Strengthening the Financial Sector to Better Serve South Africa

National Treasury will release a comprehensive discussion document in early November putting forward a range of proposals to strengthen financial regulatory system in South Africa. To further strengthen the SA financial regulatory system, the Minister of Finance requested a review of any gaps or weaknesses in the current system, as well as recommendations from a recent assessment conducted by the IMF. Lessons from the global financial crisis were also taken into account. The following proposals will be presented in the discussion document for public comment:

- **Macroprudential prudential approach to supervision**. The crisis demonstrated the need to develop a macroprudential approach to financial sector regulation, i.e. an approach that focuses on the risks to the entire system, rather than only the risks of individual institutions. The Reserve Bank is the lead institution in this regard and will be taking appropriate steps to strengthen financial stability in line with the letter of 16 Feb 2010 from the Minister to the Governor. The SARB has established a committee to promote financial stability.
- **Establishing a Council of Financial Regulators**. One of the key proposals to strengthen the financial regulatory system is to create a Council of Financial Regulators, jointly chaired by the Minister of Finance and the Governor. All regulatory agencies in the financial sector will form part of the Council. It will promote co-ordination and information sharing between regulators, particularly in the case of diversified financial services conglomerates.
- **Prudential regulation of banking and insurance**. Basel III will tighten the prudential supervision of banks by imposing stricter capital requirements and introducing liquidity and leverage ratios. Similar strengthened requirements will also pertain to insurance – the Financial Services Board will shortly be releasing a paper on the introduction of a revised prudential regime for insurers, based on Solvency II, to ensure that regulation of the South African insurance sector remains in line with international best practice.
- **Improving the domestic regulatory system and entrenching operational independence**. Appropriate rules require effective supervision. Regulators should be operationally independent when licensing and supervising the financial sector. A number of initiatives are planned to improve the accountability and governance of domestic financial regulators. Policy will still be the responsibility of Government, which will determine the framework within which domestic regulators will operate independently without fear, favour or prejudice.
- **Market conduct.** Government will strengthen market conduct regulation, particularly in retail banking and insurance. The 2008 report of the Banking Enquiry Panel set up by the Competition Commission set out a number of recommendations to lower banking charges and greater transparency in pricing, which the National Treasury and the Reserve Bank are currently facilitating. Problems of high costs also plague the retirement industry. The Treating Customers Fairly initiative from the Financial Services Board is an important step in strengthening market conduct objectives in the financial sector. .
- **Expanding the scope of regulation**. Many activities, such as over-the-counter derivate trading, hedge funds and credit rating agencies fall outside the current regulatory framework. In line with our international commitments, new legislation will be released to regulate these activities in a way that strengthens the financial system. This includes replacing the Security Services Act with a Financial Markets Bill and releasing a Credit Rating Services Bill. Improvements in governance in other sectors posing systemic risks like the payment system will also be considered.
- **Broadening access to financial services for all**. Inclusive economic development requires access to financial services for all. National Treasury plans a number of new interventions to ensure financial services reach more people. This includes steps to convert the Financial Sector Charter into a code, supporting the development of Co-operative Banks and providing mechanisms for increased competition in the formal banking arena through dedicated banks and the introduction of deposit insurance.