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03 September 2018

**PARLIAMENTARY SUBMISSION**

**BANKS AMENDMENT BILL [B12-2018]**

Mr. A Wicomb

Standing Committee on Finance

Parliament

Dear

**SUBMISSION ON THE BANKS AMENDMENT BILL [B12-2018]**

Firstsource Money is an economic research and advocacy not-for-profit organisation specialising in Money, Banking and Macroeconomics. Part of our main objectives is to promote the creation of public banking in South Africa and the continent.

Whereas we unreservedly support the current proposed amendments that seek to permit State/Government to participate in universal banking, we suggest that leaving the bill as amended will miss an opportunity to fully address the very primary reasons behind the amendment.

Most studies reveal that a nation’s banking structure explains the key divergencies in economic prosperity, social inclusion and industrial growth of nations, including a nation’s capacity to withstand and recover from crises like the 2007/8 that South Africa is still grappling with 10 years after it occurred. The structure may also account for the rate of financialisation of an economy, just as the institutional foundations of competitive advantage also lie with the nature of the banking structure. Furthermore, for strategic reasons, a nation’s bank structure can pose a national security risk if not properly structured, thus undermining the country’s capacity to withstand negative external infuences thus jeopardise a country’s economic and social security.

Besides the above, and as evidence shows, the macroeconomic performance of nations do, to a large measure depend on the structure of the banking system, which acts as a transmission belt for, more specifically, monetary policy.

The purpose of this submission is thus to allow for the creation of a tiered banking system, akin to the typology of German and Asian banks that can adequately serve South Africa’s pressing economic needs sustainably.

**Prudential Requirements**

In a nation where most observers both in government and economic establishement assume that a State Owned Bank can only be capitalisedd by ‘tax payers money’ and not the Reserve Bank, which should in fact be responsible for capitalisation of such banks, the minimum capital requirement of R250m (Two hundred and fifty million rands) is far too high. A State Owned Bank may as well be owned by a provincial or municipal government, and such a minimum capital base may not only be unnecessary for such regional or provincial/municipal banks nor affordable. But even for State Owned institutions like the Post Office’s Post Bank that has a national footprint, the amount is prohibitively large as a minimum requirement.

In this regard therefore, the use of sovereign money, i.e. money issued by the nation’s Reserve Bank, not ‘tax payers money’ be used to capitalise SOE banks, irrespective of the geographical footprint. Alternatively, a special dispensation for SOE banks, whose primary role would be to serve public interests, and therefore operate on a not-for-profit basis, have a minimum capital requirements of between R50m to R100m. Associated with these would be the amendments to or promulagation of regulations that are consistent with Basel III requirements.

Both the ‘public interest’ prudential requirments and the geographical necessity of SOE banks may invite further amendments to the Banks Act. It should be noted that where SOE banks are to operate on a not-for-profit basis, like the German public banks do, consideration for tax exemption of such banks would be highly recommended.

**Typology of Banks**

The observed “failure” of cooperative banks and related financial institutions lies more, not less, on the restrictive regulatory environment than in the business climate. The current regulatory regime is more modeled on the big banks than one that promotes banking for the majority of its citizens. It is thus suggested that a clear typology of banking be enacted, consistent with those in the highly industralised nations.

A more detailed presentation on the amendments would be made available if requested. An attched document delivered to Treasury may also help clarify our position on the nature of banking in SA and the needed reforms.

Regards

RL Nkosi

**Executive Director: Firstsource Money.**