



Portfolio Committee on Small Business Development

26 August 2020

Covid-19 Business Support



## Banks relief efforts for customers

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- First Covid-19 cases reported in March 2020
  - Banks request permission from regulators to discuss industry financial relief in March 2020
  - Banks have volunteered cash flow relief of R32,83 billion (from March to 15 August 2020)
    - ✓ 3,14 million applications from individual consumers, 84% granted (R19,45 billion)
    - ✓ 141 003 applications from commercial, small, medium enterprises, 95% (R13,38 billion)
    - ✓ High early assistance reduced demand for the later Covid-19 Loan Guarantee Scheme
  - No debt write-off
    - ✓ Cumulative value of instalments granted a payment break (deferred)
    - ✓ Fees and interest still accumulate, to cover costs and depositor's interest
    - ✓ Depositors funds must be recovered
  - Banks adhere strictly to National Disaster Regulations:
    - ✓ No evictions allowed
    - ✓ Customers have the option to return assets
    - ✓ Repossession is always a last resort
  - Sustainable relief is ongoing
    - ✓ In addition to Covid-19 initiatives, it is standard banking practice to assist customers
    - ✓ Safety of the financial system must be protected



## Social Responsibility

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- ATM and network fees waived to reduce congestion, until 01 June 2020
    - ✓ Operational costs must be recovered to maintain the system.
    - ✓ 400 000 ATMs and point of sale devices.
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- Banking infrastructure made available to identify beneficiaries and pay social grants, including new Covid-19 grants
    - ✓ 3 million beneficiaries have accounts at BASA members
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- R243 million donated to Covid-19 social relief efforts
  - Part of B4SA economic recovery plan

# Loan Guarantee Scheme

- International responses include: loan guarantees, grants or a hybrid
- Banks only guaranteed R67 billion for loans to small businesses
  - ✓ Option to increase to R200 billion
  - ✓ The guarantee is a loan that must be repaid, it is not a grant from a fund
  - ✓ The loan is to be used for operational expenses: salaries, rent
- Risk-sharing mechanisms balance business support with safety of banks
  - ✓ First losses offset against margins on portfolio of Covid-19 loans
  - ✓ Losses then offset against a guarantee fee paid to the National Treasury by banks
  - ✓ Further losses shared: 6% absorbed by banks and net balance by Treasury.
- Loan is a commercial arrangement, subject to individual bank credit approvals.
  - ✓ Prudential duty to lend responsibly, to protect depositors and taxpayers.
- Banks are not obliged to extend Covid-19 loans.
- Banks will not profit from Covid-19 loans
  - ✓ Administrative and capital costs to be recovered.



# Loan Guarantee Scheme

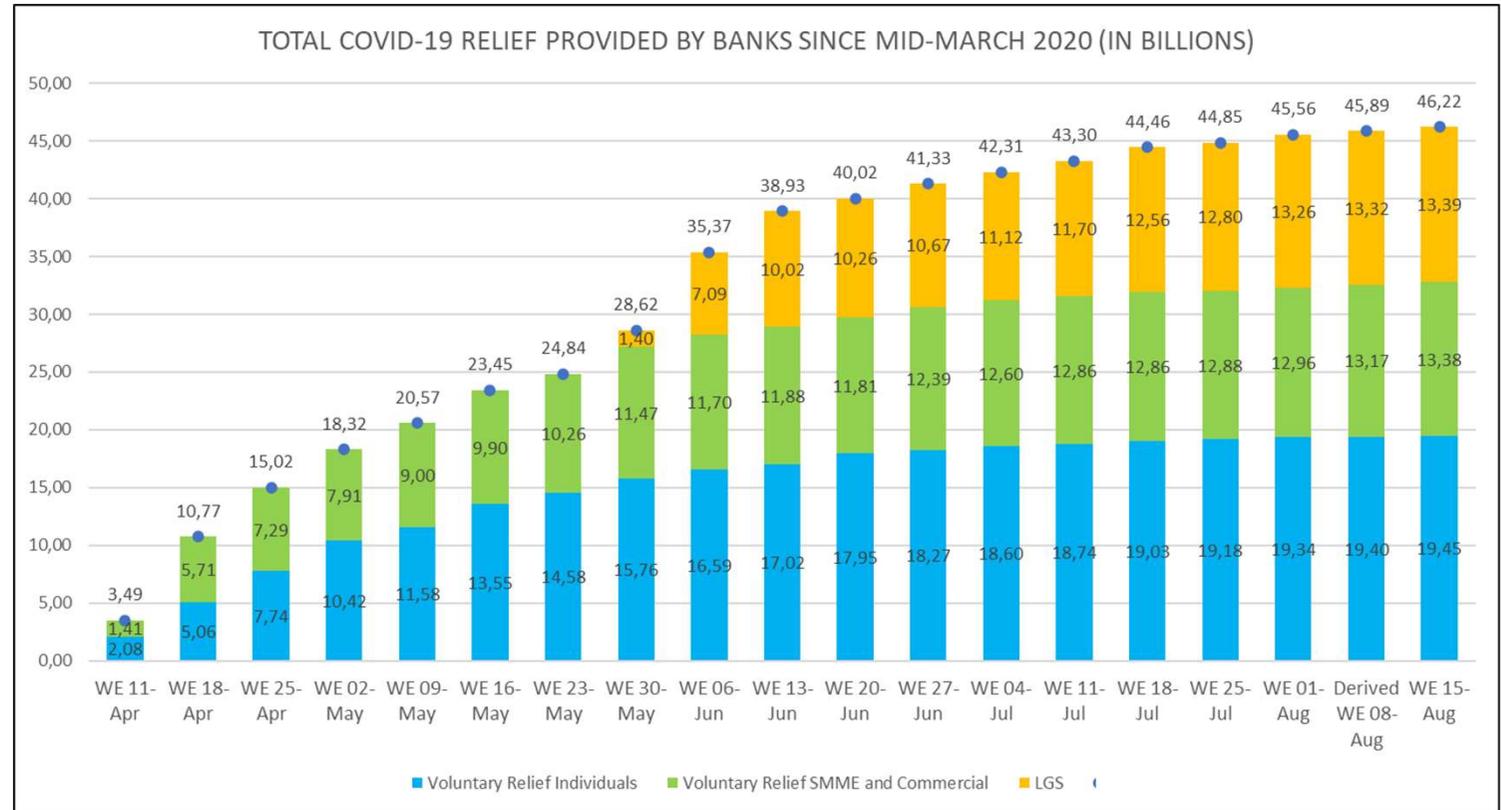
- **R13,39 billion** in loans approved to 10 754 businesses (15 August 2020)
  - ✓ Average value R1,2 million
  - ✓ 40 292 applications received, with a potential value of R24,4 billion
  - ✓ 39% in process of being assessed
  - ✓ 25% approved and taken-up
  - ✓ 9% rejected because not eligible as per Treasury and SARB eligibility criteria
  - ✓ 25% declined because of banks' risk criteria
- Updated terms and conditions ([www: Treasury/SARB/BASA](http://www.treasury.gov.za/pressroom/2020/08/15/loan_guarantee_scheme))
  - ✓ Business restart loans are now be available.
  - ✓ Banks will still use reasonable lending practices, to protect the fiscus but credit assessments will be less restrictive and more discretionary.
  - ✓ Test for businesses being in good standing moved back to 31 December 2019, from 29 February 2020, as the economic and jobs crises predate the pandemic.
- Uptake is slow, as business and economic conditions are dampening demand
  - ✓ Further opening of the economy should stimulate demand
- More debt is not always a preferred solution for businesses in distress
  - ✓ State of the economy is a bigger challenge than access to finance

*Source – Banking Association South Africa - Stats are cumulative as at 01 August 2020*

# Covid-19 financial relief offered by banks

As at 15 August 2020:

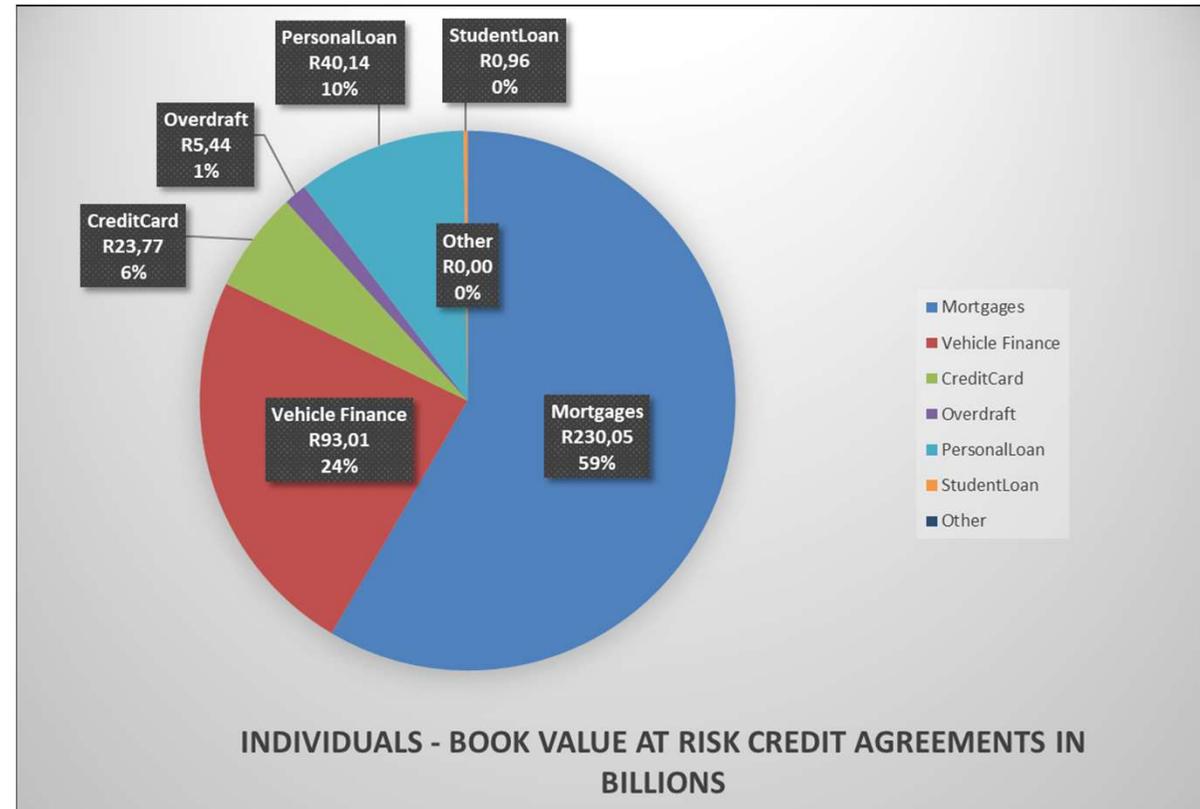
- **R46,22 billion**  
Total Covid-19 relief
- **R13,39 billion**  
Loan Guarantee Scheme to businesses
- **R19,45 billion**  
Relief to individuals
- **R13,38 billion**  
Relief to commercial, small and medium enterprises



Source – Banking Association South Africa - Stats are cumulative as at 15 August 2020

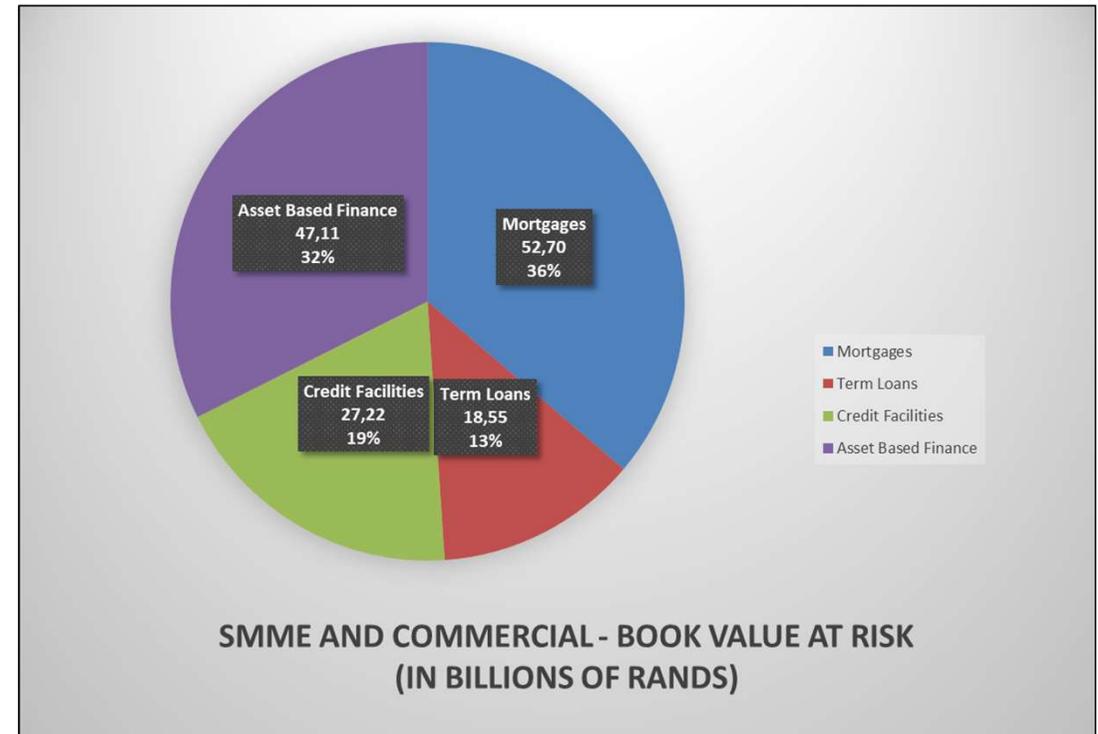
# Assets at Risk

- Relief for eligible individuals is critical to protect quality of life and assets
- **R19,45 billion** individual relief consists of payment breaks on instalments for assets or loans.
- The combined value of the actual assets at risk is **R394 billion**:
  - ✓ Home loans: R230 billion (59%)
  - ✓ Vehicles: R93 billion (24%)
  - ✓ Unsecured credit R69.35 (17%) (credit cards, personal loans)
- SARB interest cuts provide further relief to consumers
- Excludes debt restructuring that is part of usual business practice



# Assets at Risk

- Relief for eligible business is critical to protect jobs and the economic capacity necessary for recovery
- **R13,38 billion** business relief consists of cumulative instalments for assets or loans been that are deferred
- The combined value of the actual assets is **R146 billion**, including:
  - ✓ Mortgages: R52,70 billion (36%)
  - ✓ Asset finance: R47,11 billion (32%)
  - ✓ Credit facilities: R27,22 billion (19%)
  - ✓ Term Loans: R18,55 billion (13%)
- Interest rate cuts provide further relief
- Excludes debt restructuring of corporate and investment banking loans and facilities



## Conclusion

- Expectation is demand will taper off well before R67 billion because of business and economic uncertainty
- Consider alternative ways to get funds and support to industries, other than debt
- Cash flow relief to eligible businesses and individuals is critical to preserving quality of life, jobs and economic capacity
- Preserved economic capacity and health of the financial system will determine speed of recovery
- Separate from the guarantee scheme, banks continue to offer relief to customers, in line with their own capacity and risk management policies

 [www.banking.org.za](http://www.banking.org.za)