

**NATIONAL COUNCIL OF PROVINCES**

**QUESTION FOR WRITTEN REPLY**

**QUESTION NUMBER: 263 [CW361E]**

**DATE OF PUBLICATION: 1 June 2012**

**Mr K A Sinclair (COPE-NC) to ask the Minister of Finance:**

Whether the growth in the unsecured lending of credit cards and personal loans posed any risk to the banking system despite the larger commercial banks having good capital adequacy ratios; if not, what is the position in this regard; if so, what are the relevant details?

CW361E

**REPLY:**

The Registrar of Banks, as the prudential regulator, heads the Banking Supervision Department (BSD) of the South African Reserve Bank (SARB) and oversees the supervision of the banking sector in South Africa, focusing on whether banks are minimising their risks and ensuring that they are financially sound. The BSD therefore monitors the impact of unsecured lending by the banking sector, and issues public statistics on a monthly basis, as well as a more comprehensive annual report.

Statistics from the BSD of the SARB show that while these categories of credit have been growing rapidly (8.3% y-o-y for credit cards to January 2012, and 33.6% for personal loans)<sup>1</sup>, this growth has been off a low base and these categories still only constitute a small share of banks' overall credit book, at a combined 7.3%. The Annual Report of the BSD released on 4 June 2012 supports this view. Both the Governor and I are satisfied with the assessment of the BSD that there is very low risk to the banking sector from recent growth in unsecured lending by banks.

---

<sup>1</sup> As the question relates to risk to the banking sector, these figures reflect growth in credit cards and personal loans by banks, and not by other financial institutions.

Moreover, unsecured lending is discouraged by the Basel capital framework. This is because unsecured lending requires banks to hold additional capital. As noted in the question, the South African banking sector currently exceeds the minimum capital adequacy ratios, indicating that they are sufficiently capitalised even taking into account the risk profile of their asset base. Furthermore, should it prove necessary, the Registrar of Banks has the authority to require banks with significant unsecured lending portfolios to adhere to higher minimum Capital Adequacy Ratios (CARs).

I would also like to point out that aside from the prudential regulator, there is also a market conduct regulator in the form of the National Credit Regulator (NCR) who monitors the market conduct practices of all providers of credit and reports to the Minister of Trade and Industry.

Although the risks to the banking system are small, we should bear in mind the risks to ordinary South Africans. Predatory lending creates overly indebted consumers, threatens livelihoods, and can trap people in a cycle of poverty. In this regard, the Minister of Finance and the National Treasury support the excellent work done by the NCR under the National Credit Act to ensure responsible lending. We will continue to be vigilant to ensure that lending remains responsible and appropriate and does not harm the livelihood of ordinary South Africans.