THE BANKING ASSOCIATION SOUTH AFRICA

Standing Committee on Finance

Presentation on the draft Banks Amendment Bill
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Table of Contents

Introduction and Background

- BASA represents 35 local and international commercial banks in SA.

- BASA recommends a collaborative approach and complementary initiatives to bring about desired changes and outcomes.

- BASA and its members support all new banks in South Africa insofar as they are subject to same regulatory and supervisory provisions.

Introduction and Background… [2]

- Subjecting all banks to the same regulatory framework and oversight will provide a level playing field for the entirety of the financial sector and ensure that:
  - There is no introduction of systemic risk into the financial markets;
  - There is an effective resolution regime for the resolution of financial institutions without severe systemic disruption and without exposing taxpayers to loss;
  - All banks to contribute to an explicit and privately funded deposit insurance scheme.

Introduction and Background… [3]

- SA is a member of the global community and has adopted global standards and best practice appropriate for SA, e.g. compliance with the Basel Core Principles for Effective Banking Supervision.

- SA banking system has been rated as well-developed and proactively regulated.
  - Conducive to attracting investment to drive economic growth.

Role of banking in an economy

- Banks facilitate the efficient flow of funds in our economy towards promoting economic development and growth.
- Financial inclusion is the central aim of the SA banking sector, seeking to improve the range, quality and availability of financial services and products on the basis of access, affordability, appropriateness, usage and simplicity.
- Credit creation is the main income generating activity for banks. However, this involves risks which need to be managed.

Provisions of the Banks Act

- To provide for the regulation and supervision of the business of public companies taking deposits from the public; and to provide for matters connected therewith.
- Section 2 of the Banks Act has provisions for exclusions from application of Banks Act insofar as they impose requirements with which any institution must comply.
- These exclusions apply to the Reserve Bank; the Land Bank; DBSA; CPD; PIC; any mutual bank or any other institution or body designated by the Minister by notice in the Gazette.
- Development banks are established with the aim of addressing market failures in the provision of finance.

Consideration 1: rationale and reasoning

- The objective is unclear, given the provisions for DFIs.

- Concern on the potential additional burden on the fiscus in relation to, *inter alia*, initial and ongoing funding and licence obligations of a state-owned bank.

- Possibility of political influence and interference which could result in moral hazard.

- Consideration to be given to unintended reckless lending in light of NCA provisions and debt intervention discussions.

Consideration 2: PFMA provisions

- The proposed state-owned bank must comply with the Banks Act prescripts in relation to, *inter alia*, capital requirements, financial reporting and external audits, disclosures, notwithstanding other PFMA obligations.

- A regulatory gap analysis needs to be undertaken to understand the implications of state-owned banks being subject to the PFMA, Companies Act, Banks Act, Financial Sector Regulation Act, and any other in-scope legislation.

Consideration 3: state-owned companies

- Public record of governance, funding and administration challenges facing SOCs and demonstrated willingness of the banking sector in addressing these challenges.

- Applicants for bank licences must have financial means to comply with Banks Act requirements.

- State-owned bank must comply with the same regulatory and supervisory requirements in line with Banks Act licence requirements.

- Collaborative partnership including DFIs, BASA and our members.

Recommendations

- Efficient utilisation of DFIs and/or enhancements to their mandates to achieve policy goals.

- Consider comprehensive and coordinated programmes beyond access to finance – e.g. non-financial support (infrastructure), coaching/mentoring, ease of doing business; access to markets.

- Guard against state's overreach – e.g. stipulating that government departments move funds into this new entity vs. current tender process (anti-competitive behaviour).

Concluding remarks

- BASA supports and welcomes new banking participants subject to same regulatory and supervisory provisions.
- We are not convinced a state-owned bank would operate differently to existing business models, given the regulatory and supervisory framework.
- Establishment of a state-owned bank should be weighed against introducing risks to the market – cannot fix one set of problems by creating another.

Concluding remarks… [2]

- Guard against anti-competitive provisions for state-owned bank and conflicts of interest – state being both player and referee.

- In good times, SOEs may qualify for bank licence. What happens in bad times?

- How will a state-owned company registered and conducting the business of a bank fit within the envisaged resolution framework, and in particular, insofar as contributing to the proposed privately funded DIS, without placing additional burden on taxpayers?

Questions

- BASA requests the Committee to review our submission and consider our concerns and proposals.

- We would welcome further engagements with the Committee to respond to any questions and discuss our presentation in greater detail.

THANK YOU!