

NATIONAL ASSEMBLY
QUESTION FOR WRITTEN REPLY
QUESTION NUMBER: 2478 [NW2735E]
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2478. Mr N F Shivambu (EFF) to ask the Minister of Finance:

- (1) What process did the SA Reserve Bank follow in order to move clients from VBS Mutual Bank to Nedbank;
- (2) was a tender to move the clients advertised; if not, what factors were considered for the selection of Nedbank; if so, what are the relevant details;
- (3) whether the SA Reserve Bank or the curator negotiated any discounts for withdrawal charges; if not, what are the clients currently paying for withdrawal charges compared to what they were paying at the VBS Mutual Bank?

NW2735E

REPLY:

No powers vest in the Minister of Finance in relation to operational elements of curatorship, including the movement assets and liabilities of VBS. These powers are conferred onto the curator in terms of section 54 of the Banks Act (1990).

- (1) On the 21 August 30, 2018 the South African Reserve Bank (SARB) wrote to the Chair of the Standing Committee on Finance (SCOF) advising him of the manner, basis and modalities of the transfer of depositors from the now defunct VBS to a facilitator bank (Nedbank) to allow for the access of retail deposits.

The purpose of this response is to provide the SCOF with more granular detail pertaining to the criteria applied in the selection process as well as relevant extracts from the curator's report titled 'Resolution Plan: Liquidity for Retail Depositors' dated 31 May 2018.

Following the recommendation of the Registrar of Banks', the Minister of Finance placed VBS under curatorship, in terms of section 69 of the Banks Act 94 of 1990 read with section 81 of the Mutual Banks Act 124 of 1993, on 11 March 2018. The curator's subsequent assessment of VBS's financial position revealed that the bank is not in a position to fully repay its depositors.

The SARB agreed, after consultation with the Minister of Finance, to fund the repayment of certain deposits due by VBS, namely those of its retail depositors up to R100 000 per retail depositor. This amount is in line with the amount that will be covered under the envisaged explicit deposit insurance scheme which National Treasury intends to introduce into the legislative process.

In agreeing to fund the repayment of these retail depositors, the purpose of the SARB and National Treasury was to alleviate hardship and prevent losses to the most vulnerable of VBS's depositors, being the ordinary retail depositors. These depositors, in the main, comprise of individuals, stokvels and burial societies.

The above-mentioned repayment scheme that the SARB has embarked on in no manner affects the legal dispensation pertaining to the assets and liabilities of VBS; these remain materially unchanged and part of VBS. The SARB paid the amounts owing to the retail depositors on a purely ex gratia basis.

As the agreed arrangement was designed to assist only the retail depositors (up to the agreed level), it was critical that this process was done in such a way that neither VBS nor any of its creditors and / or shareholders acquired any legal right or claim to the amount made available – otherwise the other creditors and / or shareholders would have been entitled to share proportionately in the amount made available. That would have defeated the objective of protecting the most vulnerable customers of the bank.

It was for this reason that the SARB utilised the services of another bank, being Nedbank, to effect payment of the amounts due to the VBS retail depositors covered by the guarantee issued by government. This was achieved by the SARB depositing R257 million with Nedbank for the purpose of effecting payments to 17 380 retail depositors of VBS. In return, these retail depositors agreed to cede to the SARB all their rights and title to their claims against VBS, up to the amount they had received from Nedbank acting on behalf of the SARB.

The VBS retail depositors have one of the following options; the choice is completely at the discretion of each depositor:

- Withdraw all the funds at any ATM or Nedbank branch.
 - Transfer all the funds to another bank account with any bank in the Republic of South Africa.
 - Retain the funds in the Nedbank accounts and use the associated debit card to make payments as and when necessary.
- (2) (3) As mentioned at the SCOF meeting on 15 August 2018, at a high level, two major factors were considered when making the decision to use Nedbank to facilitate the repayment of VBS's guaranteed retail depositors, namely:
- the location of the branches of the institutions which were being considered; and
 - the costs, specifically the bank fees, which the VBS retail depositors would incur.

The curator recommended to the SARB that the guaranteed depositor funds be urgently made available to the depositors. Given the legal implications associated with VBS, it was not possible to allocate the guaranteed funds to any of the VBS branches. The curator therefore undertook an exercise to consider other institutions which could be utilised for the purpose of facilitating the payment of the guaranteed retail deposits.

Various objective factors were considered in the decision-making process. These included the following:

- proximity of the institution's branches to VBS branches;
- the lowest service fees on recommended products;
- similar product offerings to the customers;
- whether the selected financial institution was a registered bank; and
- speed of execution.

The information considered when deciding on the bank that would be used to facilitate payment to the retail depositors has been extracted from the aforementioned curator's report, and has been enclosed hereto as Annexure A.

It is also important to note that the VBS retail depositors covered under the guarantee issued by government are not, in any way, compelled to retain the Nedbank accounts which were used to facilitate the repayment of the guaranteed retail deposits. Nedbank is essentially only a medium through which VBS customers can access their monies with minimum disruption.

Careful consideration was also given to depositor behaviour, costs to the depositors, and the looming crisis of depositors sleeping outside VBS branches.

The decision to use Nedbank was not in any way contrary to any SARB policies for the procurement of services.