South Africa’s experience with regard to consolidated supervision

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South Africa’s experience with regard to consolidated supervision

- Introduction
- South African banking sector
- South Africa’s experience
- Practical challenges in the supervision of financial conglomerates
South Africa’s experience with regards to consolidated supervision (continued)

- **Introduction**
  - Committed to achieving the principles of consolidated supervision
  - SA employs 2 supervisory agencies for the supervision of financial institutions
    - SA is moving to a twin peaks model for financial regulation

- **BSD’s task as supervisor is to ensure:**
  - Suitable shareholders
  - Adequate financial strength
  - A legal structure in line with operational structure
  - Management with sufficient expertise
South African banking sector - global footprint
(Branches, subsidiaries & representative offices)
SA banking sector – total assets

December 2011

Solo

2011: USD485 billion

Consolidated

2011: USD614 billion

92%

5%

3%

Large 5 Banks/ Banking groups

Branches (12) + Mutual Banks (2)

Other Banks (12)
South Africa’s experience with regard to consolidated supervision

- **Legal framework**
  - Essential that supervisors have the necessary powers to
    - Review all activities of the group
    - Impose prudential standards
    - Review major acquisitions

- **Scope of consolidation**
  - It is essential that a holding company is included
  - The broader philosophy is to ensure that banking groups do not have affiliates that are engaged in undesirable practices
  - Only allow banking-related business to be structured under the bank
Shareholders of banks or controlling companies
  – Permission is required to increase shareholding beyond 15%, 24%, 49% and 75%
  – Permission only granted if the BSD is satisfied that it is not contrary to:
    • Public interest
    • Interest of the bank concerned
    • Depositors

Corporate governance
  – Directors and management with proven ability and integrity
  – Evaluation of the competence and integrity
South Africa’s experience with regard to consolidated supervision (continued)

- **Group structures**
  - Supervisors to develop and maintain a thorough understanding of the group’s operations
  - Supervisors should have the power to review major acquisitions
  - Prior approval required to establish or acquire subsidiaries, branch offices, other foreign interests or representative offices
  - Can refuse permission if of the opinion that it would not promote effective consolidated supervision
South Africa’s experience with regard to consolidated supervision (continued)

- **Consolidated reporting**
  - Relevant consolidated information via a statutory return
  - Core Principle 18 - banking supervisors must have means of collecting, reviewing and analysing prudential reports and statistical information on a solo and consolidated basis
  - Other benefits
    - Return enables more efficient use of own resources
    - Leads to the early prompting of corrective action
  - Consolidated statutory return on a quarterly basis covers:
    - Group capital adequacy
    - Group large exposures
    - Intragroup exposures
    - Group currency risk
South Africa’s experience with regard to consolidated supervision (continued)

- **Information sharing**
  - Essential for effective supervision of financial groups
  - BSD and FSB hold bi-annual meetings to discuss SA financial groups
  - Objective of the meetings are to:
    - Enhance supervisory information sharing
    - Discuss issues that may pose a risk to financial stability
    - Identify regulatory arbitrage opportunities
    - Foster closer working relationships
  - **Supervisory colleges**
    - Regarded as an important component of effective supervision
    - At both domestic and international level
South Africa’s experience with regard to consolidated supervision (continued)

- **Prudential requirements**
  - **Capital**
  - Uniform approach to measure capital on a group-wide basis
  - Approach substantiated by the Joint Forum
  - Risk-based aggregation method selected for the following reasons:
    - Method can be accommodated in a risk-based return
    - Accounting consolidation not a requirement
    - Technique is internationally accepted
    - Technique accommodates different supervisors
    - Eliminates the double counting of capital
    - Transferability of capital is identifiable
    - Easy to identify any surplus or deficit
South Africa’s experience with regard to consolidated supervision (continued)

- Prudential requirements
  - Large exposures
    - Banking groups to submit quarterly returns
    - Provide detail of all exposures exceeding 10% of qualifying capital and reserves
    - Banks and banking groups should manage credit risk prudently
  - Intragroup exposures
    - All intragroup exposures exceeding 1% of qualifying capital and reserves are reported on a quarterly basis
    - Returns assist BSD in assessing contagion risk
    - Contagion risk a crucial risk for group entities
South Africa’s experience with regard to consolidated supervision (continued)

- **Foreign operations of South African banks**
  - Required to submit a quarterly return with selected financial information
    - Provides BSD with the most recent quantitative information of foreign operations

- **Resources**
  - Consolidated supervision has become a highly specialised field
  - Role that it plays in the supervisory process
  - Consolidated supervision to be managed as a separate unit within BSD
  - Centralisation will ensure that:
    - Specialised skills and knowledge are retained, developed and centralised
    - Benefits of teamwork are realised
Practical challenges in the supervision of financial conglomerates

- **Focus on Africa**
  - SA banks’ strategic focus
  - No harmonised approach to implementation of Basel II and III in Africa
  - Various countries are at different stages of implementation
  - Responsibility as home-country supervisor to ensure SA banks foreign operations adequately supervised
  - Challenge to act in best interest and to ensure proper supervision

- **Foreign holding companies**
  - Some systemically important banks in our jurisdiction are foreign controlled
  - Foreign holding company may also be systemically important in global context
  - BSD has a dual responsibility as home- and host-country supervisor
  - Challenge is to ensure that strategies, policies and processes imposed by foreign holding company are not detrimental to the SA bank
Practical challenges in the supervision of financial conglomerates (continued)

- **Resolution agreements**
  - SA currently in process of strengthening two challenging aspects of country’s resolution arrangements
  - **First challenge**
    - One of SA largest banks is controlled by a G-SIB
    - The G-20 requirement for G-SIBs to establish cross-border crisis management groups aids the development of mutual resolution plans
    - No explicit requirements are in place for SA banks controlled by foreign non-banking entities
    - SA has to take initiative to develop cross-border resolution plans in the African region
  - **Second challenge**
    - Resolution and liquidation of different entities in a group are governed by different pieces of legislation
    - Overarching legal framework needed to resolve systemically significant groups
Practical challenges in the supervision of financial conglomerates (continued)

- **Supervision across different sectors**
  - Committed to improving information sharing
  - Regular meetings with insurance supervisors help to understand the risk insurance entities pose to banking group
  - Twin peaks model to contribute to improved co-operation and better co-ordination

- **Multiple jurisdictions**
  - Foster a close working relationship with all host supervisors
  - Concluded MOU’s with most of the host supervisors
  - The challenge is to establish working relationships with supervisors across borders in different sectors
  - Enhance contribution to regional efforts to harmonise banking legislation, regulation and supervision in Africa
  - Increase involvement by providing expertise to strengthen supervisory practices
Practical challenges in the supervision of financial conglomerates (continued)

- **Closing**
  - Regulatory framework provides the necessary tools to effectively perform consolidated supervision
  - BSD efforts will now focus on:
    - Being more effective
    - Developing and retaining specialised skills and knowledge
    - Enhancing supervisory processes to ensure we stay abreast of the latest international developments