



PRESENTATION TO JOINT PORTFOLIO COMMITTEES ON COMMUNICATIONS AND STANDING COMMITTEE ON FINANCE:

POSTBANK AMENDMENTS BILL 16 NOVEMBER 2022



PRESENTATION OUTLINE

- Purpose
- Status of processing the Bill in Parliament
- Rationale for the Joint Meeting
- Background
- Objectives of the Amendment to the Postbank Act
- Role of a Bank Controlling Company
- Overview of the Postbank Licensing Application Process
- Comments received from the PCC public hearings
- Conclusions
- Annexure (SAPO funding matters)

PURPOSE

To present the South African Postbank Amendment Bill and matters related thereto to the joint meeting of the Portfolio Committee on Communications with the Standing Committee on Finance

- ❑ The Postbank Amendment Bill was developed by the Department of Communications and Digital Technologies (DCDT) in consultation with key stakeholders :
 - SAPO, Postbank, National Treasury & Public (public consultation processes)
 - The revised Bill was submitted to Cabinet for introduction to Parliament after Department completed its own processes including certifications by relevant authorities and structures (ESEID Cluster)

- ❑ **Cabinet granted approval on 09 March 2022 for the introduction of the Postbank Amendment Bill in Parliament**

- ❑ The Bill was subsequently introduced in Parliament & also certified by the Office of the State Law Advisors as being consistent with the Constitution and properly drafted in the form and style which conforms to legislative practices on 05 May 2022

- ❑ The processing of the Postbank Amendment Bill in Parliament officially started in Parliament
 - DCDT presented the Bill to the PCC on 31 May 2022

- ❑ The Portfolio Committee on Communications and Digital Technologies published the Bill for public comments:
 - The Committee extended deadline for submissions of public comments
 - **Public hearings held on 25 October 2022**



RATIONALE FOR JOINT MEETING

- After numerous deliberations on the Bill in the Portfolio Committee on Communications, the Committee resolved that the input /comments from the Standing Committee on Finance be requested on the Bill

Or

- Alternatively hold a joint meeting of the two Committees to obtain the comments/input

This is considering that the issues of banking and financing are in the purview of the Standing Committee on Finance

BACKGROUND

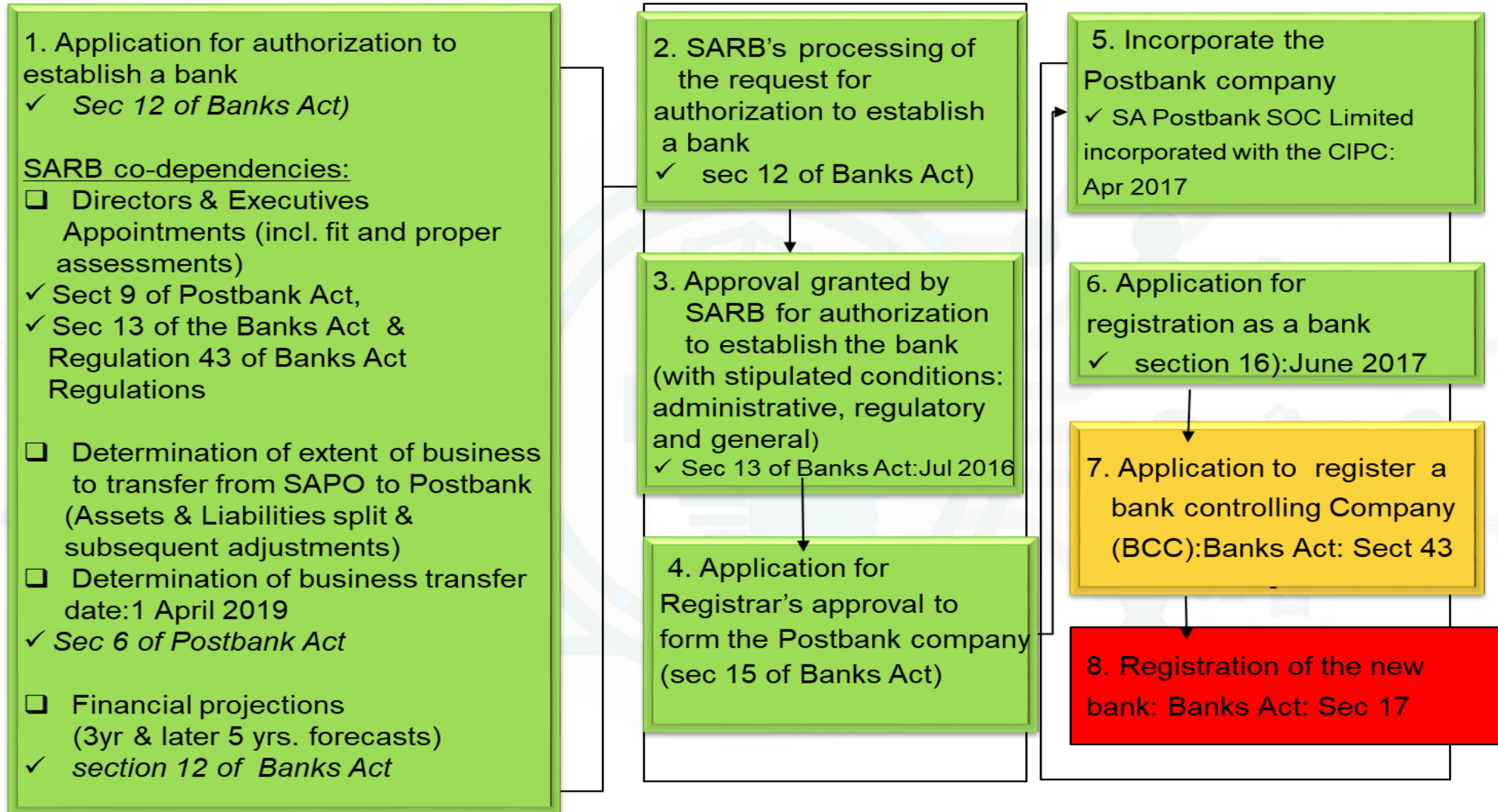
- ❑ SAPO and the Postbank were already separated by the Postbank Act, No 9 of 2010, provides for the separation of the Postbank which was then a Division of SAPO into a standalone company. The Minister of Communications gazetted and determined the effective date for the separation of assets and liabilities of the two companies as 1 April 2019.
- ❑ However, the Post Office remained the sole owner and shareholder of the Postbank.
- ❑ This meant that SAPO will be the Bank Controlling Company.
- ❑ However the Banks Act when it was amended imposed a requirement that only financially viable SOCs can apply for a licence to be a bank or a Bank Controlling Company.
- ❑ Therefore after the amendment of the Banks Act by National Treasury, there was a need to amend the Postbank Act to remove the Post Office as a Bank Controlling Company.

- ❑ To mainly amend the South African Postbank SOC Limited Act (Postbank Act) in order to comply with the requirements of the Banks Act which requires that only viable SOCs can apply for a banking licence or become Bank controlling Company and thus removing SAPO as the sole owner and shareholder of the Postbank:
 - To amend the shareholding arrangements for the Postbank (transferring shareholding from South African Post Office to the Government) through the creation of a new bank controlling company.
 - Facilitate the establishment and registration of the bank controlling company (BCC) in terms of the Banks Act; and to provide for matters connected therewith.
 - The Ministry of Communications and Digital Technologies as the shareholder Department to be responsible directly for the Postbank as a stand alone on behalf of the Government:
 - This to be effected by establishing the BCC between Postbank and the Department in the reporting structure
- ❑ To amend other sections of the Act impacted by the change in the Postbank reporting structure
- ❑ Upon the enactment of the Postbank Bill, the BCC for Postbank will be registered in terms of the section 43 of the Banks Act to exercise control over the Postbank. This to conclude the Postbank licence application process

THE ROLE OF A BANK CONTROLLING COMPANY

- ❑ A Bank Controlling Company (BCC) is required to be registered in terms of the section 43 of the Banks Act to exercise control over the Postbank:
 - Shareholder of reference for capital adequacy and in terms of compliance and submission of statutory monthly returns as stipulated in the Banks Act regulations and circulars.
 - The implication is that the BCC will step in to recapitalise and support its subsidiary bank if it runs into financial difficulties.
 - One of the key requirements is that the BCC must be in a financially sound position in terms of section 44(2)(e) of the Banks Act.
 - SAPO is not in a financial sound position to meet the requirements for registration as a BCC.
 - Very high capital adequacy requirements if SAPO were to be the direct shareholder of Postbank.
 - SAPO's non-banking services posed a threat to the safeguarding of depositors' funds in that Government will be obliged to provide on-going financial support to SAPO in order to maintain BCC structure position.

OVERVIEW PROGRESS STATUS ON POSTBANK LICENCE APPLICATION PROCESS





- ❑ The following institutions made the submission to the Portfolio Committee:
 - Right2know
 - Financial Sector Conduct Authority (FSCA)
 - Congress of South African Trade Unions (COSATU)
 - The Banking Association of South Africa (BASA)
 - Ombudsman for Banking Services South Africa
- ❑ Although the above organisations made comments in their submissions, they all are in support of the Postbank Amendments Bill in recognition of the need(s) to:
 - Expand financial inclusion and competition in the banking industry
 - Provide accessible and affordable banking services to the poor and marginalized

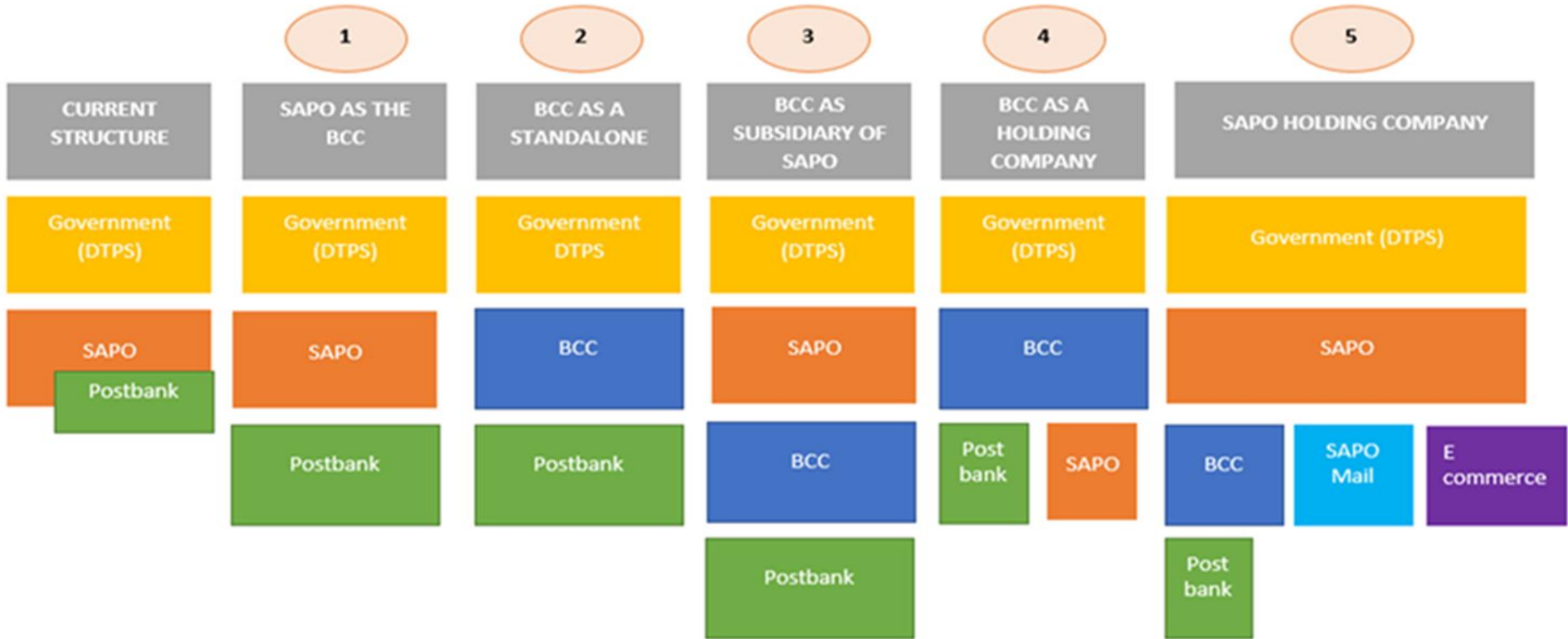


CONCLUSIONS

- The Department is pleased that all the organisations who commented on the Bill supported the finalisation of the Postbank Amendments Bill
- It is the Department's view that the Bill is more of a restructuring Bill as opposed to it being a banking/finance Bill in that it mainly provides for the transfer in shareholding of the South African Postbank SOC Limited from the South African Post Office SOC Limited to Government and the creation of a bank controlling company for "The Postbank SOC Limited".
- It is also worth noting that to manage the inter-dependent relationship between SAPO and Postbank, the two entities are required by legislation to enter into Memorandum of Agreement (MOA) and Service Level Agreements

SAPO FUNDING MATTERS

BCC STRUCTURE DETERMINATION - VARIOUS CONSIDERED OPTIONS



*(DTPS currently DCDT)

- ❑ Option 2 (as recommended by the National Treasury) which makes Postbank report directly to Government through the establishment of BCC between the Department and the Postbank was selected as the optimal reporting structure option:
 - Least financial implications for the bank based on the results of the financial audits on the capital costing requirements of the various options
 - SAPO's financial and liquidity position did not allow for the BCC to report to it which reinforces the selected option
- ❑ To mitigate against the impact of the changes in the Postbank reporting structure on SAPO
 - National Treasury acknowledged that the financial risk associated with funding of the implied SAPO restructuring process and further affirmed that the costing of the restructuring of SAPO will need to be fed into the MTEF budget process considering the impact of the unbundling on the solvency of SAPO.
 - Prior to 01 April 2019, Postbank operated as a division of SAPO.
 - SAPO benefited by having a strong statement of financial position with Postbank assets and liabilities being included in SAPO company financials. The profit of Postbank was also consolidated in SAPO's income statement.
 - The separation of Postbank and reporting as a separate company has negatively impacted SAPO financials from an income statement and statement of financial position reporting.
 - At the time of separation Postbank had a net asset value of R3.4 billion, an accumulation of benefits derived from being a division of SAPO.
 - The SAPO branch network continues to provide clients with access to Postbank products and services

- SAPO has also developed a new Strategy, “Building the Post Office of Tomorrow Strategy” which is intended to reposition the entity - culminating with submission to Cabinet in February 2022.
- Prior to the separation of the Postbank from SAPO, the entity was already experiencing severe challenges. The impact of the separation has added to the deepening challenges. The Post Office of Tomorrow Strategy has thus been developed cognisant of the urgent need to reposition the SAPO to become relevant in the digital era and find resolution to its deepening financial challenges
- The Strategy makes provision to review SAPO’s operating model to restructure it in such a way that it can operate as a sustainable, productive and efficient entity
- It thus eliminates organisational duplications and inefficiencies by restructuring the organisation in such a way that the entity is positioned to become a modern and sustainable entity over the short to medium term.
- It is vital that the implementation of the Strategy is supported by funding.
- There have been ongoing engagements between the Department, National Treasury and SAPO on the requirement for funding assistance - including the meetings between the Ministers. These engagements created a reasonable expectation that the funding will be availed to SAPO.
- Both the Adjustment Budget and MTEF submissions were made

- ❑ SAPO liabilities total R8.2 billion:
 - R5 billion liabilities as at 30 September 2022.
 - A further R3.2 billion is owed to Postbank.

- ❑ Immediate funding requirements:
 - R1 billion is required for the cash flow deficit until 31 March 2023 whilst the new SAPO of Tomorrow strategy is being implemented,
 - R2.4 billion to fund the implementation of the strategy.

- ❑ Postbank compensation
 - further separate discussions to be held.

