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DIRECTOR-GENERAL SPEECH

ASSOCIATION FOR SAVINGS AND INVESTMENT SOUTH AFRICA (ASISA)

CONFERENCE

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SANDTON

Introduction

Ladies and gentlemen, thank you for inviting the National Treasury to address you at this assembly. Let me also take this opportunity to apologise on behalf of the Minister of Finance for not being able to attend.

Today I want to focus on three points in my address; firstly, the role of the financial sector in an economy; secondly, the need for us to continue working together; thirdly, our vision for the financial sector.

1. The role of the financial sector in an economy

Many of us tend to forget the role that the financial sector plays in our daily lives, because we actually take it for granted. It is only when something does not work or goes wrong, that we then realise how valuable the financial sector is to our daily lives. The ability to insure ourselves against death, accidents and damage to property, is arguably one of the great innovations of our time, along with the ability to save for retirement and protect ourselves from old age poverty.

The important role of the financial sector is magnified at a macro level, for example, through the ability to intermediate savings or capital safely and efficiently. Secondly, through the ability to facilitate and finance both local economic activity and international trade. Thirdly, to fund critical infrastructure and sustainable and inclusive economic growth.

However, the above roles make the financial sector very powerful, and unchecked, the financial sector can and has caused the greatest disruptions to economies and social welfare. This was clearly evidenced in the 2008 Global Financial Crisis, where we saw how great the risks from the financial sector can be, even as it provides significant benefits. The key lesson from the 2008 GFC is that the financial sector needs to be highly regulated, with the IMF even calls for intrusive, intensive and effective regulation and supervision of the most risky of activities, for so-called SIFIs or Systemically Important Financial Institutions. Such intensive regulation of the sector is, therefore, of paramount importance to ensure a stable and sustainable financial sector which contributes to inclusive economic growth. Failure to supervise effectively leads to failures that impacts on our people directly – indeed, more than a million people lost their jobs in 2008 in SA, even though the bank failure was about a bank in the USA (Lehman Bank).

2. Government decisions to regulate the financial sector

Government has since the 2008 Global Financial Crisis adopted numerous decisions intended to protect the safety, integrity and inclusiveness of the South African financial system to make it safer and serve customers better and fairer, as outlined in the so-called Red Book released in 2011.

Given the global nature of the financial sector, it follows that the sector is not only regulated domestically, but also by overseas regulators in countries where such financial institutions have a presence or transact with other financial institutions based in that country. For this reason, financial institutions are regulated in terms of tough international standards like Basel III and Financial Action Task Force (FATF) recommendations on anti-money laundering and combating of financing of terrorism (anti-money laundering and counterfinancing terrorism). These standards are endorsed by most countries in our world. Failure to adhere to these standards would lead to our financial institutions being excluded from the global financial and payment system, which in turn will significantly reduce economic growth and result in the loss of many jobs. For this reason, Cabinet noted that it is in South Africa’s best national interests to ensure that the domestic financial sector is regulated according to international standards in order to promote economic growth and reduce the risk to taxpayer funds to contain disastrous outcomes like a SIFI failure.

In addition to prudential standards, financial institutions are expected to comply with anti-money laundering and counter terrorism standards, and failure to comply will lead not only to domestic sanctions, but to sanctions and fines imposed by overseas regulators. In the near future, when we implement the coming Twin Peaks System, financial institutions will also be expected to comply with market conduct standards, including treating customers fairly, and alternative dispute resolution through the Ombuds system. The Financial Sector Regulation Bill is currently before Parliament, and is expected to take effect early next year.

As you are aware, time is not on our side to implement the onerous standards that the financial sector is expected to comply with. In order to see that no country cheats by lowering their standards or not implementing standards fully, countries are peer reviewed by the IMF and FATF to ensure that we comply fully with Basel III, new solvency assessment standards for insurance, and anti-money laundering standards. We were subjected to the 2014 FSAP (Financial Sector Assessment Programme) by the IMF, and mutual evaluation by FATF. After such reviews, we are expected to take steps to show how we are going to respond to the recommendations made in such reviews.

The implications of not complying with international standards and being excluded from global markets would be catastrophic, with long term structural effects on our economy. Such an adverse impact can be seen in countries, such as the Islamic Republic of Iran, which have been at the receiving end of sanctions imposed by jurisdictions like the USA and EU.

The need to work together

My experience tells me that the best way to implement the new standards is to have a general buy-in from everyone, especially those who have to comply with those rules. Of course, the multiplicity of objectives which face the National Treasury also mean that we have a complex challenge of having to continuously balance such objectives and ensuring that there are no obvious unintended consequences. This is always difficult, as no organisation, no person, no model, can predict the future with certainty.

So it means we must all be willing to learn and listen to each other as Government and industry. And where we differ, to do so with respect, and to communicate clearly why we differ. And for us to always strive for compromise where appropriate.

In this regard, the department is committed to work closely with the industry, trade unions and other stakeholders on the coming legislative reforms in the financial sector. Such consultations have taken place in the coming Twin-Peaks system, for the insurance Solvency Assessment and Management (SAM) measures, and for Basel III. The industry has also commented extensively on the Financial Intelligence Centre Amendment Bill, which was recently adopted by both Houses of Parliament, and now awaits the signature of the President.

Earlier in the year we had to process urgent amendments to the Taxation Laws Amendment Act to provide for a postponement of the requirement to annuitise a portion of provident funds at retirement. This process caused a lot of pain for everyone, and illustrates the complex challenge facing Government in terms of managing various stakeholders in society, with different interests. The process caused uncertainty for the industry, and I want to assure the industry that the postponement of annuitisation, although not ideal, was arguably the best outcome under the most demanding circumstances, as we clearly needed more time to get more agreement with all key stakeholders. The trade unions are clearly a critical stakeholder who we do need to reach agreement with, if we are to successfully implement retirement reforms.

Despite the glitches, Treasury remains committed to retirement reforms, and both these reforms and social security remain on our agenda for this year. The path to get greater consensus will be difficult, but are necessary to have, in order to benefit our people. Indeed, it is better to have repeated hard discussions than not talk at all. And to agree to disagree where compromises cannot be found.

3. What is our vision for the financial sector?

As noted above, our vision for the financial sector is contained in the policy paper we released in 2011, titled “A safer financial sector to serve South Africa better”. We have amplified this policy paper by issuing subsequent various papers for public comment. For example, papers were released on a market conduct and resolution framework, and retirement forms. And we greatly value the feedback from industry and other players.

We remain committed to seeing a financial sector, which is transformed and supports financial inclusion. We would like to see a financial sector, which continues to innovate, but also treats customers fairly and properly through offering them the right products and services. We would like to see a financial sector, which continues to be well regulated and therefore embraces the good intentions behind the Twin Peaks model of supervision. We are keen on a sector which continues to support key Government initiatives on infrastructure without compromising hard earned investor or client’s savings.

We would like to see a sector which upholds the integrity of the financial system by ensuring that it is not being abused and misused by criminals to launder money. We are keen on seeing an industry which continues to reduce costs to ensure that customers get good value for their savings. Lastly, we are looking forward for an industry which manages carefully conflicts of interest in certain instances, to ensure that the customer and company interests are aligned.

To conclude, let me thank you for the support you have thrown behind the Tax-Free Savings Accounts. This is another example of what we can achieve if we continue to engage and work together.

Thank you

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