



# Bank Supervision Department Annual Report 2017

**Press Conference  
Tuesday, 29 May 2018**





One of the strategic focus areas of the South African Reserve Bank is to

**Promote and enhance the safety, soundness and integrity** of regulated financial institutions thereby contributing to **financial stability**



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Ensure the safety and soundness of banks

Implementation of Prudential Authority under the Twin Peaks framework

4 Key focus areas

Ensure appropriate entry/exit from the banking system

Influence international frameworks



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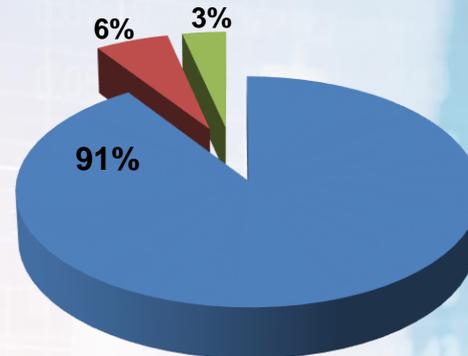


## Banking entities registered in South Africa

Registered banks and local branches	2016	2017
Banks	17	19
Local branches of foreign banks	15	15
<b>Total banking sector data</b>	<b>32</b>	<b>34</b>
<b>Other</b>		
Mutual banks	3	3
Cooperative banks	2	3
Representative offices	36	31



## Total asset structure of the SA banking sector (December 2017: R5,157bn)



- Five largest banks
- Local branches of foreign banks
- Other



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## Banks:

After previously receiving authorisation in terms of section 13 and 16 - the following banks were **registered** in terms of section 17 of the Banks Act

1. TymeDigital by CommonwealthBank SA

2. Discovery Bank Limited

Postbank's application in terms of section 16 of the Banks Act is under consideration



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## Mutual Banks:

**Authorisation** granted in terms of section 11 of the Mutual Banks Act

Neo Labs (Pty) Limited in respect of  
Bank Zero Mutual Bank

## Cooperative Banks:

**Registered** in terms of section 8 of the Cooperative Banks Act

Ziphakamise Savings and Credit  
Cooperative Bank

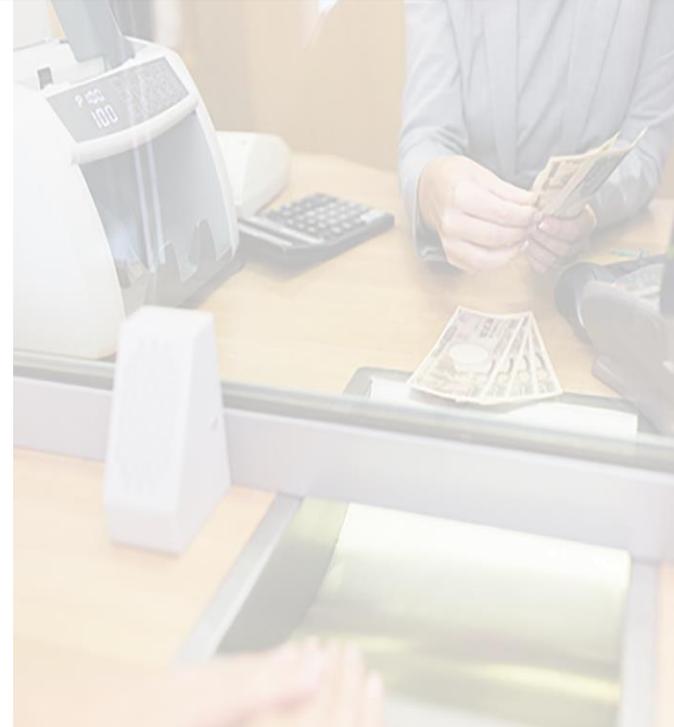




## The 'new' African Bank

Progress made with the execution and delivery of its strategy which includes:

- Diversification of product offering
- Widening of customer base
- Broadening distribution channels



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## High-level overview of key banking sector trends

- The South African banking system is sound and stable.
- Renewed growth in banking sector assets largely underpinned by an increase in loans and advances, investment and trading securities, short-term negotiable securities and derivatives.
- Although impaired advances increased, ratios in respect of impaired advances remained stable throughout 2017.

Balance sheet	Dec 2016 R billions	Dec 2017 R billions	Year-on-year % growth
Total assets	4 877	5 157	<b>5.75%</b>
Gross loans and advances	3 708	3 802	<b>2.54%</b>
Total equity	401	455	<b>13.46%</b>
Impaired advances	106	108	<b>1.89%</b>



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Key ratios	Dec 2016	Dec 2017
<b>Profitability</b>		
Cost to income (smoothed) (%)	55.1	56.7
Return on equity (smoothed) (%)	17.7	15.9
Return on assets (smoothed) (%)	1.3	1.3
<b>Capital adequacy</b>		
Common equity tier 1 capital adequacy ratio (%)	12.4	12.9
Tier 1 capital adequacy ratio (%)	12.9	13.4
Total capital adequacy ratio (%)	15.9	16.2
<b>Liquidity</b>		
Liquidity coverage ratio (%)	107.8	119.0
<b>Credit risk</b>		
Impaired advances: total advances (%)	2.9	2.8
Specific credit impairments: impaired advances (%)	43.9	42.6
Specific credit impairments: gross loans and advances (%)	1.3	1.3

The South African banking sector:

- Is efficient and profitable - banks continue to post healthy profitability ratios.
- Remained adequately capitalised - with capital adequacy ratios well above the minimum statutory requirements.
- Remained liquid with an overall liquidity coverage ratio of 119% - well above the Basel III minimum requirement of 80% in 2017.
  - Liquidity vs solvency
- The ratio of impaired advances to gross loans and advances decreased slightly during 2017.





## Enforcement

### AML/CFT

- Designated supervisory body responsible for supervising and enforcing compliance with the FIC Act
- FIC Amendment Act promulgated and implemented
  - Risk-based rather than prescriptive rules-based approach
- Administrative sanctions for non-compliance
  - Directives to take remedial action
  - R77.5 million in fines (combined value)





## Illegal deposit-taking

The 'business of a bank' is **comprehensively defined** in the Banks Act, summarised as the acceptance of, soliciting of, or advertising for, **deposits from the general public** as a regular feature of the business

➤ **Unregistered persons are prohibited from deposit-taking activities**

■ **Concern remained**  
about the prevalence of illegal  
deposit-taking schemes

■ During 2017,  
**7 new schemes**  
were being reviewed and  
**9 scheme inspections**  
were finalised





## Regulatory developments

### - affecting the domestic banking sector

- Implementation of a **Twin Peaks** model of financial regulation
- **Mandatory audit firm rotation** rule issued by IRBA
- Implementation of **IFRS 9**

*New regulatory developments*





## Implementation of a Twin Peaks model of financial regulation

- On 21 August 2017 the FSR Act was signed into law
  - Gives effect to three important changes to the regulation of our financial sector

■ Gives the **SARB** an **explicit mandate** to maintain and enhance financial stability

■ Creates a **prudential regulator**, the **PA** which will be responsible for regulating banks, insurers, cooperative financial institutions, financial conglomerates and certain market infrastructures.

■ **Market conduct regulator**, which will be located outside of the SARB, i.e. FSCA

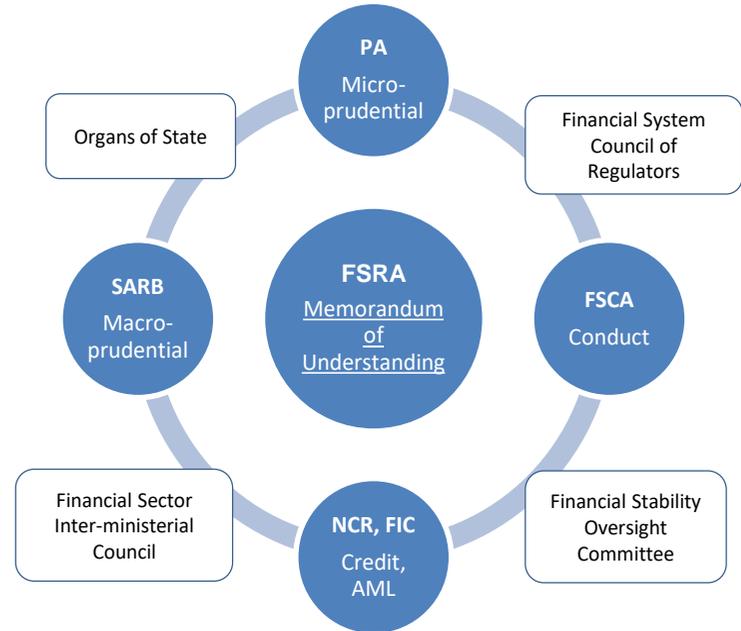


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## Working with other regulators and the SARB

- Co-ordinate actions including regulatory instruments, licensing, supervisory onsite inspections and investigations, enforcement action, information sharing, recovery and resolution, reporting by financial institutions
- Develop to the extent appropriate consistent policy positions including for presentation and negotiation at South African and international forums
- Minimise the duplication of effort and expense e.g. common/shared databases
- Inform each other and share information on matters of common interest
- Adopt consistent regulatory strategies
- Agree on attendance at international forums
- Generally assist and support each other in pursuit of their objectives





## The Financial Sector Regulation Act 9 of 2017 establishes the Prudential Authority

### Prudential Authority

#### Objective

- Promote and enhance safety and soundness of financial institutions that provide financial products and securities services; market infrastructures
- Protect customers against risk should financial institutions fail to meet their obligations

#### Functions

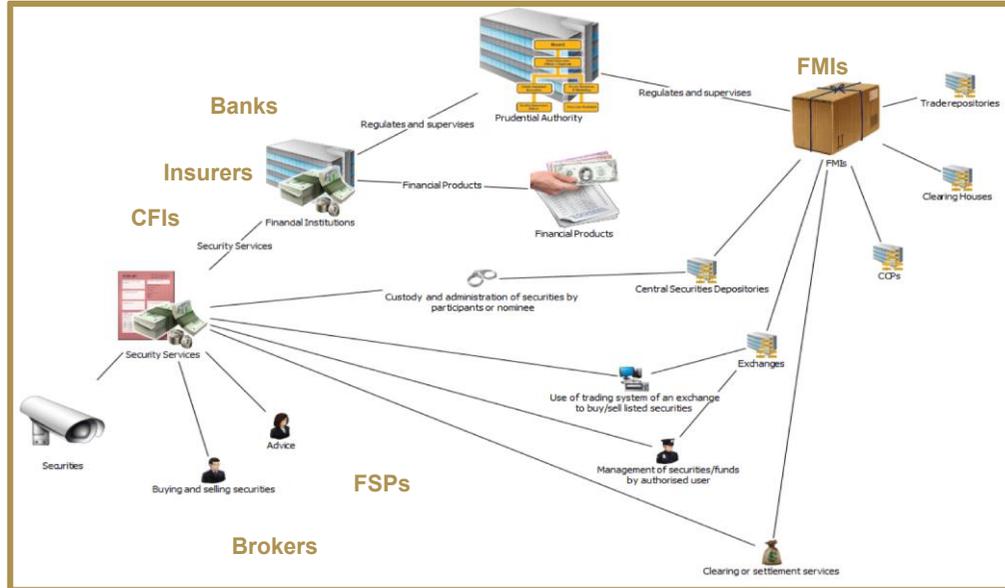
- Regulate and supervise in terms of sector laws
- Co-operate with SARB, FSOC, FSCA, NCR, FIC, CMS
- Support sustainable competition
- Support financial inclusion
- Review perimeter and scope of regulation



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## Scope of the Prudential Authority





## 'Old' versus 'future' approach

Old supervisory approach	New supervisory approach
<ul style="list-style-type: none"><li>• Industry-specific supervisory approach</li><li>• Consolidated supervision</li><li>• Decentralised industry-specific supervisory guidelines</li><li>• Decentralised licensing channels</li><li>• Governance reviews</li><li>• Industry analysis (banking sector overview)</li><li>• AML/CFT reviews (banking)</li><li>• Risk assessments</li><li>• Resolution</li></ul>	<ul style="list-style-type: none"><li>• Integrated supervision. Integrated analytical thinking</li><li>• Conglomerate supervision</li><li>• Harmonised Supervisory Frameworks</li><li>• CFI (re-licensing) &amp; Insurance (conversion)</li><li>• Expanded emphasis on Culture assessments</li><li>• Industry analysis at all PA-regulated entity levels</li><li>• Comprehensive AML/CFT reviews (insurance companies)</li><li>• Harmonised definitions, risk scores and significance weights</li><li>• Harmonised resolution strategies with distinction between systemic and non-systemically important financial institutions</li></ul>





## Forthcoming attractions for the Prudential Authority





**Thank you**

