

Understanding South African Financial Markets

Chapter 3: Banks



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Study outcomes

The objective of this chapter is to explain how banks work and to familiarise you with the environment in which they operate in South Africa.

When you have studied this chapter you should be able to

- explain how banks create money
- discuss the role of banks in the economy and how they generate income
- discuss the mismatch between the assets and liabilities of banks
- discuss the legal and regulatory framework for banks in South Africa
- discuss the South African banking landscape and the challenges facing the banking industry in South Africa.



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Introduction

Overview

- The key roles of banks
- The role of banks and their income
- The mismatch between the assets and liabilities of banks
- Legal and regulatory framework for banks
- South African banking landscape
- Challenges facing the banking industry

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The key role of banks

How banks create money

- Who supplies currency (C) and what determines the amount supplied?
- Who supplies deposits (D) and what determines the amount supplied?

How banks raise funds for investment projects

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The role of banks and their income

The income of banks



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The mismatch between the assets and liabilities of banks



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Legal and regulatory framework for banks

Key legislation governing the banking industry

- The Banks Act 94 of 1990
- The South African Reserve Bank (SARB) Act 90 of 1989
- The Mutual Banks Act 124 of 1993
- The Cooperative Banks Act 40 of 2007
- The National Payment System of South Africa Act 78 of 1998
- The National Credit Act 34 of 2005
- The Financial Intelligence Centre Act 38 of 2001
- The Financial Advisory and Intermediary Services Act 37 of 2002
- The Treating Customers Fairly (TCF) regulatory initiative

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South African banking landscape

Table 3.1 The South African banking industry (Textbook page 75)

	2001	2008	2009	2010	2011	2012
Bank assets/ GDP %	94,1%	135,4%	118,5%	111,9%	117,1%	116,4%
Loans and advances as a % of GDP	68,4%	113,3%	103,7%	96,0%	84,6%	85,8%
Mortgage assets/ total bank- ing sector assets %	25,4%	33,5%	34,9%	35,3%	24,2%	22,8%
Bank deposits/ GDP %	79,50%	116,70%	108,70%	103,40%	92,6%	92,1%
Registered banks	41	19	18	17	16	16
Mutual banks	2	2	2	2	2	3
Local branches of foreign banks	15	14	13	13	13	14

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Challenges facing the banking industry

Transformation and financial inclusion

Competition and technology in the payments arena

The impact of the sub-prime crisis



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