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ADDRESS TO THE NATIONAL ASSEMBLY DURING THE DEBATE ON BUDGET VOTE 7 – NATIONAL TREASURY (INCLUDING SARS) AND BUDGET VOTE 11 – STATISTICS SOUTH AFRICA

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Introduction

Madam Speaker, honourable members, we find ourselves in an economic environment where financial markets in several parts of the world have come under pressure from losses registered in the sub-prime market and from rising energy and food prices. Although the South African financial sector displayed dramatic resilience against the sub-prime crises, it has nonetheless had to endure rising interest rates following an appropriate monetary policy stance that seeks to contain domestic inflationary pressures.

During the past year there have been a number of legislative amendments seeking to further enhance the prudential and administrative regulatory framework for our otherwise strong, sophisticated and sound financial sector.

My input today will cover some initiatives that will make a difference to the lives of our people. These initiatives seek to enhance financial stability, access to finance, the Co-operative Banks Act, the Financial Sector Charter, reform of the retirement fund industry, the Public Investment Corporation and Special Pensions.

Enhancing Financial Stability

On the issue of financial stability, the global financial markets have seen large write downs and credit losses since the beginning of 2007 due to the collapse of the US sub-prime industry. Around US$ 379 billion (an estimated R3 trillion) worth of asset value has been written off by major banks around the world. South African banks (and institutional investors) have fared much better, largely due to existing regulations on foreign exposures and the prudent investment approaches adopted by the South African banks.

Despite South African banks being relatively insulated from the direct exposure of the sub-prime crisis, they could find themselves indirectly affected by the international liquidity crunch. Fortunately for us, this does not seem to be a major risk since our local banks are still significantly funded by local deposits and have sufficient liquidity and adequate capital reserves.

This does not, however, mean that we should be complacent, given that there are some domestic risks which need to be monitored. Rising domestic interest rates have seen a 56% increase in non-performing bank loans from December 2006 to December 2007. What is comforting is that these non-performing loans only made up around 1.4% of total gross loans of the banking industry.

It should be noted that the various stress tests conducted by the authorities also show that South African banks will be able to survive major economic shocks. This is evidenced by the higher capital adequacy ratios enjoyed by our banks, with an average of 12.65% for the second half of 2007, compared to the minimum statutory requirement of 10% for the same period.

The Banks Amendment Act

In protecting our banks, South Africa continues to adopt best international practices in terms of prudential regulation. In 2007, thanks to the hard work by Parliament, the Banks Amendment Bill 2007 was passed and signed into an Act. This paved the way for the adoption of Basel II Capital Accord in South Africa from 1 January 2008. We should be proud that we are currently one of the few countries to have adopted this extensive and enhanced banking regulatory framework. The adoption of the Basel II Capital Accord will go a long way in ensuring that our banks apply advanced risk management tools, which will in turn enable better loss provisioning and capital allocation.

In the 2008 Budget, Government also took a bold step by fully phasing in prudential regulation on institutional investors' foreign exposures, and further refining the macro-prudential foreign exposure allowance on banks. We are on course to finalise the various reporting requirements and foreign exposure allowances by end of this year. These regulatory reforms will enable South African financial institutions to prudently diversify their exposures and risk globally, since these reforms acknowledge both the benefits and risk associated with being part of the global economy.

Honourable Speaker, given the prevailing domestic and international financial market conditions as outlined, the managers of our financial sector companies, including regulatory authorities and policy makers have to exercise due care and vigilance in the management of our financial systems. It is extremely important to create and enhance the necessary competencies to bolster our state of readiness to tackle any domestic or international pressures that could test the strength of our financial system in the future.

The General Financial Services Laws Amendment Bill

In addition, in a few weeks time, the National Assembly will be debating the Financial Services Laws General Amendment Bill which is currently before the Portfolio Committee on Finance. This Bill is an outcome of a collective effort by the National Treasury, the South African Reserve Bank and the Financial Services Board in identifying weaknesses in our financial regulatory system and methods by which to address them.

This Bill proposes to amend, among others, the Pension Funds Act; Financial Services Board Act; Financial Institutions Act;

Financial Advisory and Intermediary Services Act; National Payment Systems Act and the Cooperative Banks Act. Most of the proposed amendments seek to either enhance the enforcement regime for the regulatory authorities in line with international practice or to provide for technical clarity in the meaning of certain provisions. These measures are designed to ensure that the consumers and clients of financial products and services are protected as far as possible.

One of the main policy changes relates to the amendment to the National Payment System Act. Although the national payment system has traditionally been the domain of the commercial banks, recently there has been increased participation of non-banks in the clearing environment. It has, therefore, become necessary to create an enabling, environment that regulates the participation of such entities in the National Payment System. In doing so, it is crucial to keep the stability of the system as the key imperative and to ensure that participants conduct themselves with integrity, given the interlinked nature of the system.

The proposed amendments also seek to provide legal clarity with regard to the South African Reserve Bank's oversight over non-bank involvement. This includes institutions such as the Postbank. The proposed amendments seeks to allow the South African Reserve Bank to designate participants to operate within the clearing environment, provided they meet specific criteria.

This is a major and welcoming policy shift. More participants will allow for more competition, greater efficiency, and an increase in channels of payments that may result in achieving improved economies of scale and a consequent reduction in costs.

Other Insurance issues

With regard to other insurance issues and safeguarding of consumers, the enactment of the Financial Advisory and Intermediary Services Act was welcomed as it has led to an improvement in market conduct and also greater consumer protection. We have also found that much progress has been made with respect to contractual savings in terms of improving value to consumers.

There is, however, a need to look specifically at market practice across the insurance sector by paying particular attention to potential conflicts of interest and poorly aligned incentives between insurers, administrators, intermediaries and other sector participants that result in insurance products that, in addition to being unfriendly, are sold at prices that are too high.

The recent industry-lead investigation that has highlighted abuses taking place in the credit insurance market is just one example of the prevalence of poor market practice. In line with belief that the interests of the people of South Africa must be defended, the National Treasury has therefore flagged this work as priority for the year ahead.

Co-operative Banks Act, 2007

The previous financial year also saw the promulgation of the Co-operative Banks Act which seeks to encourage a development strategy and establish a regulatory framework for deposit-taking financial services co-operatives such as village banks and savings and credit co-operatives.

To assist with the implementation of the legislation, National Treasury, together with the South African Reserve Bank is in the process of finalising the draft regulations which will soon be published for public comment.

The Cooperative Banks Act also establishes the Co-operative Banks Development Agency, whose primary functions include the provision of the support for cooperative banks; the supervision of primary cooperative banks and the implementation and management of the deposit insurance fund for cooperative banks.

This key component of the Act is being given effect by National Treasury through the finalisation of the requisite logistics to establish the Co-operative Banks Development Agency as well as the appointment of Board Members of the Agency.

Financial Sector Charter and other Access Initiatives

While efforts are being made to enhance financial stability in South Africa, great strides have also been made in advancing transformation in the financial sector and promoting access to financial services. Through the Financial Sector Charter over R200 billion has been invested into the South African economy since 2005 in various sectors of our economy.

As at December 2006 the financial sector companies have invested over R45.3 billion in the South African economy through the targeted investments. Investment in transformational infrastructure increased to R9.1 billion while lending for low-income housing increased to R25.7 billion. The reporting institutions further increased their lending to small and medium enterprises to R9.8 billion while R603 million was invested towards emerging agricultural development.

The sector has also invested over R54 billion through the Broad-Based Black Economic Empowerment financing target in other sectors of the economy including vendor-financed ownership deals in the financial sector itself. It is important to stress that these investments have been made in the most prudent manner possible. The underlying principle of the Financial Sector Charter, which prescribes that transactions be carried out on commercial basis and that they also pass the stringent risk-management tests, has proved extremely useful in the context of the prevailing conditions in the global credit market.

As a result, the South African low-income housing finance market has shown tremendous resilience in the context of the global sub-prime crises. Stringent responsible lending rules were applied as contained in the National Credit Act and its regulations. Under the Financial Sector Charter, the credit profile of the target market is not necessarily “below prime”, the criteria is simply that the household has to earn below R9000. In essence, low income households earning between R3 500 to R9000 with an acceptable credit risk profile were the largest beneficiaries of the R25 billion low-income housing financing under the Financial Sector Charter.

It is also worth noting that over 4 million people in the LSMs 1 – 5 who previously did not have access to basic banking services have now been included in the formal banking system through the Mzansi bank account. The Financial Sector Charter Council has recently adopted two further standards for retail products intended for low-income people, namely the Zimele standards for life insurance and the Fundisa fund for collective investment products. These standards will lead to more Mzansi-type products on life insurance and collective investments designed for the low-income earners.

2010 FIFA World Cup Soccer

Chairperson significant progress has been made on the implementation of 2010 FIFA World Cup projects including those projects implemented by our National Government Departments. During 2007 the Ministry of Finance, through my office, regularly convened the 2010 FIFA World Cup Technical Co-ordination Committee. This Committee has functioned successfully and has reported on key 2010 FIFA World Cup delivery issues to the Inter-Ministerial Committee which is co-ordinated in the Presidency. Through these two Committees we are confident that 2010 FIFA World Cup projects are well co-ordinated and completed on time.

In addition, during 2007 the Ministry of Finance through the National Treasury, South African Revenue Services and the South African Reserve Bank designed the necessary work plans to implement the tax and foreign exchange control guarantees signed by the Minister of Finance. This work is proceeding well with the key objective of ensuring that the 2010 FIFA family's tax and foreign exchange control matters are processed timeously.

The resources allocated to 2010 FIFA World Cup projects are significant and escalation of costs is an issue that must be addressed. The 2010 unit within the National Treasury has implemented checks and cost controls to track the escalation of input costs on stadiums and other infrastructure projects.

We are confident that construction of all stadiums will be completed within the specified timelines and facilities will be ready by October 2009 to allow for the identification and allocation of seats and issuing of tickets.

Public Investment Corporation

Madam Speaker, as the Chairperson of the Board of the Public Investment Corporation Limited, I am pleased to note that as at 31 March 2007 the PIC manages assets valued at R719, 8 billion. This makes it one of the largest investment managers on the African continent. Their clients are public sector entities, most of which are pension, provident, social security or guardian funds and the PIC's role is to invest funds on behalf of these clients.

This is based on the investment mandates set by each client and approved by the Financial Services Board. I want to remind the House that the PIC is wholly owned by the South African government and was established as a corporation on 1 April 2005 in accordance with the Public Investment Corporation Act, 2004.

More than a year ago, the Public Investment Corporation’s Corporate Governance Policy was made public. This policy is based on international best practice and was widely discussed with leaders in this field. It spells out what the PIC wants from companies in which they are invested in. The PIC also recently became a signatory to the United Nations Principles of Responsible Investment. These principles are also embraced in the PIC’s Corporate Governance Policy.

From the point of view of Black Economic Empowerment transactions, we recognise that the majority of businesses in South Africa have embraced the transformation agenda that is required to move us away from our beleaguered past. However, transformation is still lagging in the Boardroom and the latter is equally critical to our longer term economic success. This issue has been placed high up on the PIC’s corporate governance agenda to ensure that boardrooms become a true reflection of the demographics of our country.

Since April this year the PIC has started to publish its voting records at annual general meetings and other meetings of companies. The purpose of publishing these records is not to ‘name and shame’ companies, but is intended to get companies and other asset managers to focus more on governance issues. The publishing of these records ushers in a new era of transparency in South Africa and it is hoped that other big asset managers will follow suit.

We are pleased that many companies recognise the importance of good corporate governance principles and practices. We are grateful for their willingness to work together and we acknowledge these efforts. To those companies that are still not adhering to good corporate governance, we will continue to engage with them in an effort to resolve these matters. However, if nothing else works, as the PIC will have to revert to more activist shareholder management.

Special Pensions

Honourable members as you would recall that the Interim Constitution gave effect to the Special Pensions Act No. 69 of 1996 in that it provides for the payment of pensions to persons who made sacrifices or served the public interest in establishing our non-racial democratic constitutional order. These persons as a result of their sacrifices were therefore unable to or prevented from providing for pensions for a significant period. The legislation also makes provision for the payment of a survivor's lump sums to their eligible dependant.

Despite amendments to the Act in 1998, 2003 and 2005 to increase benefits, improve accessibility of benefits and address technical and implementation difficulties, inequities remained a cause for concern in the treatment of survivors and pensioners. Furthermore, there was also the challenge of how to deal effectively with the plight of those individuals who did not qualify in terms of the age criteria, those referred to as the ‘under 35s’.

In April this year, Cabinet approved amendments to the Special Pensions Act, to be tabled in the National Assembly in a few weeks that will alleviate and, where possible, remove these inequities within available resources.

These amendments will extend the right to pension to persons who were 30 on 1 December 1996. It will also extend the right to a spouse’s or orphan’s pension to surviving spouses or orphans of a person whom was 30, on 1 December 1996 and had died prior to the date on which the Amendment Act takes effect In addition, this right of a spouse’s or orphan’s pension will be extended to surviving spouses or orphans who received a survivor’s lump sum benefit only and the right to funeral benefits will be extended to all category of persons referred to.

It is our firm belief that the proposed amendments will go a long way in providing additional financial relief to those who valiantly fought for a non-racial democratic constitutional order and who in some instances paid dearly with their own lives. The contributions made by those falling comrades will never be forgotten.

Conclusion

In conclusion, Honourable Speaker, it is crucial that as policy-makers we continue to provide leadership in incentivising our financial sector to remain at the cutting edge of financial innovation while complying with international standards. Our regulatory authorities have to continually keep pace with private sector innovation and constantly seek to implement measures to close regulatory gaps which will constantly appear for as long as the dynamism and vibrancy that underpins our financial sector remains.

The current wave of the transformation imperative and financial access initiatives within the Financial Sector Charter must be supported and encouraged. Our Financial Sector Charter cannot be said to be fully efficient if a significant number of South Africans is excluded from financial services.

Every effort will be made to ensure the effective and efficient implementation of the Special Pensions Amendment Act; once Parliament has approved it.

The Minister previously alluded to the important work being done by the entities that report to him. In this regard, I would like to express my appreciation for the manner in which the Portfolio Committee of Finance under the guidance of the Honourable Nene interrogated the strategic plans and budgets of the South Africa Revenue Services and Statistics South Africa. I had the honour of leading the delegations that presented their plans to the Portfolio Committee and was pleased to note the vibrancy of our democratic process that we fought so hard for.

Madam Speaker we can’t conclude without reflecting on the recent tragic events and disgraceful actions of some of our citizens. All political parties, all honourable men, women and even children in schools have condemned these cruel and unjustified attacks predominantly on foreigners by these callous criminal mobs. We as South Africans truly believe that South Africa belongs to all who live in it … and that all human beings have equal worth.

This assertion must not be an empty distant cry as author Philip Roth puts it “*of a distant place and time, a spectral residue of those rapturous revolutionary days when everyone craving for change programmatically, naively – madly unforgivable – underestimates how mankind mangles its noblest ideas and turns them into tragic farce. As though human wiliness, weakness, stupidity, and corruption didn’t stand a chance against the collective, against the might of the people pulling together to renew their lives and abolish injustice”.* South Africa belongs to all who lives in it. Human life has equal worth.

Finally, I would like to thank the Minister of Finance, the Commissioner of the South African Revenue Services, the Director-General of the National Treasury and the Statistician General of Statistics South Africa for their continued leadership and guidance in all our initiatives.