



MINISTRY: FINANCE
REPUBLIC OF SOUTH AFRICA

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FINANCE MINISTER'S MEETING WITH THE BANKING INDUSTRY

Finance Minister Pravin Gordhan held a very constructive meeting with the chief executives and chairmen of the major banks on Monday, 31 May 2010. Banks present were ABSA, Standard Bank, First National Bank, Nedbank, Investec, African Bank and Capitec. Also present was the managing director of the Banking Association of South Africa. The Deputy Minister of Finance, Nhlanhla Nene, and Director General of the National Treasury, Lesetja Kganyago, also attended the meeting (see attached note on those present).

In addition to the Banking Enquiry report, the meeting discussed the impact of the global financial crisis on the South African economy and banking sector, including the decline in credit extension, the implications of the work in the G-20 for South Africa and the transformation and access agenda for the banking sector.

Global Financial Crisis

It was noted that South African banks weathered the global financial crisis well, due to a strong regulatory environment and sound risk management practices. South Africa has a regulatory system that competes with the best in the world, and will continue to strive to stay at the forefront of international regulatory developments. The key conclusion emanating from the meeting was to continue to focus on preserving systemic stability within the banking sector, drawing from the lessons of the global financial crisis. There have been a number of initiatives from the G-20 and Financial Stability Board for a co-ordinated international response, which will have implications for the regulation of the South African banking sector.

While South Africa is keen and willing to implement the measures agreed to internationally, the meeting noted some concerns from a developing country perspective regarding higher liquidity standards. If implemented in the current proposed form, the liquidity proposals may require banks to hold additional reserves which could impact on credit extension. The Minister and CEOs agreed to form a task team between the banks, National Treasury and the Reserve Bank to explore this issue further. This will also be addressed in international forums like the Basel Committee on Banking Supervision, Financial Stability Board and G20.

The meeting considered the global and domestic economic environment. South Africa's economic recovery remains on track, but developments in Europe are a concern. Credit extension to households has recovered, but lending to firms continues to be weak. This is a cyclical phenomenon, and lending should recover as the economic upswing continues. Banks noted the strong fiscal position and the support infrastructure spending has provided to the economy and gave further consideration to the contextual issues raised at the meeting.

The meeting also noted that banks were in a position to comply with the coming global standards on remuneration and incentives. While it was noted that South African banking remuneration was lower than that of international banks in advanced countries and many non-banking companies listed on the JSE, it was acknowledged that all companies needed to take note of domestic social conditions, the inequality of income and the shortage of skills, when determining their remuneration structure. Banks agreed to comply with the Financial Stability Board principles for sound compensation.

The current status of the Financial Sector Charter (FSC) was also discussed. Banks remain committed to preserving and improving the broad-based financial access targets in the FSC. Further consultations will take place shortly to expedite a constructive outcome.

Improving competition in the retail banking sector

There is agreement on the need to work together to see a renewed focus on fostering greater competition and developing a regulatory framework that is conducive to increased access to banking services for the poor. The industry will work together with all affected stakeholders on ways to deliver tangible benefits to the customer and enhance consumer protection in the retail banking environment.

Importantly, banks agreed to implement 19 of the 28 recommendations made by the Banking Enquiry Panel of the Competition Commission. We commend the Commission, SARB, BASA and industry for the excellent work that served as a basis for the agreements below. These include:

- The lowering of penalty fees on dishonoured debit orders,
- Improving the management of the current debit order system, greater transparency of ATM fees and charges,
- The implementation of a standardised switching code to promote ease of switching bank accounts between banks, and
- Improving customer education.

Banks also agreed on measures to ensure that all role-players in the debit order and payment system do not abuse the system.

The above-mentioned actions are aimed at improving the quality of banking services to customers, and are a first step to improving the retail banking environment. National Treasury is committed to working with the industry on further steps to improve competition in banking, including through steps to develop dedicated banks and second-tier banks in South Africa.

Each bank will publish its own statement on what they will do to implement the above objectives and respond to the findings of the Panel.

The meeting noted that the remaining nine recommendations on interchange and entry into the payment systems required policy guidance from the South African Reserve Bank (SARB) and National Treasury, and could not be implemented by the banks unilaterally. However, the SARB and National Treasury have agreed that non-banks should not be allowed into the settlement space given the inherent systemic risks, and will explore avenues such as the dedicated banks in this regard. The SARB and National Treasury will provide further guidance on these proposals by end 2010. A detailed annexure on the response of the banking sector and National Treasury to the Banking Enquiry and proposed actions is attached.

For more information please contact Lindani Mbunyuza at 083 327 9987 or 012 315 5645.

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LIST OF ATTENDEES

Ministry of Finance/National Treasury

1. Pravin Gordhan, Minister of Finance
2. Nhlanhla Nene, Deputy Minister of Finance
3. Lesetja Kganyago, Director-General: National Treasury
4. Ismail Momoniat, Deputy Director-General: Tax and Financial Sector Policy

Bank: Chairpersons

5. Fred Phaswana: Standard Bank
6. Fani Titi : Investec
7. Reuel Khoza : Nedbank
8. Michiel le Roux : Capitec

Bank: CEOs

9. Sizwe Nxasana: FirstRand
10. Jacko Maree: Standard Bank
11. Stephen Koseff: Investec
12. Maria Ramos: ABSA
13. Michael Brown: Nedbank
14. Leon Kirkinis: African Bank
15. Riaan Stassen: Capitec Bank

Banking Association of South Africa

16. Cas Coovadia : Managing Director