**29 May 2018**

SUMMARY PAPER – PRESENTATIONS BY THE nATIONAL CREDIT REGULATOR AND SOUTH AFRICAN RESERVE BANK ON VBS MUTUAL BANK

This brief provides an overview of the submission made by NCR and SARB on VBS mutual bank.

* 1. **Presentation by the South African Reserve Bank on VBS Mutual Bank[[1]](#footnote-1)**
     1. The Registrar of Banks, Mr Kuben Naidoo provided an overview of VBS Mutual Bank. He went on to explain that the bank was established in 1982 (initially operated as Venda Building Society).VBS was granted a permanent Mutual Bank license on 11 October 2000. He said its product offering focused on savings, fixed and notice deposits, mortgage, short-term loans, investment loans,and contract financing. The bank has clients in excess of 22 000 with over 1 100 loan accounts. In his presentation, he stated that their head office is in Makhado with a corporate office in Rivonia- Johannesburg.
     2. Mr Naidoo in his presentation mentioned that its shareholders are: Vele Investments (58.85%), PIC (27.63%), Dyambeu (4.60%), General Public (8.93%), with 140 employees.
     3. Mr Naidoo also explained the processes and events leading to the curatorship of the mutual bank. He stated that VBS failed to settle on the South African Multiple Option Settlement system – BankservAfrica. Furthemore, on the 22 February, VBS was officially non-compliant with SARB requirements for minimum General and Non-Distributable Reserves and Liquid Asset Reserves to be held by the bank. While, VBS submitted a Liquidity Recovery Action Plan it was deemed unsatisfactory to ensure correction of immediate liquidity shortage.
     4. He said a decision was taken by SARB on the 11 March 2018, NT through the Minister of Finance to place VBS under curatorship. VBS was placed under curatorship. He stated indicated that Mr Anoosh Rooplal from SizweNtsalubaGobodo was named as the curator. The Board of Directors and executive management of the bank have been relieved of their powers and these are now vested in the curator.
  2. **Presentation by the NCR on VBS Mutual Bank[[2]](#footnote-2)**
     1. The CEO of the NCR said that NCR employs four tools to monitor compliance with the National Credit Act, No. 34 of 2005:. These tools are complaints resolution; Compliance monitoring; Assurance engagement reports and Investigations and enforcement.
     2. It is stated in the NCR presentation that since VBS registered as a credit provider in 2007. NCR is not aware of any complaints received from consumers, nor were issues of non-compliance identified through compliance monitoring. No issues of non-compliance have been reported by the auditors and no formal investigations or enforcement action have been taken against VBS.

*Recommendation:*

*It would seem that there were no serious infractions on NCR issues at VBS Mutual as compared to the serious prudential regulatory issues raised by the South African Reserve Bank.*

Below is a summary table on the issues raised by SARB and NCR in their respective presentation to the Committee

Table: 1

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| **SARB Issues[[3]](#footnote-3)** | **NCR tools used monitor compliance with the National Credit Act, No. 34 of 2005:[[4]](#footnote-4)** |
| Inadequate and questionable governance and risk management practices.  A deficient compliance function and culture.  Aggressive growth strategy in balance sheet amidst funding challenges.  Weak asset and liability management practices (high liquidity risk).  Sectorial depositor concentration risk (Municipalities were 32 days, 3, 6 and 12 months maturations).  Possible illegality of municipality deposits accepted by the bank and the legal developments in that regard.  Volatility in financial performance as well as regular and significant losses caused by high operating expenses due to aggressive infrastructure expansion plans.  The negative impact of these losses on capital.  Venture into new products and services without commensurate investment in the enhancement of internal controls.  Negative media coverage of the bank (reputational risk).  Lack of proactive communication with the regulator on significant developments and delayed responses by management to crises.  Poor quality of regulatory reports and other information submitted to the regulator. | **Complaints Resolution:** Since registered as a credit provider in 2007, we are not aware of any complaints received from consumers;  **Compliance Monitoring:** No issues of non-compliance were identified through compliance monitoring;  **Assurance engagement reports:** No issues of non-compliance have been reported by the auditors.  **Investigations and enforcement:** No formal investigations or enforcement action have been taken against VBS. |

**Sources:**

National Credit Regulator (NCR), 2018 Briefing on VBS Mutual & Capitec Bank Presentation to Parliament March 2018

South African Reserve Bank (2018) Briefing on VBS Mutual Bank & Capitec Bank 20 March 2018

1. SARB presentation to SCOF on VBS March 2018 [↑](#footnote-ref-1)
2. NCR presentation to SCOF on VBS March 2018 [↑](#footnote-ref-2)
3. SARB presentation to SCOF on VBS March 2018 [↑](#footnote-ref-3)
4. NCR presentation to SCOF on VBS March 2018 [↑](#footnote-ref-4)