
<tr>
<td>2006</td>
<td>112 274 366</td>
<td>63.3%</td>
<td>26 982 144 785</td>
<td>76.1%</td>
</tr>
</tbody>
</table>
### EFT Total Transactions

<table>
<thead>
<tr>
<th>Period</th>
<th>Volume</th>
<th>% Change</th>
<th>Value (Rands)</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>515 535 477</td>
<td>9.6%</td>
<td>2 925 646 354 523</td>
<td>16.6%</td>
</tr>
<tr>
<td>2006</td>
<td>572 166 154</td>
<td>11.0%</td>
<td>3 520 882 895 027</td>
<td>20.3%</td>
</tr>
<tr>
<td>2007</td>
<td>627 449 606</td>
<td>9.7%</td>
<td>4 142 740 609 760</td>
<td>17.7%</td>
</tr>
<tr>
<td>2008</td>
<td>663 052 101</td>
<td>5.7%</td>
<td>4 872 121 613 920</td>
<td>17.6%</td>
</tr>
<tr>
<td>2009</td>
<td>698 078 054</td>
<td>5.3%</td>
<td>4 896 464 564 124</td>
<td>0.5%</td>
</tr>
<tr>
<td>2010</td>
<td>736 101 966</td>
<td>5.4%</td>
<td>5 387 992 397 581</td>
<td>10.0%</td>
</tr>
<tr>
<td>2011</td>
<td>780 846 534</td>
<td>6.1%</td>
<td>6 004 405 411 289</td>
<td>11.4%</td>
</tr>
<tr>
<td>2012</td>
<td>823 187 723</td>
<td>5.4%</td>
<td>6 787 579 854 219</td>
<td>13.0%</td>
</tr>
<tr>
<td>June 2013</td>
<td>408 211 960</td>
<td>-</td>
<td>3 586 607 385 527</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Payment Association SA (PASA).

### Employment

The banking sector in SA employs over 160 000 people (Figure 8), mostly in administrative and clerical capacities (BankSETA SSP, 2013). The major four banks represent the bulk of this amount – about 85 per cent of the total employees.

#### Figure 8 – Employment in the banking sector

Source: BankSETA SSP 2013
The majority of the employees are based in the Gauteng province (61 per cent), with the Northern Cape recording the least number of employees (1 per cent).

8. Regulation
The South African banking sector is well regulated to ensure proper oversight over its operations. Legislation that affects the banking industry includes, amongst others:

- The Banks Act;
- The National Payment System Act;
- The Financial Intelligence Centre Act (FICA);
- The Financial Intermediary and Advisory Services Act (FAIS);
- The National Credit Act;
- The Consumer Protection Act;
- The Home Loan and Mortgage Disclosure Act; and
- The Competition Act.

Further, banks have to comply with the King Code on Corporate Governance and Basel III. There are also various ombudsmen tasked with achieving quick and effective dispute resolution for banks and their customers in a fair, impartial and confidential manner.

In the aftermath of the 2008 global financial crisis, various strategies have been announced by international standard-setting bodies to address the fundamental weaknesses revealed by the crisis. These include the new amendments to the regulatory framework (Basel III) where banks are required to hold more capital of higher quality and have enough liquid assets to cover outflow of funds. South Africa, a member of G20, has to comply with the new amendments. Basel III was implemented in January 2013 and SA banks were already well prepared for the impact of the new framework. In the wake of the 2008 global financial crisis, the banks refocused their strategies or amended pricing due to increased capital and liquidity requirements.

Furthermore, the National Treasury has proposed a twin-peaks regulatory system to ensure a safer financial sector. Under a twin peaks model of financial regulation, the SA Reserve Bank will be responsible for oversight of the safety and soundness of banks, insurers and financial conglomerates and macro-financial stability, whilst the Financial Services Board will be responsible for market conduct supervision. A phased approach to the implementation will take place, and will commence with the enactment of relevant legislation to establish the relevant regulators.

9. Financial Inclusion
Financial inclusion entails improving the range, quality and availability of financial services and products to the unserved, underserved and financially excluded. Principles of financial inclusion include access, affordability, appropriateness, usage, quality, consumer financial education, innovation and diversification, and simplicity.

The banking industry is committed to promoting financial inclusion, as evident in a number of initiatives launched by the sector. The main pillars of transformation in the sector have been
the Financial Sector Charter (FSC) and the Black Economic Empowerment (BBBEE) Act. The FSC, a transformation charter, was signed by the financial sector in 2003 for implementation in 2004. The participants (financial institutions) committed to transforming the sector in the areas of:

- Human resource development;
- Procurement of goods and services;
- Access to financial services;
- Empowerment financing (including targeted investments in transformational infrastructure, low-income housing, agricultural development and black SMEs as well as BEE transaction financing);
- Ownership and control; and
- Corporate social investment (CSI).

Targets for the first 5-year period were set and achievements in each category are listed below.

**Achievements 2004 – 2013:**

- **Access to housing finance** - about R135 billion;

**Achievements 2004 – 2010²:**

- **SME finance** - about R16 billion;
- **Agricultural finance** - just over R3 billion;
- **Transformational infrastructure** - about R12 billion;
- **Mzansi³ accounts** totalled 4.6 million;
- Access of LSM 1-5 to bank branches within a 15km radius was 74.4 percent;
- Access to branches and ATMs within 10km radius was 79.2 percent. (FSC target 80 percent of LSM1-5)

The FSC has been the main driver of financial inclusion in SA. According to the Finscope Survey 2013, about 75 percent of adults in SA are banked and a total of 79 percent adults are formally served - are banked and have access to formal bank products / services.

The FSC was gazetted (as a Sector Code) in November 2012. In recognition of the unique role played by financial institutions in the development of South Africa, two new elements (in addition to the seven elements that already exist) were introduced into the BBBEE Codes of Good Practice. These elements were Empowerment Financing and Access to Financial Services.

In October 2013 the BBBEE Amendment Act came into law and the Department of Trade and Industry has provided a 12-month transition period.

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² Progress made in respect of some of these areas is in the process of being updated.

³ Mzansi has provided access and has also functioned as a stepping stone to other banking products. Banks have created other products which are similar to Mzansi.
10. Conclusion

The South African banking system has been through some dramatic changes in the past two decades. It is, however, very well developed and comparable to those of industrialised countries having been ranked 3rd out of 148 countries in the 2013/14 WEF Competitiveness Survey. It is generally viewed as world class, with adequate capital resources, technology and infrastructure and a strong regulatory and supervisory environment.

Despite having a world class banking system, however, about 16% of SA adults (5.7 million adults) are still financially excluded. The banking sector made a commitment to broaden access to finance and efforts have been made since the implementation of the FSC in 2004. In light of the Finscope findings banks need to find ways to bring the unbanked into the system through more focus on consumer education and products that are designed to accommodate the dynamics of this market. The challenge, however, is that of the 5.7 million that were excluded in 2013 about 2.9 million people were difficult to access as they had no money or mobile phones (Finscope 2013).

Over-indebtedness has also been a cause for concern – about 10 million people had financial difficulties in 2013 - as it affects the ability to service debt, take credit or save. The sluggish global and domestic economic environment will continue to negatively affect the growth of the sector. Stronger growth has been evident in certain product lines, but overall growth in advances remains sluggish. Unsecured lending, which has also been a cause for concern in the past few years, has slowed down noticeably.
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