



MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

LAUNCH OF THE PRUDENTIAL AUTHORITY

Nhlanhla Nene
Minister of Finance

South African Reserve Bank Conference Centre
Tuesday 3 April 2018
15.00

Governor, Deputy Governors, ladies and gentlemen

Finally, the Twin Peaks system has arrived! Congratulations to all of you on this momentous day. My particular congratulations to Mr Kuben Naidoo, who assumes the important job of Chief Executive Officer of the Prudential Authority. I would like to thank you for accepting the role, and look forward to working with you. To the new staff of this new Authority, I wish you the very best.

As the then Minister of Finance, I tabled the Financial Sector Regulation Bill in October 2015. In the two-and-a-half years since I tabled the Bill, a lot has happened. Indeed, only two months later, in December of that same year, the South African financial system was subjected to a real-life stress test. The rand dropped as much by 5.4 percent against the dollar,

touching a low of R15.39. The yield on the benchmark government bond rose by nearly 200 bps, to almost 10.5 per cent. The Johannesburg Stock Exchange index fell, reducing the wealth of millions of pensioners. Things stabilised, but in the next years two ratings agencies moved South Africa to a sub-investment grade rating.

The system was deeply shaken, but resilient. Banks did not fail. Inflation rose, but did not sky rocket. The economy faltered, but did not plunge into a protracted recession. Despite the stormy seas of 2016 and 2017, the ship stayed upright.

This, I believe, underscores the deep institutional strength of our system. It reinforces the need for a strong and robust system of financial regulation. A system that can survive all stress tests. It reminds us of the value of a Constitutional regime of checks and balances; clear mandates; and independent institutions. It highlights the critical role that the inflation target plays as a nominal anchor.

The Reserve Bank, under the capable and experienced leadership of the Governor and Deputy Governors, piloted a course through the storm. The recent inflation figures speak for themselves. The Bank has, under difficult circumstances, executed its Constitutional mandate diligently, and without fear or favour. For that the nation is grateful. The Bank has been a rock in the storm. I am not surprised at all that Governor Kganyago was named the Central Banker of the Year. It is well deserved.

However, we must not rest on our past victories. We need to look ahead to new challenges.

The first challenge is my challenge. It is the need to restore fiscal credibility. A strong and stable sovereign is the rock on which a strong and stable financial system is built. The history of emerging markets is littered with examples of fiscal profligacy followed by financial system collapse. This is will not be our future. The 2018 Budget took decisive steps to turn around the fiscal position. Let me just say that April the first will not only remembered for the start of Twin Peaks. It will also be remembered for the day that we took tough, brave and difficult decisions to restore fiscal sustainability. Already, bond yields have subsided back to levels last seen during my first term as Finance Minister. The rand has strengthened, inflation has fallen, and the ratings agencies are more positive. Economic growth is looking up. The sovereign balance sheet will soon be strong again. Our best days are ahead of us.

The second challenge is your challenge. The financial system moves at the speed of light. It is dynamic, complex, and interconnected. Every day, we see the rise of financial conglomerates, new types of financial intermediation, and new ways to do business. You can buy something called bitcoin on something called a smartphone. A few short years ago, neither of those things existed.

What other things might explode in the new few years? Already we have “shadow banks”, “macroprudential tools”, “banana-based cryptocurrencies”, “distributed ledger technology”, “robo-advisors”. The innovations are endless.

What other marvels or horrors will the future bring? What new jargon will I have to learn?

This constant innovation reinforces the need for our regulatory system, our regulators and most importantly you, the people that work at the regulator, to be dynamic, innovative, forward-looking and smart.

Twin Peaks is that dynamic, innovative and smart system. It aims to streamline our approach to financial regulation, to clearly define roles and responsibilities, and to create flexibility. It creates a dedicated Prudential Authority to look after safety and soundness, and a dedicated conduct authority to look after the way financial institutions treat their customers. The Prudential Authority's work is inextricably linked with that of the central bank, and so it is located here, in the central bank.

The system is not without its flaws. No system is perfect. But I have no doubt that the experienced leaders here will take the Twin Peaks system forward to a great future. Indeed, today we add to new institutions to our nation. I hope that these two twins will take their place among the other great institutions.

Deputy Governor Naidoo and team, I wish you all the best in your exciting future.

Welcome to Twin Peaks.

Thank you.