Vision

As the mandated representative of the banking sector, to aspire to a progressive, sustainable and globally competitive sector that is respected by, and relevant to, the broad spectrum of stakeholders in South Africa.

Mission

- To be the only mandated representative of the banking sector in South Africa.
- To contribute to the socio-economic growth and development of our country by facilitating and encouraging our members to deliver financial services to a broad spectrum of the population.
- To continually catalyse transformation and innovation in the sector and enable the consolidation of the outcome of these initiatives into the business of banks.
- To encourage and facilitate the sustainability of the banking sector through profitable, responsible and environmentally sensitive business by our members.
- To undertake the necessary research to inform the debate on implementing international best practice in the business of our members.
- To forge dynamic partnerships with relevant stakeholders to influence an environment in which banks can do profitable business in a way that promotes international best practice and sustainable socio-economic growth and development.
- To continually explore a role for The Banking Association South Africa in the southern African region and the rest of the African continent, as our members extend their footprints into these areas.
Theme

The passing of Nelson Rolihlahla Mandela on 5 December 2013 was an opportunity for all South Africans to reflect on the character of a man who changed the course of history.

Often referred to by South Africans as Tata (father), the father of our nation became a global icon – known for his humility, compassion and commanding presence. Under his presidency, Nelson Mandela fostered national unity and introduced measures to encourage land reform, expand access to housing and social services, and combat poverty.

President Mandela’s government established democratic South Africa’s proud tradition of excellent fiscal and monetary governance.

The visual theme for this report pays tribute to a beloved South African icon.

The banking industry will continue to support the vision of Nelson Mandela’s New South Africa, facilitating finance for all aspects of our economic growth to improve the quality of life for all South Africans.
The Banking Association South Africa (BASA) is the representative trade association for the banking industry and therefore has no power to regulate or sanction its members.

The Banking Association strives to shape the future of banking in South Africa by formulating a long-term view of the demands that may be placed on the banking sector and, through proactive engagement with its members and other stakeholders, assists in transforming the industry towards this long-term view.

Who are we?

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The Banking Association’s executive is required to balance the demands of industry representatives with that of being a catalyst for change. This dual role requires effective governance processes to ensure the executive manages expectations when fulfilling its catalytic role, without necessarily having the required mandate from member banks.

A board-appointed committee of senior bank representatives provide the necessary oversight to ensure mandated industry positions are fully supported.

Mandela casts his vote in South Africa’s first democratic elections on 27 April 1994 in Inanda, KwaZulu-Natal.

Source: Dr Peter Magubane from his book Man of the People
The Banking Association participates in a number of external forums including:

- African Union for Housing Finance (AUHF)
- Anti-Money Laundering Advisory Committee
- Association of Corporate Treasurers
- Business Unity South Africa (BUSA)
- Business Unity South Africa (BUSA) Climate Change Forum
- Business Unity South Africa (BUSA) Economic Policy Committee
- Business Unity South Africa (BUSA) Finance Committee
- Business Unity South Africa (BUSA) SME Task Group
- Business Unity South Africa (BUSA) Transformation Policy Committee
- Centre for Development and Enterprise (CDE)
- Credit Information Ombudsman
- Estate Agency Property Goup (EAPG) SAICA Workgroup
- Financial Advisory and Intermediary Services (FAIS) Advisory Committee
- Financial Markets Advisory Board (FMAB)
- Financial Sector Charter Council (FSCC)
- Financial Sector Contingency Forum (FSCF)
- Financial Services Board (FSB) Directorate of Market Abuse (DMA)
- FinMark Trust
- Homeloan Mortgage Disclosure Act Work Group
- Industrial Development Corporation (IDC) Risk Capital Facility Programme Steering Committee
- International Banking Federation (IBFed)
- IBFed Consumer Affairs
- International Union for Housing Finance (IUHF)
- KwaZulu-Natal Financial Literacy Association
- Masterbuilders Association Industry Committee
- Millennium Labour Council (MLC)
- National Business Initiative (NBI)
- National Debt Mediation Association (NDMA)
- National Home Builders Registration Council (NHBRC)
- National Treasury Consumer Education Task Team
- National Treasury and Economic Development Department Steerco for Business Information Registry
- NEDLAC
- NEDLAC Finance and Investment Committee
- Nepad Business Foundation
- New Development Bank (BRICS)
- Ombudsman for Banking Services
- Operation Hope South Africa
- SADC Banking Association
- Sectional Title Regulation Board
- South Africa Savings Institute (SASI)
- South African Bank Risk Information Centre (SABRIC)
- Standing Committee for the Revision of the Banks Act [2011]
- Takeover Regulation Panel (TRP)
- Trust for Urban Housing Finance (TUHF)
- UCT – African Institute of Financial Markets and Risk Management
- UNEP FI Property Working Group
- United Nations Environmental Programme (UNEP)
- Wits Council

The much celebrated ‘Madiba shuffle’: Mandela dances to Thandi Klaassen’s tune at his 72nd birthday party at Kippies in Johannesburg. Source: Dr Peter Magubane from his book Man of the People
Madiba holds his first passport at his home in Orlando West.
Source: Dr Peter Magubane from his book Man of the People

Source: Dr Peter Magubane from his book Man of the People
Chairman’s report

“Nelson Mandela ranks among the very greatest statesmen in history, a peer of figures like Mahatma Gandhi and Abraham Lincoln. Madiba was utterly committed to democracy, to the rule of law, and to building durable public institutions. To put it in banker’s language, President Mandela dramatically lowered South African country risk and, by doing that, sharply reduced the cost of capital. He made it possible for all of us to work towards a more inclusive and more prosperous South Africa.”

Tribute to Nelson Mandela
We are saddened by the loss of our global icon. The board of The Banking Association has extended its sincere condolences to the family and friends of our Tata.

Madiba eloquently bequeathed his legacy to us with the words “...it is in your hands now...” referring to the burden of leadership required to address the world’s social injustices. South Africa’s banks are determined to take up this challenge.

Unsecured Lending
Unsecured lending has been cited as a contributor to events that culminated in the tragedy at Marikana in 2012.

In January 2007, the banking sector adopted a voluntary code of conduct, ahead of the National Credit Act implemented later in the same year, to provide a framework for responsible lending by our sector.

We have presented the facts around unsecured lending in our ‘issues of interest’ section later and remain committed as an industry to continue our responsible lending practices.
Chairman’s report
continued

The National Credit Act (NCA) provides a framework for the regulator to supervise and take action against parties not willing to abide by the NCA. We strongly support the efforts of the National Credit Regulator to eradicate irresponsible lending practices.

Twin Peaks
The release of the draft Financial Sector Regulation Bill in December formalises the separation of prudential regulation and market conduct regulation. We hope this approach will reduce the cost of regulation and improve regulatory efficiency. The introduction of systemic risk oversight by the South African Reserve Bank introduces new powers that will need appropriate checks and balances and we welcome the opportunity to provide substantive comment on the bill in 2014.

The industry continues to make good progress in implementing the recommendations of the Jali enquiry, and we expect that the new market conduct authority will continue to regulate conduct along the broad lines established by the enquiry’s 2008 report.

National Payments System
In our view, it remains essential to ensure that all national payments system participants have adequate capital and liquidity reserves. Reforms to the national payments system should not risk endangering the system’s stability.

We continue to argue that direct regulation of interchange prices within the system is inappropriate.

Central clearing of OTC derivative contracts
South Africa has committed to the G20 requirement to centrally clear all standardised over-the-counter (OTC) derivative transactions. However, as an emerging economy with a small derivative market by international standards, the impact of extraterritorial legislation (such as the US Dodd Frank Act (Title VII), which requires South African banks to use their central counterparties (CCP) when facing a US counterpart, and European market infrastructure regulation) has significantly reduced the volume of clearable trades onshore and has challenged the viability of a domestic clearing option. Furthermore, a lack of global harmonisation among the approaches of major jurisdictions has required a conservative approach to policy decisions. This has reduced the time available for implementation to meet the global deadline and may possibly stifle innovation in countries that wish to develop these products.

ANC Economic Transformation Sub-Committee
We welcomed the opportunity to engage with the African National Congress (ANC) on matters of mutual interest in economic policy. In addition, the board was able to meet the Secretary General of the ANC and its sub-committee to discuss our support for the National Development Plan (NDP). We hope to continue engagements.

National Development Plan
The NDP is a holistic document embracing all aspects of society. To reach the NDP’s vision of 2030, all sectors of society have to work together. The banking industry has publically committed to the NDP and will focus on four sectors: human settlements, small and medium enterprise (SME) development, infrastructure and financial inclusion.

Mortgage and other long-term financing
South Africa has adopted Basel III, the Basel Committee on Banking Supervision’s current standards for bank soundness. Increased capital and liquidity requirements, with a staggered implementation timeline from 2015 to 2019, provide limited clarity on the long-term impact on mortgage and other long-term portfolios for South African banks.

The introduction of domestic legislation such as the Expropriation Bill and the introduction of the Spatial Planning and Land Use Management Act in 2013 may create additional uncertainty in the already-difficult mortgage market segment.

There is a need for a holistic review of the housing market and we hope the NDP will be the catalyst for such a review.

The interpretation of Basel III guidelines into South African regulation that meets international standards required considerable effort and compromise, given that South Africa is a developing country with limited long-term savings, a major housing shortage, and a persistent pattern of underinvestment in both public infrastructure and industrial capacity.

While we remain resolute in our support of regulation that maintains and reinforces the world-class soundness of the South African financial system, BASA submits that South Africa has a right and duty to place considerable weight on domestic development needs when interpreting the requirements of Basel III.

South Africa as a financial hub for Africa
A highlight of the review period was the announcement in the 2013 budget speech of a range of outward investment reforms. These will make it easier for South African corporations to invest in the rest of Africa and for international corporations to make this country their headquarters for Africa. These reforms will reinforce South Africa’s very strong competitive advantage in finance. We hope the momentum of these reforms will continue.

Accolades and acknowledgements
As my two-year term of office as Chairman ends, I express my thanks to the Minister of Finance and his staff at the National Treasury, the Governor and her staff at the South African Reserve Bank and the Executive Officer and his team at the Financial Services Board (FSB). I also thank other departments and regulators we have engaged with over my years as Chairman.

I am mindful of the challenges that lie ahead. As a country, we must implement the National Development Plan. As an industry, we must comply with a plethora of domestic and international regulation while striving to maintain a profitable and sustainable banking sector.

I wish Sizwe Nxasana all the best as he takes over chairmanship of The Banking Association South Africa.

Lastly, I thank Cas Coovadia and his team at The Banking Association South Africa for their contribution to the long-term sustainability of our sector.
Mandela and Graça on their wedding day.
Source: Dr Peter Magubane from his book Man of the People
An emotional Brenda Fassie, the South African pop diva, embraces Mandela. 
Source: Dr Peter Magubane from his book Man of the People
Financial markets spent most of the second half of 2013 on a nervous footing. Many emerging market currencies had been under significant pressure on concerns that the US Federal Reserve (Fed) would start to slow, or ‘taper’, its bond purchases. Tapering will continue to dominate financial market sentiment in 2014. After such a long period of significant accommodation (the Fed first started buying bonds in November 2008), investors are clearly nervous that any withdrawal of liquidity will hit markets hard, especially emerging markets. And those most in the firing line seem to be countries with large current account deficits: Brazil, Turkey, South Africa, India and Indonesia. In fact, these countries have already been dubbed the ‘fragile five’, and there is a danger that investors see them as homogeneous and overlook their economic and political differences. However, we point out that tapering is more like easing a foot off the accelerator than slamming on the brakes.

Global growth in 2014 will probably improve on 2013. However, the improvement will be modest, with growth rising from around 3.0% in 2013 to 3.5% in 2014. And growth will remain unbalanced, with the eurozone still failing to pull its weight.

In South Africa, gross domestic product or GDP growth posted moderate growth of 1.9% year-on-year in 2013 compared to stronger growth of 2.5% in 2012. Significant and prolonged industrial action in South Africa last year played havoc with manufacturers’ output in 2013. In addition, the manufacturing sector had shed 111 000 jobs in 2012, and 86 000 jobs were lost in the second and third quarters of 2013 alone. The prospects for significant output growth from manufacturers are thus bleak. With further job losses likely in 2014, strong growth in the sector remains elusive. On balance, a weaker currency should assist manufacturing exports.

In 2014, the mining sector could continue to face cyclical and structural difficulties, with spill-over effects into other areas of the economy. Mining inflation remains high, and increased prices of electricity and electrical components could worsen the burden. With limited upside to prices, the mining sector continues to struggle in an environment of rising costs. The pressure on wages is well documented, but other costs are also rising—electricity being an important component. Over the time frame of the third multi-year price determination (MYPD3), the 8% annual increase granted to Eskom, although less than the 16% initially requested, will still see costs for gold and platinum miners rise. This is in an environment where 50% of platinum miners and an almost equal proportion of gold miners are loss-making, according to the Chamber of Mines.

SA households were worse off in 2013 (anecdotal evidence suggests households struggled despite the accommodative interest rate environment). Household consumption expenditure, which accounts for about two-thirds of total GDP, slowed further in 2013. SA consumer confidence is moving broadly sideways, while both retail and motor vehicle sales are struggling for traction. Disposable income growth has also moderated on the back of rising inflation and lower wage payments because of strike activity in 2013. However, in line with a slower pace of spending, debt levels retreated somewhat due to low and steady interest rates, while household net wealth to disposable income improved.

The combination of poor growth in public sector investment (mainly due to the setback in electricity investment) and sluggish growth in private sector investment meant lacklustre total fixed investment growth in 2013. With weak business confidence and renewed concerns over policy ahead of the elections in 2014, we do not anticipate a marked revival in investment by the private sector over the next few quarters. Given that the private sector accounts for almost two-thirds of total fixed investment, the absence of meaningful impetus from this sector is likely to weigh on the overall number well into 2014. The national elections also pose near-term downside risk to investment growth: the acceleration in general government expenditure is likely to suffer a sharp deceleration in 2014. State-owned entity spend continues to lag expectations, as Eskom’s build programme remains behind schedule and Transnet’s expenditure is closely correlated with anticipated economic growth—currently seen as quite sluggish. We maintain that fixed investment growth is likely to sacrifice even more momentum in 2014. After that, however, we see scope for a significant rebound as global tailwinds push up local growth.

At the South African Reserve Bank’s (SARB) Monetary Policy Committee in November last year, it again noted persistent upside risks to inflation. In January 2014, the SARB unexpectedly hiked rates by 50 basis points in an effort to subdue inflation. However, the bank faces a number of challenges in 2014: inflation may exceed the target band for an extended period given the impact of the weakening rand; exchange rate pressure is expected to intensify as markets adjust to the changing pattern of global capital flows; the rand is expected to remain sensitive and reactive to global sentiment; and the deficit on the current account remains wide (despite recent revisions to trade data. There is however, the possibility that the deficit could have narrowed in 2013). The domestic growth outlook therefore remains a concern; we expect GDP to muster growth of 2.2% in 2014. Apart from the effects of slower global potential growth, our concern on growth in South Africa stems from
Economic overview continued

the increasing percentage of cyclical versus non-cyclical components in its composition. Although this has been a trend since the early 1990s, the latest recovery has been driven almost exclusively by cyclical components of GDP (durables, semi-durables and private investment) while non-cyclical components (services, durables, government expenditure, public investment and net exports) are almost flat. Cyclical GDP is up 47% from the business cycle trough in third-quarter 2009, compared with an historical average increase of 23% during a recovery. Non-cyclical GDP has expanded only 2.8%, versus a historical average expansion of 12% during a recovery.

Fluctuations in cyclical GDP determine the severity of a downturn and strength of a recovery, while non-cyclical GDP measures capacity expansion and determines structural/potential growth and employment. Structural shifts in employment and investment depend on non-cyclical GDP. Higher economic growth might not necessarily lead to a reduction in the unemployment rate, the phenomenon of jobless growth, since changes in cyclical GDP will only affect cyclical unemployment. In South Africa, cyclical unemployment represents only a small fraction of total unemployment.

We believe we might be past the worst with SA’s current account balance, and that the outcome for 2014 could be closer to -5.0%. This view is based on an anticipated unwind of the impact of motor industry strikes, a possible lull in working-days lost across the economy thanks to two multi-year wage agreements struck in 2013, a moderate acceleration in external demand growth, slowing growth in private-sector domestic demand – especially consumer demand – and a more competitive exchange rate. Commodity prices and thus SA’s terms of trade might come to the party rather late (by the fourth quarter of 2014) owing to supply overhangs; we expect a flat trend in commodity prices up to that point.

Structural impediments to decompression of the wide current account deficit remain, including a structurally low domestic savings rate, infrastructure and capacity constraints, and pressure on the import bill from an infrastructure programme seeking to address these limitations. There is also the risk that South Africa could face structurally weaker growth in key export markets than local industry has been accustomed to over the past decade or two.

The year ahead is therefore a critical period as there is little flexibility on fiscal and monetary policy and lower growth would increase pressure on metrics watched by the ratings agencies. This leaves our financial markets and our economy vulnerable to any external or domestic shocks.
Winnie and Nelson (holding his grandson Bambatha) in Qunu, Madiba’s home village in the former Transkei.  
Source: Dr Peter Magubane from his book Man of the People

Madiba celebrates his 72nd birthday, his first birthday since his release, with children at a crèche in Orlando West.  
Source: Dr Peter Magubane from his book Man of the People
Eye-to-eye contact between Madiba and his grandson, Bambatha.
Source: Dr Peter Magubane from his book Man of the People

Photo opportunity at the Nelson Mandela Centre of Memory in 2004.
©NMF / Photographer Matthew Willman
Managing Director’s report

“Our beloved Madiba has demonstrated through his actions that as human beings we can be more than just the sum of our experiences.”

Tribute to Nelson Mandela
This annual review is dedicated to our global leader and role model, Nelson Rolihlahla Mandela, who passed away on 5 December 2013. I pay tribute to Madiba in the issues of interest section later in this review.

The review period was characterised by increasing engagement with government on a regulatory environment that is becoming complex and fairly interventionist. The banking sector is subject to a plethora of regulations that make banking complex and expensive. At the same time, the sector must broaden banking services to the 25% of bankable people who are still not serviced. The balance between international best practice legislation and financial inclusion is one that must be managed sensitively. The 2013/2014 publication of The Global Competitiveness Report ranks South Africa third in the category ‘soundness of banks’ after Canada and New Zealand. We must cherish this ranking as a national asset, while encouraging innovation that can offer world class products and services to our clients.

The credit environment
The credit environment remained challenging. There has been significant concern about the rise in unsecured credit, some expressed in a pragmatic and balanced way, but some expressed in a manner that adds uncertainty to the environment. BASA entered into an agreement with National Treasury to try to ameliorate some of the negative consequences of increased levels of unsecured credit. We have identified emolument attachment orders (garnishee orders) that were issued fraudulently or without due process, as well as those that have been paid in full, but are still on banks’ books. We are cancelling these and refunding any funds due to consumers. We have also developed a set of criteria for issuing emolument attachment orders in future.
Managing Director’s report

continued

National Treasury is considering these, with the Department of Justice and National Credit Regulator. The Department of Trade and Industry intends to introduce legislation to remove adverse credit information from credit bureaus in the third quarter of 2013. We expressed concern about this, and started engaging government. Unfortunately, we had to abandon our efforts to restructure over-indebted borrowers voluntarily when the regulator withdrew support for this initiative. We will continue to engage government on this critical area of bank business, with a view to finally agreeing on appropriate legislation that will protect consumers, while enabling banks to conduct profitable and responsible business. BASA remains convinced substantive engagement will result in a conducive environment for responsible and profitable lending and borrowing.

Key legislative matters

We have engaged government and regulators on a number of critical legislative issues this year. We will submit substantive comments on the Draft Financial Sector Regulation Bill, also referred to as the Twin Peaks regulatory regime, as detailed in a discussion document released by National Treasury in December. We have been consistent in our position that the Twin Peaks legislation offers the policy makers and regulators an opportunity to coordinate regulation in the financial sector.

We have also participated in comments on the new land bills, human settlement bills and ongoing implementation of Basel III. We actively provided input to structuring a mortgage default insurance facility and resolving reporting issues under the Home Loans Mortgage Disclosure Act.

The Financial Sector Code

The Department of Trade and Industry gazetted the Financial Sector Code (Code) in November 2012. BASA continues to participate on the Financial Sector Charter Council, where we have been active in finalising guidelines for reporting under the Code from 1 January 2013. We have also engaged our members to develop targets for various elements of the code from 1 January 2013 to 30 December 2017. The Code offers us the opportunity to continue our efforts to transform the sector and enhance its role in broader socio-economic transformation. The banking sector is fully committed to making a significant contribution to national efforts to bring as many people as possible into the formal economy. This is essential to the country’s aim to move GDP to substantially higher levels than at present, and sustain these higher levels.

Global tax compliance

The US Foreign Account Tax Compliance Act that forces South African banks to police our depositors and investors for tax payments due to the US tax authorities by US citizens (as defined) introduces a compliance cost that has to be recovered from South African bank customers, not the US tax authority.

This initiative will be expanded by the Organisation for Economic Cooperation and Development (OECD) proposal for an automated exchange of information standard to automatically exchange all foreign tax payer related financial information under bi-lateral tax agreements, a further cost to bank customers.

Although we support the principle of tax compliance, we are concerned that the banking sector has increasingly been targeted as a moral police force with unavoidable costs to the consumer; at a time when the cost of banking and access to finance are key considerations.

Current local monitoring and reporting obligations unrelated to the business of banking include internet gambling, child pornography, weapons of mass destruction, anti-money laundering, terrorism financing, politically exposed persons and more. These all carry substantial punitive sanctions for non-compliance with detailed requirements.

Treating customers fairly

The market-conduct pillar of Twin Peaks should evolve from the current ‘treating customers fairly’ model and will introduce a deeply intrusive regulatory and supervisory framework.

Moving from a self-regulatory model that introduced the Code of Banking Practice and a number of revisions that included innovations such as plain language, standardised terminology, customer rights and greater transparency of fees and charges, to a prescriptive regulatory framework may have unintended consequences. Behaviour-changing regulation can impede innovation of products and services and a careful balance between designing prudent behaviour and protection of consumers’ needs has to be crafted.

As an example of unintended consequences, at present increased compliance costs are combining with regulatory actions aimed at cutting costs to consumers, thus reducing revenue for members. When added to rising administrative fines and penalties, this is likely to set the stage for a more mature relationship with consumers that will necessarily increase the obligations of consumers to comply with standards set by these regulations.

Market conduct in retail banking has been actively pursued by the independent office of the Ombudsman for Banking Services for many years. We trust that the new regulatory framework will enable independent self-regulatory ombudsmen to continue in the banking and insurance sectors.

National Development Plan

As the industry translates its commitment to the NDP, we have already started addressing identifiable barriers such as the regulatory environment, and access to skills and finance that hinder the development of small and medium enterprises (SMEs). We are engaging with our members to develop a private sector-led initiative that will identify approaches that can close these gaps.

Our industry already provides 95% of all funding targeted at SMEs, with the balance provided by non-banks. The financial sector code caters for SMEs under the enterprise development and empowerment financing pillar. It sets a target spend of 3% of net profit after tax (NPAT) on enterprise development. According to the South African Reserve Bank (SARB) operating profit in 2012 was R49 billion for the sector. In addition to enterprise development, there is black SME financing which falls under the targeted investments element.

The green economy is a key focus area in the banking sector. The past year has seen a plethora of environment, energy and climate change-related legislation introduced in South Africa. Commercial banks have committed over R100 billion to fund renewable energy plants for independent power producers in the first three tender rounds.

To support the code of conduct for social and environmental risk management which the sector introduced in 2011, in collaboration with BankSeta, an introductory training course for social and environmental risk management for bankers was launched. Given the global training gap in such bank staff training, the United Nations for Environmental Finance
Initiative (UNEP FI) is country-customising this training course for use in developing countries.

Addressing the human settlement objective will not be easily achieved and, as an industry, we have been working for many years on blockages and regulatory challenges impeding this national objective. Our commitments to the NDP will include addressing the known challenges and exploring new approaches to accelerate the delivery of housing.

BASA will devote around 30% of its time in the next few years to develop implementable programmes, aligned to the NDP. We are committed to be innovative in this work. The NDP challenges all South Africans to innovate for substantive change. We will thus challenge the sector to develop programmes in these areas that will leapfrog us from where we are to making a significant difference in people’s lives. We will work with banks to develop products to enable this change, but in a way that is profitable and sustainable. We will develop these programmes and then approach government to work with us to address any legislative and regulatory issues impeding progress or changes in legislation to facilitate these programmes. We remain convinced the NDP is the one national plan that provides a pragmatic and achievable vision for this country. We believe the private sector should take the lead in making this vision a reality, and we will work with other business organisations to promote this view.

International environment

BASA maintains a very good profile globally. South African banks are developing a growing global footprint, particularly on the African continent. It is incumbent on BASA to follow its members to work with organisations and authorities in such countries to enable a sustainable banking environment. BASA continues to serve as the secretariat for the SADC Banking Association (SADCBA). We have played a critical role, with this association, in developing an integrated payments and settlement system for SADC. This has been piloted in the common monetary area since August 2013, with considerable success. It will now be extended to other SADC countries. BASA is also a member of the African Union for Housing Finance (AUHF), which is doing sterling work in developing housing data in different countries in Africa and informing housing development. BASA is the only African banking association on the International Banking Federation (IBFed). We currently chair the consumer affairs committee and participate actively in other areas of work under IBFed.

BASA has had an exciting, although challenging, year. We are recognised as a credible representative of the banking sector and continue to engage all stakeholders to enrich the sector and enable it to play a critical role in the broader socio-economic growth of our country. Our members remain committed to maintaining the stability of the banking sector and its international standing. We are also committed to maintaining this standing while broadening financial services to as many people as possible in South Africa. BASA will continue to play a significant role on the continent to share best practice, learn from experiences in other countries and enable an environment for our members to do responsible, profitable and sustainable business.

In conclusion, I believe a fitting tribute to Madiba would be for business, government and labour to create a new paradigm for engagement on the difficult issues facing our country, one that requires all stakeholders to determine what is in the national interest. This in turn requires that we move out of our comfort zones and beyond our own agendas. I believe the National Development Platform is a platform of which such engagements can happen.
Tribute to Nelson Mandela

Our country ended 2013 with the passing of Nelson Rolihlahla Mandela, the global leader and icon known fondly as Madiba. We dedicate the 2013 annual review to this remarkable human being who led South Africans to a constitutional democracy that rid us of apartheid and introduced us to a non-racist democracy.

Madiba espoused numerous values, and lived his life as an example of these values. He was both the commander in chief of Umkhonto we Sizwe (the armed wing of the African National Congress) and the political prisoner who came out of prison after 27 years and forgave his incarcerators. He was both regal and humble. He espoused values of honesty, trust, sincerity, morality and equity.

Madiba was a strong leader who did not bear fools easily. At the same time, he was a compassionate person who became childlike when he was amid children. He held family values in high esteem and encouraged us not to take our families for granted, perhaps because he was forced into situations where he could not spend time with his loved ones. I remember, a few months after his release, we were briefing him on municipal restructuring matters in Johannesburg. We met after 18:00 and I had not called my wife to say I would be late. She paged me while we were briefing Madiba (no cellphones in those days), asking where I was and requesting me to pick up some stuff. When I smiled at this, Madiba sternly asked what was so funny and I told him my wife was asking where I was. He immediately stopped the discussion and told me to call her and tell her where I was! This was the quality of the man.

The banking industry has gone through turbulent times in the last five years. I think we would be doing ourselves a disservice if we fail to acknowledge that a significant part of the causes for such turbulence lay at our own doors, although not in our country. A number of well-known financial institutions in the USA and parts of Europe conducted business in a way that violated the trust individuals should have in these institutions. Banks, in particular, have to be regarded as institutions people can trust with their funds. People must look at banks as solid institutions where they can put their funds, expect those funds to be managed well and returned with growth. Many institutions violated this trust and, as a result, we are now trying to rebuild trust and confidence in the financial system. We must take on board the values Madiba espoused in interacting with clients. We must be seen to be trustworthy, resilient, honourable and professional in the way we conduct our business. This, together with profitability and reasonable return to shareholders, makes for a sustainable sector.

The business sector generally has very fond memories of Madiba. He led a government that created a sound environment for business and growth, while cajoling business leaders to contribute to social development. Again, he showed us how to balance growth and profitability with meeting our responsibility to improving the lives of those less fortunate.

Madiba epitomised the balance between economic growth, profitability and social commitment that builds a balanced and just society. This is the way he lived his life, starting with contributing a portion of his salary to his foundation while in office as president.

Ban Ki-moon, the United Nations Secretary-General, paid a fitting tribute to Madiba when he said:

“Now it is our duty to build the better world that he showed is within our grasp. Today and every day, let us be inspired by his passion, his compassion, and his undying conviction in the human spirit and the global good.”

We remember Madiba with fondness and pride; he was a South African who strode the globe!

Residential property

Residential property as an asset class and wealth creator has remained under pressure since the global economic downturn in 2008. Fundamentals such as lower levels of economic growth, low job creation, low consumer savings, high levels of over-indebted consumers with impaired track records, ongoing erosion of real disposable income levels in the middle class, and poor business and consumer confidence levels continue to bedevil a recovery in the housing market and real growth in house prices or rental income. We believe the ‘side has gone out’ on residential housing for now and that a strong recovery in the housing market is some years away. New-build volumes remain subdued at some 30% of their 2007 peaks or 15 000 units per annum. This is despite considerable opportunities in the affordable housing segment where ownership backlogs of over 1.2 million units and social housing/rental stock backlogs of 2.2 million units exist.

In recent years, we have lobbied for a review of government’s housing policy as the current policy framework is not sustainable, both from the perspective of fiscal affordability and critical mass delivery. Matters have now reached crisis point as around 20% of the workforce cannot afford to buy an entry-level home, yet they do not qualify for a free subsidy home from government. We believe a holistic review of government’s housing subsidy programmes, and demand- and supply-side constraints, is urgently required.

Beyond a sluggish housing market over the past year, there have been a number of legislative and regulatory changes. Two of these have far-reaching implications for the property market, namely:

- The Expropriation Bill is not confined to property and replaces the previous Expropriation Act of 1975. At its core is the move away from the current ‘willing buyer/willing seller’ model and alignment of this legislation to section 25 of the Constitution, where compensation levels depend on a number of factors beyond purely market value. While expropriated holders will have legal recourse if they wish to dispute compensation levels, the bill could pose challenges to registered commercial banks which are required in terms of global bank credit risk frameworks, as well as the local Banks Act, to use market value in determining security value.
- Should offered compensation levels be lower than market value and given that the interpretation of section 25 has yet to be tested in the courts, we can expect mortgagees and property owners to remain uncertain on what ‘just and equitable’ compensation means. For now, one can expect lenders to take a more conservative approach to lending against the security of immoveable property, especially in the agricultural sector which is facing land-reformation and land-restitution challenges.

- The Spatial Planning and Land Use Management Act of 2013 replaces a number of related acts. It seeks to transform settlement patterns in the country; address the legacy of inefficient and costly urban sprawl, promote integrated development and bridge the spatial divide between the first and second economies. While this shift is welcomed, it relies heavily on the planning prowess of municipalities. Mortgagors with an exposure above R815 billion to the residential property market will need to play an active role in helping municipalities overcome any shortcomings to ensure the envisaged change in settlement patterns enhances property values.
Unsecured lending

The Financial Sector Charter challenged the conventional wisdom of bank lending. In the past, secured lending practices were designed to reduce the risk associated with lending to the general public. However, with emergence of a new black class of borrower, the traditional model no longer worked as this previously disadvantaged sector of our society was unable to acquire assets such as houses to pledge as security for bank loans. Encouraged by the charter to provide solutions to the transformational agenda, the development of unsecured personal loans would promote access to finance for consumers and unlock a new market for banks.

In the build up to the National Credit Act, which would see more restrictive lending criteria, the market for unsecured credit exploded as banks and other credit providers competed for market share. In response, the banking sector developed a voluntary code of conduct to guide lending practices for banks. This was adopted in 2007.

From data collected by the banking sector, the most common use of funds received from an unsecured personal loan related to property, either to pay for a deposit to acquire a home or fund improvements and extensions. A secondary trend is to use unsecured loans for debt consolidation. Notably, the average income of households using unsecured personal loans is R15 000 per month, which borders on the lower end of middle class.

The Marikana strike and subsequent shooting in 2012 marshalled a further review of unsecured lending practices. Despite the South African Reserve Bank assuring markets that there was no systemic risk in term of the quantum of loans, further steps were taken to address challenges associated with these lending practices.

In the 19 October 2012 joint statement with the Minister of Finance, the banking industry agreed that:

- To prevent future indebtedness and address current over-indebtedness where practical, BASA and its member banks will review their approach to assessing affordability and ensure that appropriate credit products are sold to their customers.
- BASA, the National Credit Regulator and National Treasury will formulate a standard to measure affordability, which could then be incorporated into regulations as minimum standards.
- Each relevant BASA member bank will develop approaches to provide appropriate relief to qualifying distressed borrowers by reducing their instalment burden, without additional cost to the borrower.
- BASA members agree to load payment data on to various credit bureau systems as soon as practically possible, preferably overnight and in bulk.
- BASA members agree to minimum norms and standards for consumer credit insurance practices linked to lending, and to work with National Treasury and the Registrar of Insurance to develop a framework that considers the interests of customers, appropriateness and the full impact of all charges on affordability.
- BASA members commit not to use garnishee orders against credit defaulters, as they believe the use of such orders for credit is inappropriate.
- BASA and National Treasury will promote and support enforcement initiatives against credit providers that issue pre-signed garnishee orders. National Treasury will also engage with the Department of Justice about the abuse of garnishee orders and suggest that their use be restricted to maintenance orders.
- BASA members agree to minimum norms and standards for debit orders to be accepted by banks, and to work with National Treasury and the National Payment System Department (NPSD) of the Reserve Bank to develop a framework for regulating debit orders.
- BASA and National Treasury will engage NPSD and the Payments Association of South Africa to develop minimum norms and standards for debit orders, and put in place mechanisms to ensure debit order users meet such norms and standards.
- BASA and National Treasury will engage the Reserve Bank to effect neutral authenticated and non-authenticated early debit order (AEDO and NAEFO) payment streams.
- BASA and National Treasury will improve client education on secured and unsecured credit, and create and manage a consumer education fund focused on the household lending environment. These initiatives will give renewed focus to responsible lending practices to ensure that those who can afford credit are given access.
Industry statistics

Global GDP growth

North America 2.9 (2.1)
Western Europe 0.8 (0.4)
Middle East/ North Africa 3.4 (2.4)
Latin America 3.0 (2.6)
Sub-Saharan Africa 5.9 (5.1)
Eastern Europe 2.5 (2.3)
Japan 1.4 (1.7)

* 2013 growth in brackets

Source: IMF; Standard Bank Research

Workdays lost due to strike action

Millions

2010 2011

Electricity prices

% y/y

Source: NERSA; Standard Bank Research
**Consumer finances**

![Graph showing Real household income and Households: Credit share in total spending over time.](source)

**Poverty headcount**

![Bar chart showing GDP per capita, poverty headcount, and income share by country.](source)

**Qunu, Eastern Cape province: Cattle graze in fields outside the village. Nelson Mandela grew up and went to school in Qunu. This land still belongs to the Mandela clan. Source: © Rodger Bosch, MediaClubSouthAfrica.com**
Membership

Institution
Absa Bank Ltd
African Bank Ltd
Albaraka Bank Ltd
Bank of Baroda
Bank of China Jhb Branch
Bank of Taiwan SA Branch
Bidvest Bank Ltd
Capitec Bank Ltd
China Construction Bank
Citibank N.A.
Deutsche Bank AG Jhb Branch
Finbond Mutual Bank
FirstRand Bank Ltd
GBS Mutual Bank
Grindrod Bank Ltd
Habib Overseas Bank Ltd
HBZ Bank Ltd
Hong Kong & Shanghai Banking Corp
Investec Bank Ltd
Ithala Limited
JPMorgan Chase Bank
Mercantile Bank Ltd
Nedbank Ltd
Sasfin Bank Ltd
Société Générale Jhb Branch
Standard Chartered Bank Jhb
State Bank of India
The SA Bank of Athens Ltd
The Standard Bank of SA Ltd
Ubank
VBS Mutual Bank

Nelson Mandela attending World Aids day on 1 December 2002 in Bloemfontein.
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An iconic spread which appeared in Life magazine, April 1990.
Source: Dr Peter Magubane from his book Man of the People