

UNDERSTANDING BANKING REGULATORY AND MARKET FRAMEWORK IN SOUTH AFRICA INCLUDING THE PERCEIVED STRENGTH, WEAKNESSES, OPPORTUNITIES AND THREATS

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Abstract

Following the global financial crisis of 2007, the manner in which banks conduct their business became the subject of interest to authorities. In South Africa, most analysts argued that the financial system was insulated by the prudent regulatory system. This paper reviewed the banking regulation and market framework applicable in the South African context. In reviewing regulation and banking market framework, it was found that the principal legal instrument which seeks to achieve credibility, stability and economic growth, is the Banks Act, No. 94 of 1990 (the Banks Act). Considering the applicable regulation, the paper concluded that South Africa has a developed and well regulated banking system which compares favourably with regulatory environment applied by the developed countries. It was, however; cautioned that further regulation such as the recently announced 'Twin Peaks' approach to financial regulation could result in unintended consequences, such as driving a larger share of activity into the shadow banking sector.

Keywords: Banks, Market Structure, Regulation, Banking Strengths, Banking Weaknesses, Banking Threats & Banking Opportunities

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1. Introduction

The South African banking sector has undergone several numerous changes following the dawn of democracy. The period in the early 1990s was characterised by a process of consolidation resulting from mergers of a number of banks including Allied, Volkskas and United to form the ABSA Bank which is now referred to as Barclays Africa (The Banking Association of South Africa, 2012).

The promulgation of the Banks Act of 1990 led to the issuing of a number of banking licenses in South Africa. According to the data from the Bank Supervision Department of the South African Reserve Bank, as at the end of 2001, South Africa had 43 registered banks (SARB, 2001). The announcement of Saambou's financial troubles in 2002, however, resulted in a run on BOE and other smaller banks which led to a number of banks not renewing their banking licenses (The Banking Association of South Africa, 2012).

2. Objective

There are two main objectives of this paper namely: to outline and discuss banking regulation and market

framework in the South African context as well as the discussions of the perceived strengths, weaknesses, opportunities and threats in the South African banking landscape.

This paper is organized as follows: after a short introduction, section two provides the regulation applicable to South African bank. Section three will outline the structure of the South African banking market. Strength, weaknesses, opportunities and threats will be examined in section four whilst in section five; the author will perform the critical analysis. Finally, section six will summarise discussions and recommend the way forward.

3. An overview of the regulatory structure

The regulation in the banking sector aims to promote credibility, stability and economic growth. The principal legal instrument which seeks to achieve these aims, is the Banks Act, No. 94 of 1990 (the Banks Act) and the regulations promulgated thereunder. Paragraphs below briefly outline the banking regulatory structure in South Africa.

3.1 The role of the South African Reserve Bank

The South African Reserve Bank (the Reserve Bank) has an important role in banking regulation and supervision. The primary objective of the Reserve Bank is to protect the value of the South Africa currency in the interests of balance and sustainable economic growth. As part of this objective, the Reserve Bank is tasked generally to take such steps as may be necessary to establish, conduct, monitor, regulate and supervise payment, clearing or settlement systems (SARB, 2012a).

In this context, the National Payment Systems Act, No. 78 of 1998 is particularly important. The National Payment Systems Act, No. 78 of 1998 contains provisions which are aimed at protecting the integrity of the settlement system established and operated by the Reserve Bank. The National Payment System refers generally to the infrastructure that enables individuals and organisations to transact with one another (RSA, 1998).

Further, the South African Reserve Bank is also tasked with regulating and maintaining minimum reserve balances that South African banks must hold on account with the Reserve Bank. The registration of banks; the regulation of payments, clearing or settlement systems; and the keeping of determined minimum reserve balances by South African banks, are effectively delegated by the governor of the Reserve Bank to the "Office of Banks". This statutory office is part of the Reserve Bank and the Registrar of Banks (the registrar) is its principal official. The registrar is charged with, among other things, the administration of the Banks Act which is discussed below (SARB, 2012a).

3.2 The main instrument governing banks: Banks Act, No 94 of 1990

The main objective of the Banks Act, No. 94 of 1990 is to create the legal framework for the regulation and supervision of the business of accepting deposits from the South African public. To this end, the Banks Act governs the establishment of banks; the security of the investments of depositors; and the protection of the integrity of banks in the interest of the South African financial system.

The Banks Act, No. 94 of 1990 establishes the supervisory authority of the registrar by making registration a prerequisite for conducting the "business of a bank" in South Africa. Conducting the "business of a bank" in South Africa without being registered is an offence which attracts severe penalties. The Banks Act sets out a number of prudential requirements which are aimed at the efficient management of banking related risks. In this regard, the registrar possesses extensive regulatory and supervisory powers.

The Banks Act No. 94 of 1990 further regulates the conducting of the business of a bank by foreign banking institutions in South Africa. An institution which has been established in a country other than South Africa, and which lawfully conducts in that other country a business similar to the business of a bank, may conduct the business of a bank by means of a branch or a representative office of the foreign institution in South Africa. This is only with the prior written authorisation of the registrar and subject to whatever conditions, if any, the registrar may deem necessary.

3.3 International best practice: The Basel Accord

The South African banking industry has implemented Basel II in its entirety (Scholtz and de Villiers, 2012). The implementation of the Basel II has involved the amendment of the Banks Act by the Banks Amendment Act, No. 20 of 2007 (the Banks Amendment Act), and the adoption of "the Regulations relating to Banks" issued under section 90 of the Banks Act and published under Government Notice No. 8815 in Government Gazette No. 30629, dated 1 January 2008 (the regulations), which entered into force on 1 January 2008.

The Basel II framework has been subject to continuous refinement, resulting in what is commonly referred to as Basel III. Basel III is a comprehensive set of reform measures, developed by the Basel Committee on Banking Supervision (primarily in response to the global economic crises) to strengthen the regulation, supervision and risk management of the banking sector. These measures basically aim to: improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source; improve risk management and governance; and strengthen banks' transparency and disclosures.

The reforms target bank-level, or micro-prudential, regulation, which is designed to help raise the resilience of individual banking institutions to periods of stress; and macro prudential, system wide risks that can build up across the banking sector as well as the pro-cyclical amplification of these risks over time.

In view of the changing landscape, the Bank Supervision Department (the Department) of the South African Reserve Bank commenced a formal process to amend the regulatory framework in accordance with the latest internationally agreed regulatory and supervisory best practices and standards. The formal process was carried in a note forwarded to all banking entities in South Africa; the Bank Supervision Department advised that the Basel III framework was to be implemented as from 01 January 2013. The guidance note provided guidance on certain elements contained in the new definition of capital, including the additional loss absorbency

requirements at the point of non-viability as well as on elements pertaining to the phasing out arrangement of the existing capital instruments that no longer qualified as regulatory capital in terms of Basel III framework and the treatment of the disclosed reserves (SARB, 2012b).

3.4 Other legislations and regulations applicable to South African banks

In addition to the outlined legislations/ regulations, there is other legislation that affects the banking industry. These legislations and their roles are briefly discussed below:

- The Financial Intelligence Centre Act (FICA) - The purpose of the Financial Intelligence Centre Act (38 of 2001) is to combat money laundering including the financing of terrorist and related activities. The Act imposes duties on financial institutions, which might be used for money laundering purposes and terrorist and related activities, to identify and verify the identity of customers ('know your customers'), maintain records and report certain transactions to the regulators.

- The Financial Intermediary and Advisory Services Act (FAIS) - The main aim of the Financial Advisory and Intermediary Services Act (FAIS Act) is to regulate the activities of all financial service providers who give advice or provide intermediary services to clients as regards certain financial products. The Act requires that such providers be licensed and that professional conduct be controlled through a code of conduct and specific enforcement measures. The FAIS Act applies to any body that offers financial advice and/or provides an intermediary service to a client on any transaction that has to do with a financial product.

- The National Credit Act – The National Credit Act (NCA) No 34 of 2005 is designed to achieve a number of objectives most of which are to benefit and protect the consumer. It regulates consumer credit and seeks to ensure fair and non-discriminatory access to consumer credit and improved standards of consumer information. It also seeks to promote responsible granting of credit and provides for debt re-organisation in cases of over-indebtedness. Those credit providers who provide credit recklessly can find their agreements with consumers suspended and the credit provider's rights under the agreement or under any law in respect of that agreement are unenforceable. Some agreements may be unlawful in terms of the NCA.

- The Consumer Protection Act - The purpose of the Consumer Protection act is to promote a fair, accessible and sustainable marketplace for consumer products and services and for that purpose to establish national norms and standards relating to consumer protection

- The Home Loan and Mortgage Disclosure Act - is to require financial institutions to annually disclose reports on their lending patterns both in

terms of applicants' geographic location and income levels. This annual reporting is intended to help government agencies and civil society organisations to identify neighbourhoods or categories of people whose access to credit is unfairly restricted; and

- The Competition Act - the main aim of the Competition Act is to promote and maintain competition in South Africa in order to promote the efficiency, adaptability and development of the economy; provide consumers with competitive prices and product choices; promote employment and advance the social and economic welfare of South Africans; expand opportunities for South African firms' participation in world markets and recognise the role of foreign competition in the South Africa; ensure that small and medium-sized enterprises have an equitable opportunity to participate in the economy; and promote a greater spread of ownership.

3.5 King III Code on Corporate Governance

In addition to the regulation and legislations outlined and discussed above, South African banks have to comply with the King Code on Corporate Governance. This is because King III applies to all entities regardless of the manner and form of incorporation or establishment. In addition to this, all big South African banks are listed on the Johannesburg Securities Exchange (JSE). King III is part of the JSE's listings requirements.

In summarising the King III on Corporate Governance, it is indicated that the Code follows an "apply or explain" approach. In situations where entities have applied the Code and best practice recommendations in the Report, a positive statement to this effect should be made to stakeholders. In situations where the board of directors (the "board") or those charged with governance decide not to apply a specific principle and/or recommendation, this should be explained fully to the entity's stakeholders (PwC, 2009).

4. An overview of the South African banking market structure

As early as 1939, the South African banking sector was said to have been dominated by 5 (five) big banks. Gidlow (2008) emphasizes that the domination narrowed to two banks by 1941 where both Standard and Barclays controlled a vast proportion of total commercial bank deposits in South Africa. Gidlow (2008) refers to this domination as running of the show.

The consolidation in the South African banking sector enhanced the already dominant market share of the big four banks in South Africa (Gidlow, 2008). The dominant banks in the South African banking landscape are the Standard Bank of South Africa, ABSA Bank, FirstRand Bank and Nedbank. The

reason for the increased market share by the big four banks in South Africa was seen as caused by the decline of confidence levels in the small banks as a result of Saambou Bank (Gidlow, 2008) problems which resulted in the run on small banks (The Banking Association of South Africa, 2012).

As at the end of 2011, the Registrar of Banks indicated that in total, there were 17 registered banks, two mutual banks, 12 Branches of international banks in the Republic of South Africa, 43 representative offices and 15 controlling companies (The Banking Association of South Africa, 2012).

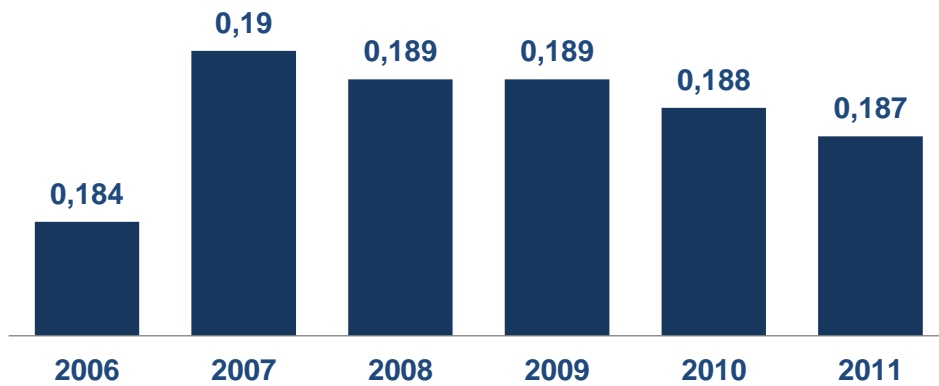
When it comes to the concentration and competition amongst the South African banks, in 2001, Okeahalam (2001) undertook a study to evaluate the level of competition and concentration in the South Africa's banking industry. The study adopted the approach followed by Berger and Hannan (1989) who studied the US banking industry and that of Okeahalam (1998) who studied competition and concentration in the Botswana banking industry. Using the concentration ratio and the Herfindahl-

Hirschman Index (HHI), Okeahalam (2001) found that the South African banking sector was highly concentrated.

The latest HHI was carried out by the South African Reserve Bank (SARB) in 2011. The result of the South African Reserve Bank HHI reveals that the level of concentration in the South African banking sector was high; however, it is noted that the index decreased marginally (see figure 3.1. below) from 0,188 at the end of December 2010 to 0,187 at the end of December 2011 (SARB, 2011). It should be noted that an H-index below 0,1 indicates that there is essentially no concentration in a banking system; an H-index between 0,1 and 0,18 is an indication of moderate concentration; and an H-index above 0,18 indicates a high level of concentration.

This paper exhibits the level of concentration in South African banking market structure by construction the HHI time series in figure 1 below which demonstrates an HHI for the period 2006 to 2011.

Figure 1. South African Banks HHI (2006-2011)



Source: Authors own illustration (data extracted from SARB Annual Report, 2011)

The domination of the four (4) commercial banks is still evident today as exhibited by the level of concentration in Figure 1 above which confirms earlier studies which pointed out that the banking sector in South Africa was concentrated. The high concentration prevalent in the South African banking sector is attributable to the high concentration of banking-sector assets among the four largest banks (SARB, 2011).

To illustrate the domination of the four major banks in the South African banking market, this paper used the latest available data to measure assets held

by all registered banks. Greenberg and Simbanegavi (2009) support measurement used where they state that in the banking sector, the measure of market share can be approximately calculated by the banks total assets or total deposits as a percentage of industry totals. Analysed data revealed that as of 2011, assets held by banks amounted to R3.225 billion. Of the R3.225 billion, the four largest banks (the Standard Bank of South Africa, ABSA Bank, FirstRand bank and NedBank) contributed R2.865 billion (89%) whilst other banks contributed R360m (11.2%).

Figure 2. South African Banks Market Share

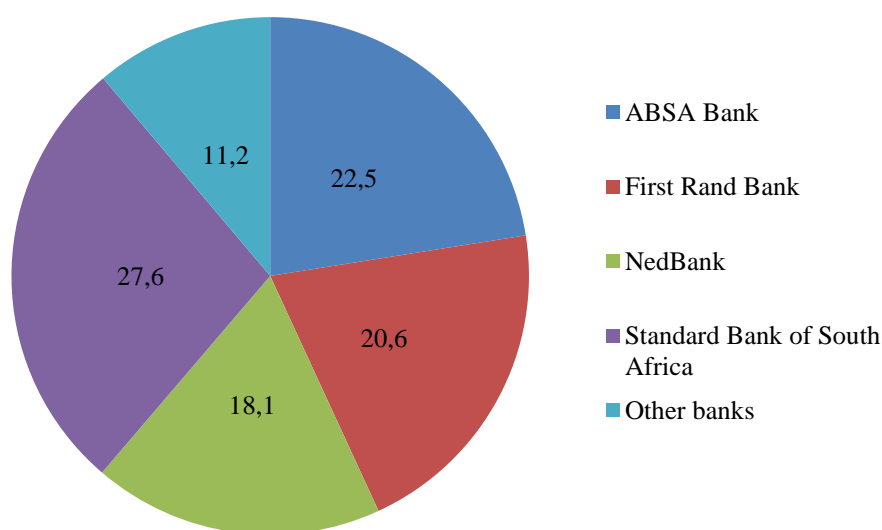


Table 1. South African Banks Market Share

	Assets as at the end of 2011 R' millions	% holdings
ABSA Bank	R 725,672	22.5
First Rand Bank	R 665,525	20.6
Nedbank	R 585,033	18.1
Standard Bank of South Africa	R 889,250	27.6
Other banks	R 360,465	11.2
Total Assets	R3,225,945	100.0

Source: Authors own illustration (data extracted from SARB Annual Report, 2011)

Figure 2 and Table 1 above illustrates the market share of banks as at end December 2011. Analysis of data exhibits that the four major South African banks represented about 89% of the total banking assets implying total domination of the sector. Standard Bank, the largest bank in terms of assets, had a market share of 27.6%, followed by ABSA with 22.5%. It is further noted in figure 3.2 and table 3.1 that FirstRand Bank and Nedbank had a market share of 20.6% and 18.1% respectively.

Having constructed a picture of the South African banking market structure i.e. that the top four banks dominate the banking sector and that there is a high level of concentration, section 5 below discusses the South African banking strengths, weaknesses, opportunities and threats.

5. Perceived Strengths, weaknesses, opportunities and threats

5.1 Perceived Strengths

The strengths of the South African banking system were demonstrated during the 2007 global financial meltdown. The South African financial sector did not experience the financial upheaval seen in advanced economies, for example sustainable credit extension was made possible through effective legislation such as the National Credit Act which prohibits reckless lending (National Treasury, 2011).

In addition to the paragraph above, South Africa banks have a limited exposure to foreign assets in sense that the prudential regulation of foreign exposure as applied in the last decade, including limits on the extent of exposure to foreign assets by institutional investors and banks, has helped to limit South Africa's overall foreign risk. Additional strengths of the South African Banking sector is that the Bank Act requires that registered banks have to be subsidiaries of the domestic or foreign parent company, so their assets and liabilities are ring-fenced even when the parent company is in distress National Credit Act (National Treasury, 2011).

Another key strength of the South African banking sector is the robustness of risk management. This point has also been observed by participants in the recent PwC (2011) expressed confidence in the robustness of South African banks' risk management systems. During the survey, it was indicated that one foreign bank had cited that the banking sector in South Africa was sound as the South African banks had ranked sixth place in the World Economic Forum's 2010 global ranking of bank soundness (PwC, 2011).

5.2 Perceived Weaknesses

As highlighted in sub-section 5.1 of this paper, the main weakness is that the South African banking sector is dominated by four big banks namely, the Standard Bank of South Africa, ABSA Bank, FirstRand bank and Nedbank. This could result in the possibility of banks co-operating to the disadvantage of the consumer.

In the PwC (2011) survey, when asked to identify a weakness in the South African banking system, respondents highlighted the skills shortage as a weakness, putting risk management understanding at the top of the list. Furthermore, several domestic banks expressed concerns over the quantitative aptitudes of new bank entrants.

Accountancy SA (2011) also highlights the skills as a weakness in the South African banking set up. The manner in which skills can be attracted, retained and rewarded is indicated as a challenge for South African banks. Accordingly, South African banking CEOs acknowledges that the availability of key skills, particularly regarding quantitative abilities and risk management understanding, remains a concern. In subsection 5.3 below, it was indicated that South African banks have to take advantage and expand to the African continent. However, it is noted that African expansion strategies would be weakened by the lack of quality human resources in the targeted African markets which will in turn place/ cause further weaknesses (or further pressure) on human resources of South African banks.

In sub-section 5.3, it was indicated that there was an opportunity for South African banks to expand to the mobile banking market, taking advantage of the usage of the cell phone coverage in South Africa. The opportunity of expanding to capture the mobile banking market is however, constrained by South Africa's technology weaknesses. To be able capture this market, South African banks need to increase internet bandwidth and international connectivity as the banking industry needs an integrated settlement method for mobile banking. The big four South African banks have indicated a planned spend of about R30 billion over three years to fix infrastructure technology and processes (Accountancy SA, 2011).

5.3 Perceived Opportunities

In 2010, Deloitte and Touche (2010) highlighted that a lot of South Africans did not have bank accounts as banks have a perception that they are risky. With the growth of the informal sector of the economy in South Africa, there are a number of prospective customers that South African banks can tap into. This growth of an informal sector presents an opportunity for South African banks to increase their customer base.

Numerous commentators and market analysts have cited the African continent as being one of the fastest growing regions economical. With the understanding and knowledge of the African terrain, there are huge opportunities for South African banks to expand to the other African countries. Standard Bank of South Africa has identified this opportunity and in 2007, Standard Bank secured a controlling stake in Nigeria's IBTC Chartered Bank Plc (Standard Bank, 2012). In addition to this, the Standard Bank of South Africa has acquired a 60% stake in Malawi's Commercial Bank, established Stanbic Bank in Ghana, established Standard Bank's Namibian operations and other in many other African countries (Standard Bank, 2012).

In its recent survey, PwC (2011) agrees that Africa continues to feature strongly in banks expansion plans. However, it is noted that participants in the survey suggested that many banking assets in Africa are for sale, but it remained a challenge to find banks with good quality management and staff.

Another opportunity is presented by the mobile phone penetration which has exploded since 2000. In 1998 there were fewer than two million mobile phone users in Africa. The number grew to over 400 million in 2009 (Lai, 2011). According to Lai (2011), in Kenya, banks have taken advantage of the growth of people with mobile cell phones and Kenya now has the world's most successful mobile banking platform. South African banks should identify links with mobile network operators, innovators and technology companies to take advantage of this opportunity.

5.4 Perceived Threats

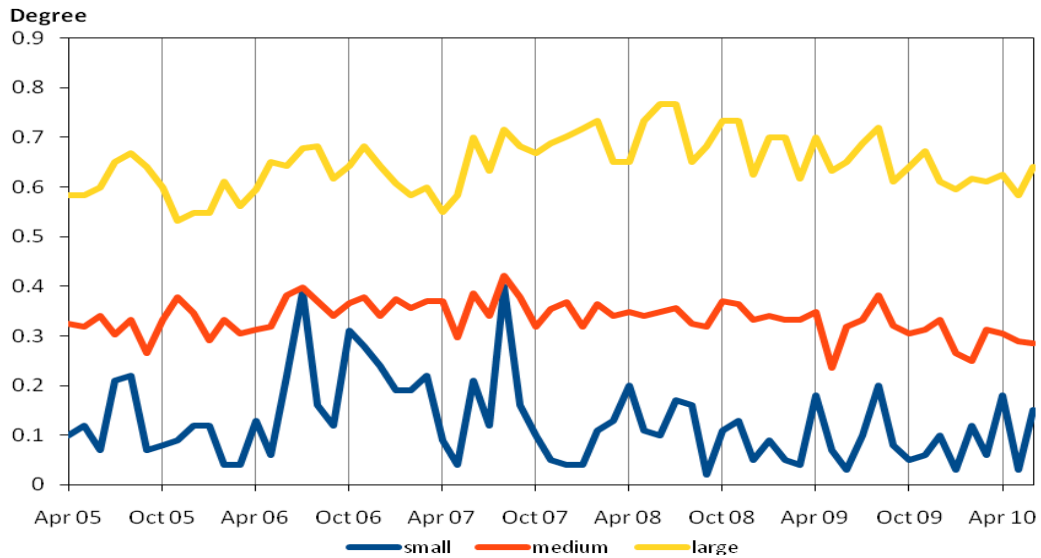
The South African economy has become more globally connected and concentrated. This is potentially exposing the country and its banking sector to significant risks (National Treasury, 2011). The connectedness of the South African economy to the global economy is evident as South African banks have become increasingly inter-twined with other segments of the financial sector, both locally and across countries. Any disruption in the system could result in the contagion. Even though the direct effects of the crisis on the South African financial system were very modest and the South African banks escaped the problems experienced in some other

countries, systemic risk and contagion are a continuous concern for the South African regulatory authorities (SARB, 2011).

Figure 1.3 below exhibits the connectedness of South African banks in the interbank market. It is clear in figure 3 that for all banks a large part of their overall systemic importance stems from their interconnectedness. This is also true for small banks, as their interconnectedness is the only quantity that

contributes to their systemic importance on a relevant level. The medium banks have a contribution from interconnectedness which is significantly larger than for the small banks. The severity of interconnectedness in South African banks poses a threat that any negative impact on one of the banks could spill over and impact on the other banks.

Figure 3. Connectedness of South African banks in the interbank market by bank Groups



Source: South African Reserve Bank, SAMOS Data.

In the Quarterly Labour Force Survey which is produced by Statistics South Africa, the government statistical agency, it is indicated that South Africa has unemployment rate of around 25.5% which is high by international standard (Statistics South Africa, 2012). Consistent high unemployment rate could result in default as those that would have been employed and having loans with banks become relegated to the unemployed and default. A further threat posed by high unemployment in South Africa is the fact that those who are unemployed do not receive credit from banks; the threat is that this reduces the banks client base i.e. undermines and threatens retail banking growth.

Before the governing party's national conference in 2012, there were calls from some sections in the South Africa's governing alliance for the nationalisation of mines and banks (known as monopoly industry) in South Africa (COSATU, 2012). The nationalisation debate has since been settled in the governing party's national conference, however; there is a grouping in the governing alliance who continues to advocate that mines and banks should be nationalised. Policy uncertainties such as this nationalisation debate impacts on the South Africa's banking sector's outlook including the country's sovereign ratings by rating agencies.

The South African banking sector is also facing a threat of automatic teller machines (ATM) bombings. According to the South African Broadcasting Corporation, in 2011, over 300 cases of automatic teller machines bombings were reported. To counter this threat, South African banks have put in place a number of preventative measures one example is the installation of CCTV cameras on the ATMs (South African Broadcasting Corporation).

Recently, the South African Government has announced a 'Twin Peaks' approach to financial regulation, in which the South African Reserve Bank has lead responsibility for prudential regulation, and the Financial Services Board (FSB) for consumer protection. The FSB mandate will include the market conduct of retail banking services, including developing principles on how banks should set their fees, how these fees should be reported and what constitutes fair behaviour. With these new regulatory reforms in South Africa, there is a threat that such regulatory reform could have unintended consequences, such as driving a larger share of activity into the shadow banking sector.

6. Critical analysis

When it comes to the market structure of South African banks, it was exhibited that the big four

banks, namely: Standard Bank of South Africa, ABSA Bank, FirstRand bank and Nedbank dominated the banking market in South Africa. As a result of this, there is high level of banking concentration in the South Africa's banking sector. It is generally accepted that when there is a high concentration there is a likelihood of collusive oligopoly, i.e., the possibility of banks co-operating to the disadvantage of the consumer.

Due to this level of concentration, to demonstrate that there is no cooperation that disadvantages South African consumers, banks need to ensure greater transparency and disclose product and pricing information. There is a further need to improve comparability between products and reduce the actual cost of switching should the consumer wish to do so. This would result in greater ease for customers to switch between banks and prevent them from being locked in once they have joined a bank.

It is highlighted here that in light of the banking market structure, South African authorities are cautious of any uncompetitive behaviour for example the South African Competition Act has established the Competition Commission that regulates against uncompetitive behaviours. It is also indicated here that the South African Reserve Bank in consultation with National Treasury of South Africa have the power to review major acquisitions or investments by a bank or a bank controlling company, against prescribed criteria, including the establishment of cross-border operations in terms of the Core Principle 5 of the Basel II Accord. This is also incorporated in Section 52 of the Banks Act which requires South African-registered banking groups to obtain the prior written approval of the Registrar for the establishment or acquisition of any subsidiary, cross-border branch, representative office or any undertaking that has its registered office or principal place of business outside South Africa.

In as much as the concentration in the South African banks is very high, this paper accepts that South African regulators are managing the situation through legislation and rigorous supervision. An example of the role of the regulators response in regulating competition matters is found in their reasons for not permitting the attempted take-over of Standard Bank by NedBank citing that the level of concentration in South African banking market was already high and the takeover could not be to the benefit of the economy.

Granted that it has been indicated that South Africa has a developed and well regulated banking system which compares favourably with regulatory environment applied by the developed countries, further regulation such as the recently announced 'Twin Peaks' approach to financial regulation, in which the South African Reserve Bank has lead responsibility for prudential regulation, and the Financial Services Board (FSB) for consumer protection could lead to unintended consequences,

such as driving a larger share of activity into the shadow banking sector. The National Treasury of South Africa has however, indicated in recent budget announcement that measures have been put in place to address the regulation of the shadow banking system, the unintended consequences such as driving a larger share of activity into the shadow banking sector should be taken seriously and monitored by relevant authorities.

In discussing the weaknesses in the South African banks, it emerged that skills play an important role and have been highlighted by several researchers as a major weakness in the South African banking sector. To address this weakness, South African banks would need to begin to make themselves more attractive to potential and current employees, as well as looking for better ways to develop and deploy staff in their expansion projects. Another challenge faced by South African banks is that with lots of foreign banks entering the South African market, South Africa has become a battleground for foreign banks fighting for talented employees. Becoming the employer of choice is a vital advantage in markets such as banking where top talent has the pick of jobs from a diverse range of employers. Remuneration policies, development opportunities including global mobility opportunities and flexible working arrangements will be key to attract and retain key talent.

With regards to the opportunities, it was indicated that innovation will be paramount going forward as mobile banking and electronic channels are becoming more and more important in the banking sector. New banking products and technological innovation are expected to serve as catalysts for growth. Innovations include prepaid cards, transaction notification services, community and mobile banking, virtual payments and cash-back at point of sale (Accountancy SA, 2011). It has been observed that a significant proportion of South African consumers still transact in cash. As a result, there is an opportunity for South African banks as the supply of products and services via prepaid and mobile channels is becoming an increasingly significant distribution model.

In the strategic and emerging issues in South African banking, Accountancy SA (2011) agrees with the view above and they state that South African banks have started to think seriously about mobile phone banking, which is likely to represent a significant opportunity in the medium term. South Africa has the highest mobile penetration rate (in excess of 100%) in Africa. This provides banks with a lucrative market to offer mobile banking services. Currently, approximately 40% of South African cell phone subscribers use mobile banking services (Accountancy SA, 2011). It is clear that South African banks have to do more work to capitalise on this banking channel opportunity.

On the threats, it was indicated that another restraining factor on South African banking growth potential is unemployment. The 2015 unemployment forecast is in the range of 20 to 25%. This is far above peer emerging markets in the BRICs nations such as Brazil and China, other developing markets such as Nigeria, and developed markets such as the United Kingdom and the United States, who are all forecasting around 4 to 7% unemployment in 2015. It is expected that the unemployment in South Africa will fall due to government's 'new growth path', set to generate five million additional jobs by 2020 and this will ease this threat.

7. Conclusion and recommendations

In examining the South Africa's banking regulatory framework, it was concluded that South Africa has a developed and boasts an advanced and well regulated banking sector which aims generally to promote credibility, stability and economic growth. It was further observed that the principal legal instrument which seeks to achieve credibility, stability and economic growth, is the Banks Act, No. 94 of 1990 (the Banks Act). The paper highlighted that the South African Reserve Bank which is the central bank has an important role in banking regulation and supervision. In addition to the Bank Act and the role of the central bank, other regulations applicable the South African banking environment such as the National Payment System Act; the Financial Intelligence Centre Act (FICA); the Financial Intermediary and Advisory Services Act (FAIS); the National Credit Act; The Consumer Protection Act; the Home Loan and Mortgage Disclosure Act; and The Competition Act were outlined as other important banking related regulations in South Africa. It was further indicated that South African banks have to comply with the King Code on Corporate Governance and Basel II (except for the 2 mutual banks).

In discussing the South African banking market structure, it was observed that South Africa has 17 registered banks, two mutual banks, 12 Branches of international banks in the Republic of South Africa, 43 representative offices and 15 controlling companies. The dominant banks in the South African banking landscape where outlined as the Standard Bank of South Africa, ABSA Bank, FirstRand Bank and Nedbank. It was concluded that the reason for the increased market share by the big four banks in South Africa was seen as caused by the decline of confidence levels in the small banks as a result of Saambou Bank failures. Due to the dominance of four banks, using the HHI it was exhibited that the level of concentration in the South African banking sector was high at 0.187 in 2011.

In outlining the strengths, it was concluded that South Africa has a developed and well regulated banking system which compares favourably with

regulatory environment applied by the developed countries. However, it was cautioned that further regulation such as the recently announced 'Twin Peaks' approach to financial regulation could result in unintended consequences, such as driving a larger share of activity into the shadow banking sector. In discussing weaknesses, it was concluded that skills play an important role and have been highlighted by several analyst as a major weakness of the South African banks. To address this weakness, it was recommended that South African banks would need to begin to make themselves more attractive to potential and current employees.

In discussing opportunities in South African banks, it was concluded that innovation will be paramount as mobile banking and electronic channels are becoming more and more important in the banking sector. As such, it was recommended that South African banks should move at a necessary speed to ensure that they participate in mobile banking. The restraining factor on South African banking growth potential was viewed as unemployment. It was however concluded that the unemployment threat could be eased should the 'new growth path' which is set to generate five million additional jobs by 2020 delivers.

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