



THE BANKING  
ASSOCIATION  
SOUTH AFRICA

## **BANKING SECTOR OVERVIEW**

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# Areas to be covered

1

- Introduction
- Role of banks
- History
- Structure of the banking system
- Regulation
- Transformation
- Challenges
- Future trends
- Conclusion





## Introduction

2

- The financial services sector comprises of banks, insurance companies, stock brokers, pension funds etc. – offering a wide range of services.
- It enables economic growth, job creation, building of infrastructure and sustainable development.
- The sector represents approximately 10,5 % of GDP with assets to the value of over R6 trillion.
- The sector accounts for approximately 4 % of GDP and contributes over 15 % of GDP in taxes
- Banking sector represents over 50 % of total assets of the financial sector.





## Role of banks

3

- Banks are a conduit between monetary policy and financial markets
- Key role in financial intermediation as they mobilise savings to finance productive activities
- Banks administer payment systems through the execution of customers' payment instructions by transferring funds between accounts
- Risk pooling and pricing - banks make riskier investments available through risk-pooling mechanisms





## History of SA banking sector

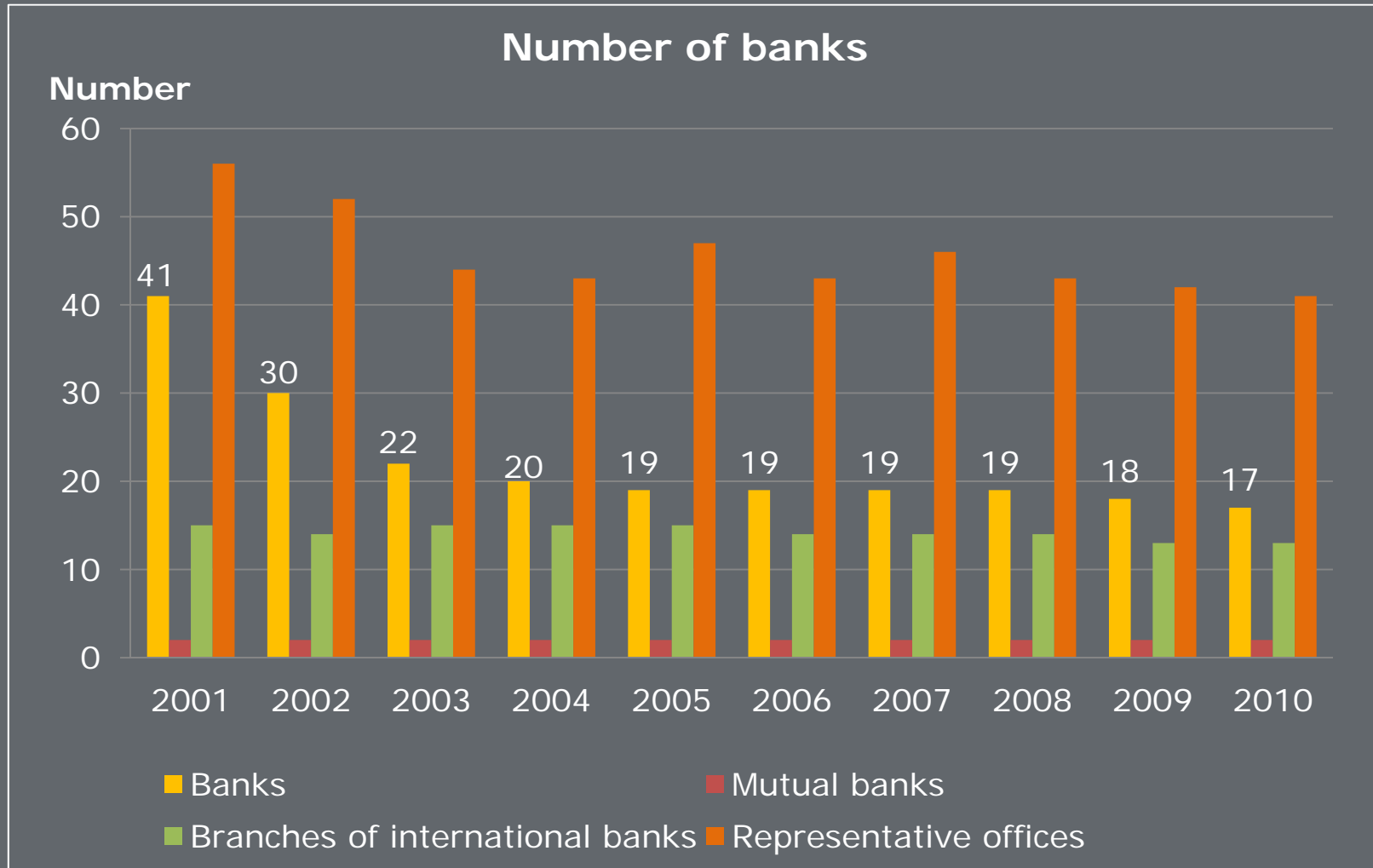
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- Banks are licenced and regulated under the Banks Act of 1990. There were 43 registered banks in SA by the end of 2001.
- Banks consolidated building societies into their structures in the early 1990's.
- S A experienced a tier 2 banking crisis in 2002, with the collapse of Saambou Bank, resulting in a loss of confidence that lead to a run on BOE bank, with its subsequent closure. Other smaller banks also closed, with some not seeking a renewal of their licences.





# History of SA banking sector





## Structure of SA banking system

6

- A well-developed and well regulated banking system which compares favourably with those of industrialised countries.
- Ranked 6<sup>th</sup> out 133 countries in 2010 for financial market sophistication and the soundness of banks - World Economic Forum Global Competitiveness Index
- Has attracted a lot of interest from abroad with a number of foreign banks establishing a presence in the country and others acquiring stakes in major banks, e.g. the Barclays – ABSA and Industrial and Commercial Bank of China – Standard Bank deals
- Comprises of 17 registered South African domiciled banks, 2 mutual banks, 13 local branches of foreign banks, and 41 foreign banks with approved local representative offices.

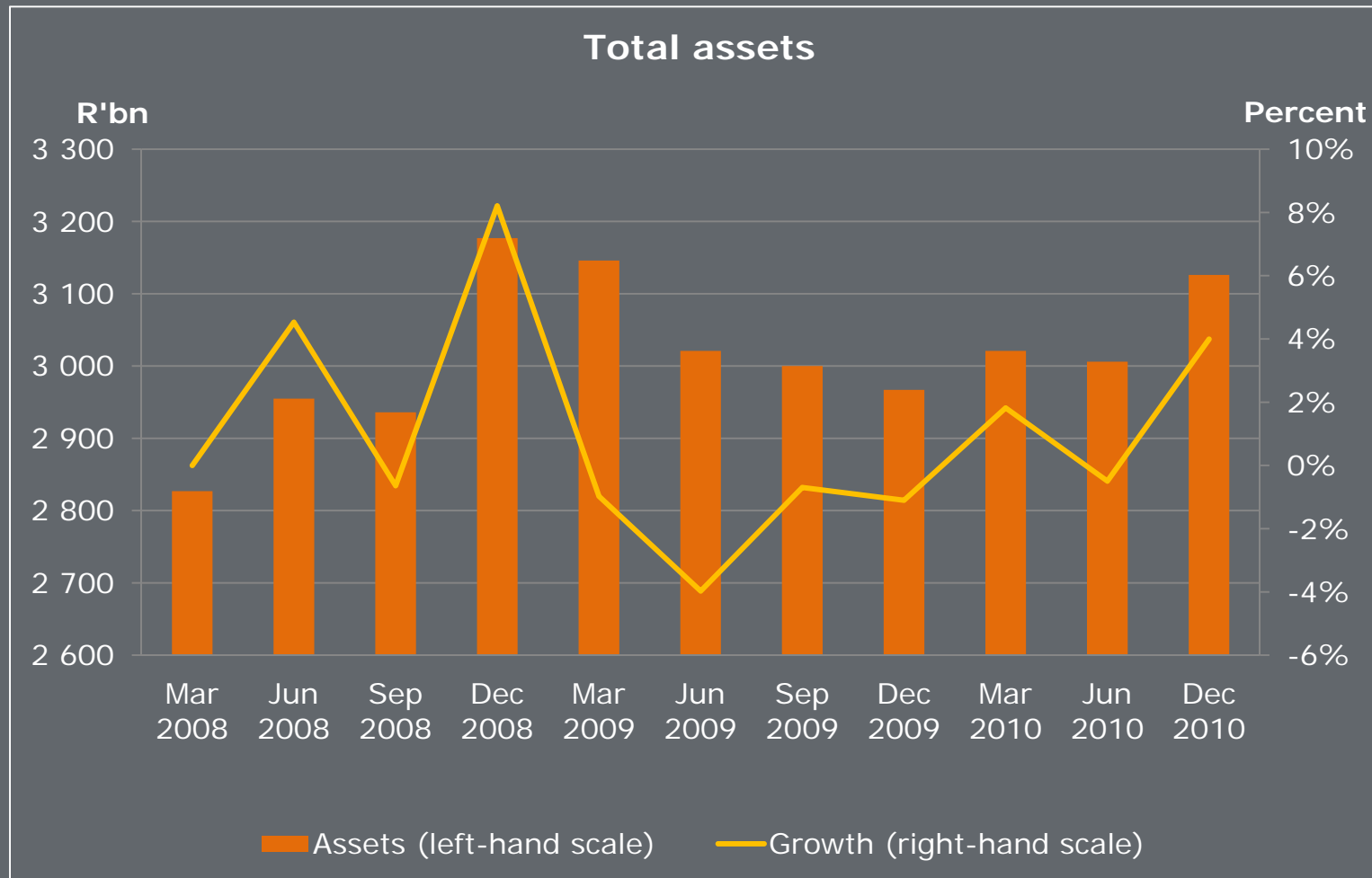




# Structure of SA banking system

7

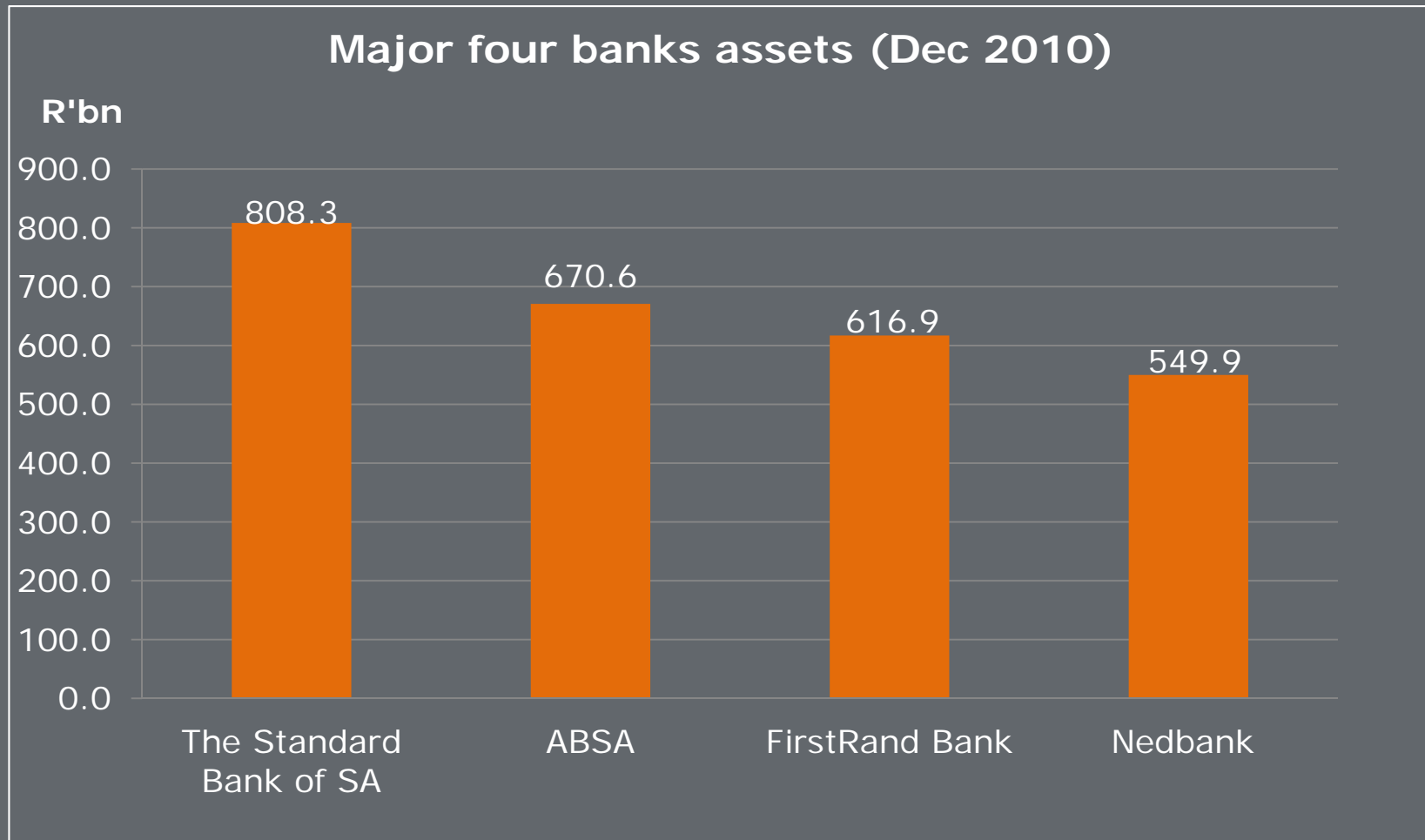
- Improvement in assets (R3,1 trillion in Dec 2010)





# Structure of SA banking system

- The major four banks represent about **85 %** of total banking sector assets

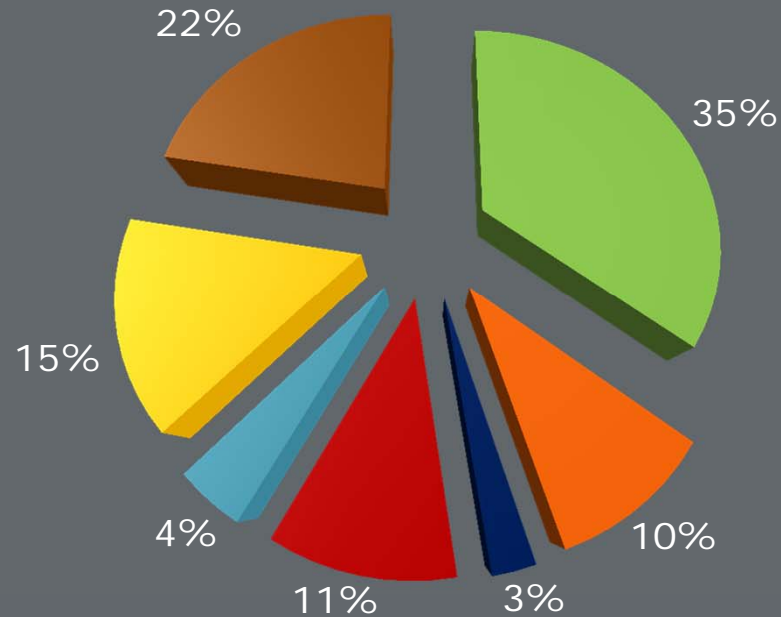




# Structure of SA banking system

- Loans and advances constitute about 72 % of total assets
- Home loans represent the largest component of loans and advances.
- Credit impairments (Dec 2010) = R55,4 billion

**Composition of loans and advances (Dec 2010)**



- Homeloans
- Credit cards
- Overdrafts
- Other
- Commercial mortgages
- Lease and instalment debtors
- Term loans



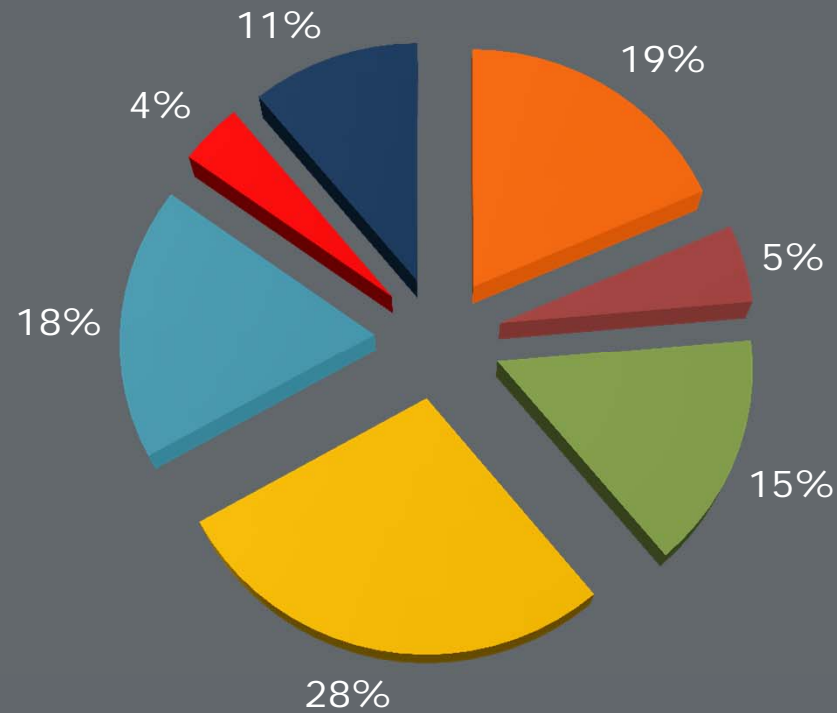


# Structure of SA banking system

10

- Liabilities totalled R2,9 trillion (Dec 2010)
- Deposits represented about 86 % of total liabilities

**Composition of deposits (Dec 2010)**



■ Current ■ Savings ■ Call ■ Fixed and notice ■ NCDs ■ Repos ■ Other

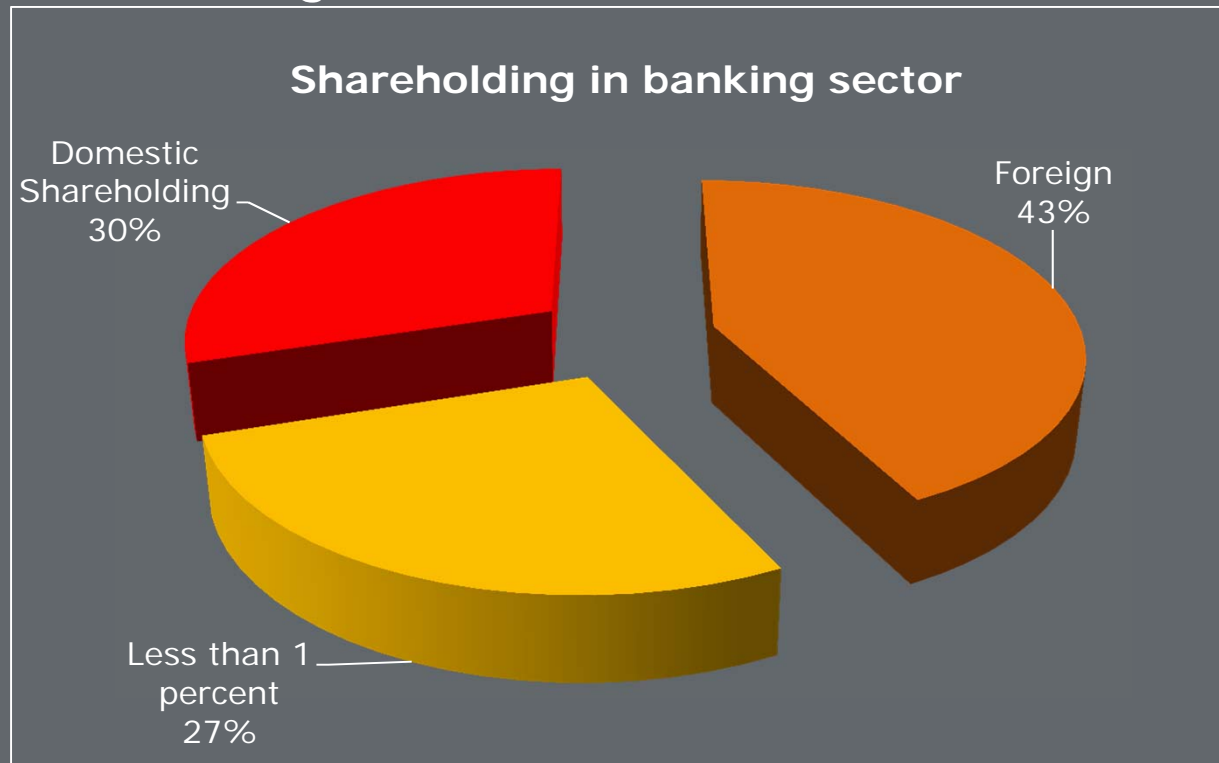




# Structure of SA banking system

11

- Profitability (May 2011):
  - RoE (15,7 %), RoA (1,08 %)
  - Cost-to-income ratio increased to 56,5 % (53 % in 2010) as expenses rose – international benchmark is 60 %.
- Shareholding Dec 2010:





## Structure of SA banking system

12

- Number of retail customers in 2010 (major four banks) around 35 million
- Branches (2 740) and ATMs (21 000) - major four banks
- Number of employees is around 150 000, with major four banks representing about 85 % of this amount.
- Employees: ABSA (38 000), FNB (32 000), Nedbank (28 000), Standard Bank (30 000)





# Regulation

13

- The SA banking system is well developed and effectively regulated – protected, to a great extent, SA banks from the impact of the global financial crisis in 2008.
- In the aftermath of the crisis various strategies have been announced by international standard-setting bodies to address the fundamental weaknesses revealed by the crisis.
- The S A bank regulator will implement regulations being finalised by the Basel Committee and G20, and engagements are on-going with the sector on the Basel III regulations
- In terms of Basel III banks are required to:
  - Hold more capital of higher quality;
  - Have enough liquid assets to create a buffer in crisis situations .
- Further, the National Treasury has proposed a “twin-peaks” regulatory system to ensure a safer financial sector





# Transformation

14

- The Financial Sector Charter (FSC) implemented in 2004.
- Achievements 2004 – 2010:
  - Access to low-income housing finance - approximately R65 billion
  - Black SME finance - approximately R16 billion
  - Developmental Agricultural finance - just over R3 billion
  - Transformational infrastructure - approximately R12 billion
  - Mzansi accounts totalled 4,6 million (with a 30 % dormancy rate)
  - 74,4% of LSM 1-5 have access to bank branches within a 15km radius of where they work or stay
  - 79,2% of LSM 1-5 have access to a service point within 10km radius of where they work or stay.





# Challenges

15

- Meeting the liquidity requirements of Basel III
  - Proposed liquidity rules will require fundamental changes in business models
  - Banks have adequate capital but liquidity requirements a challenge
- Profitability
  - Higher expenses and bad debts have put pressure on profitability.
- Revenue growth
  - Low interest rate environment has put pressure on margins
  - Increased cost of funding
  - Low demand and supply of credit in the aftermath of the recession
  - Lower fee income





# Challenges

16

- Crime, including fraud, heists, ATM bombings
- Availability of key skills
- Retention of clients
- Improving quality of service
- Expanding market share in the lower income market, with smaller niche banks very active already
- Implementation of aspects of Companies Act
- Cutting costs – may result in reduction of staff complement





## Future trends

17

- Investment in technology to improve efficiency
- Increased focus on mobile banking, and other innovative mechanisms to expand reach
- Expanding access to finance to low income market
- Expansion into Africa for growth
- Potential major investments in SA by foreign banks
- Renewed focus on corporate and investment banking, and trading - potential for growth





## Conclusion

18

- Despite impact of global economic crisis, SA banks well-capitalised and healthy
- Represents over 50 % of financial sector assets
- Basel III will be implemented, but liquidity requirements challenging. Addressing with Government.
- Pressing issues are declining profitability and revenue growth – mainly due to economic conditions and increasing costs
- Growth prospects in Africa
- Financial inclusion





Thank you!

