

STATEMENT BY THE MINISTER OF FINANCE ON THE PLACEMENT OF SAAMBOU BANK LIMITED UNDER CURATORSHIP, IN TERMS OF SECTION 69 OF THE BANKS ACT, TO PARLIAMENT ON THURSDAY 14 FEBRUARY 2002

At close of business on Saturday 09 February I placed the SAAMBOU Bank under curatorship. This was a difficult decision arrived at after considering a range of options.

I start from the premise that managing a bank is more than merely running a business for profit. Banks manage the savings of depositors. They can only perform this function if very high levels of trust exist between the institution and its depositors. For this reason, banks perform a profoundly important social function.

This is the basic premise of the Banks Act. Banks are, therefore licensed to perform this function. The condition of the license is that the holders are fit and proper and understand the social function. The license requires the bank to comply with a set of criteria including maintaining capital adequacy and filing regular returns with the Registrar of Banks.

This entire system is designed to maintain the elements of trust and confidence. When these elements are eroded, options have to be evaluated – this is what happened in respect of SAAMBOU.

It is important to emphasize that South Africa's banking system is essentially sound. We have 41 registered banks and the breach in confidence at SAAMBOU is an exception. The health of our banking system has been confirmed in an independent Financial Sector Assessment undertaken jointly by the IMF and the World Bank which concluded that South Africa has a sound banking and regulatory environment and the South African Reserve Bank's lender of last resort procedures are appropriate and well-designed.

Recently, both Standard & Poors and Moody's reaffirmed the soundness of South Africa's financial system. Of particular importance here, is the fact that all rating agencies have cited South Africa's robust financial system a key credit strength.

The decision to appoint the curator to SAAMBOU Bank on 09 February was taken in the public interest, primarily

?? To stem the abnormal outflow of funds from the bank which created liquidity pressures on the bank, and

?? To stabilize a precarious situation which threatened depositors' funds

Our actions were designed to protect the funds of depositors, in the wake of a marked loss of confidence in the bank and its management.

In examining options, we firmly held the view that to commit Government financial assistance to SAAMBOU Bank would not be prudent as there was no guarantee that those funds would either restore confidence or not be utilised to fund further large net outflows from depositors funds out of the bank.

Government views its responsibility as protecting the interests of depositors – the widows, workers and small businesses and not to bail out shareholders, who in any event assume the risk of their investment.

Curatorship was considered the mechanism which would best provide a certain, cost-effective and immediate solution.

Taking this decision was not without difficulties – the most glaring was the freezing of all accounts to enable the curator to acquaint himself with all of the detail. The appointment of the curator would also facilitate the orderly management of the bank's liquidity situation. I want to apologise to depositors for this inconvenience but say, at the same time, that this action is in their own best interest.

The curator must now facilitate the orderly management of the bank. The appointment of the curator vests the management of SAAMBOU in him, subject to the supervision of the Registrar of Banks.

The curator, Mr. John Louw, is also required to recover and take possession of the assets of SAAMBOU.

This situation is being handled sympathetically. Already the curator, in a statement dated 12 February 2002, stated, and I quote *“With regard to deposits made subsequent to the imposition of curatorship on 09 February 2002, including salaries, the curator is in the process of putting in place procedures to allow depositors full access to all such deposit transactions.”* The same will apply to pensions.

Similarly, too, Mr. Louw is sympathetic to the position of people who live off interest from deposits placed with SAAMBOU.

The Registrar of Banks has advised that his office has no reason to believe that SAAMBOU is insolvent. The public must understand that the placing of SAAMBOU under curatorship does not relieve those persons who have contractual obligation with the bank from punctually meeting with them. Accordingly, people having financial commitments in respect of mortgages, business loans, vehicle finance, micro loans etc. must continue to meet these obligations.

The curator is acting as quickly as possible to address the pressing needs of depositors. Of the 520 000 depositors, 292 000 have accounts of R 4000 or less and are able to withdraw their full amounts if they so wish. Furthermore, the curator is now turning his attention to how to assist hardship circumstances and will make an announcement in this regard as soon as he is able to. He will ensure regular paid announcements through the media to keep depositors informed.

The act of curatorship is the placement of this bank in intensive care: The institution must be nursed back to strong health. I appeal to all to remain calm.