Financial Sector Regulation Bill [B-34B-2015]

Speech

Deputy Minister of Finance

06 December 2016

Introductory remarks

First, I would like to thank the Standing Committee on Finance for an extraordinary effort in processing the Bill. The Committee sat for many hours, convened subcommittee hearings, examined international best practice, and rigorously debated all aspects of the reform. In particular the Committee Chair, Yunus Carrim, should be praised for his detailed and close attention to all aspects of the Bill, his strong work ethic, and his sense of humour throughout the process. All members of the committee made a substantial contribution, as is shown by the Committee report.

The financial services sector touches the life of each and every South African. It enables economic growth, job creation, the building of vital infrastructure and sustainable development for South Africa and her people. It is, therefore, crucial that the sector is well-regulated and stable.

A strong financial sector ensures resilience during periods of market volatility. In its statement on our ratings last week, Standard and Poor's noted in particular the strength of the banking system, highlighting that the sector is strong and resilient.

The financial sector is also crucial for a country with a low savings rate like South Africa. Our current account deficit means we must access foreign savings to finance investment. On an annual basis we need to borrow around R150 billion to meet the fiscal deficit. This money is borrowed largely from the domestic financial services sector. Reducing the fiscal deficit will allow us to reduce our reliance on borrowing.

In 2011, Government announced an overhaul of the financial regulatory system. This vision was set out in *A safer financial sector to serve South Africa better*, which has become known as the "Red Book". The intention was to bring to the fore the goals of market conduct, financial inclusion and combatting of financial crime.

This Bill implements the Twin Peaks system. It will greatly strengthen the approach for market conduct; make it easier to understand financial products; allow us to take decisive action to protect consumers; streamline the ombudsman system to make it easier for ordinary South Africans to take their financial services providers to task and to ensure that they get the best value for money. Importantly it will also improve co-ordination between our various regulators. It will help them work together better.

Stability is not the only policy objective for the financial sector. We should not strive for the stability of the graveyard. We need a financial services sector that is growth-oriented, innovative, dynamic, and serves the needs of South Africa.

The sector should be the servant of the real economy; it should facilitate economic growth, it should help job creation and it should contribute to a better life for all.

The sector has grown by 4 per cent on average over the past decade, and added more than 500 000 jobs. Financial sector assets are more than 3 times the size of GDP. The broader sector (including insurance and real estate) contributes 33 per cent to total companies' tax revenue.

That said, the sector can be doing more. It is characterised by high and opaque fees, and needs to be more transparent, competitive and cost effective. Too many South Africans fall prey to unscrupulous financial services firms. Moreover, many South Africans do not have appropriate access to banking, insurance and savings products. This inhibits economic growth, and keeps our people trapped in poverty.

The sector needs to do more on the **transformation** front. A sector that reflects the modern South Africa is critical to support our vision of an inclusive society. Transformation is not just about ownership, but also about lending – who do banks lend to? Do they overcharge? Do they have appropriate cheap products for ordinary South Africans? This Bill will certainly help achieve these objectives.

Those that argue that the Bill will substantially increase **regulatory costs** do not recognize that the costs of a financial failure can be enormous. Also, the costs to consumers of bad products are substantial. For example, throughout their lives, ordinary workers contribute to their pensions. What happens if they retire and discover that the money is missing? Our regulators need to be appropriately resourced to ensure that does not happen. A Money Bill will be formally introduced next year that will set out the costs in detail. That Bill ensures that the **operational independence** of our regulators is protected, by providing them with some flexibility. However, spending of taxpayer's money should always be subject to some Parliamentary oversight.

This Bill carefully balances operational independence with the **role of Parliament** in our regulatory system. Parliament has a critical role in providing oversight. But Parliament should not necessarily get involved in detailed decisions, and the Committee has thought carefully about this issue. In addition, the Bill ensures proper **accountability for directors**. The wording clause strikes the right balance between accountability and the need to find the right people to run financial institutions.

Twin Peaks is a major reform. The Bill substantially improves the coordination between regulators, particularly between the **National Credit Regulator** and the new Financial Sector Conduct Authority. Integrating the National Credit Regulator into the new conduct authority will prove too complex at this point, and improving coordination is a better way forward.

It is critical that we remain on track to implement international best practice in financial regulation. If we do not, then our banks will face sanctions, South Africa will lose business, and the consequences will be severe. Our banking system is a strength that we should be proud of.

Detailed plans have been drawn up to ensure an effective and smooth transition. Shadow entities have already been set up, and all is on track for moving across resources between the existing institutions. The Bill provides for substantial flexibility in designing a transition plan.

This Bill is only one Bill in a series of Bills to strengthen the system. Our regulatory system is the envy of the world, and a key strength. We remain committed to steps to enhance growth and development, and as part of that, to ensuring that we build a safe financial sector that serves South Africa better.

Thank you