



# COMMISSION OF THE EUROPEAN COMMUNITIES

DIRECTORATE GENERAL XV

Internal Market and Financial Services

General matters and coordination, free movement of persons and direct taxation

External dimension of the internal market and financial services

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## SOUTH AFRICA

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## **Introduction**

GDP in South Africa reached 384 bn. ZAR (107 bn. ECU<sup>1</sup>) in 1993, a growth in real terms of 1.1%. South Africa has a population of over 39.5 mn. this represented GDP per capita of 9,716 ZAR (2,563 ECU).

## **CREDIT INSTITUTIONS**

### **Overview**

South Africa began its programme of deregulation of the banking industry during the period 1991-1993, when it implemented the Deposit-Taking Institutions Act of 1991. In 1992 the Committee of Investigation into the Promotion of Equal Competition for Funds in Financial Markets in South Africa recommended a programme to regulate financial services in South Africa. One year later, the Policy Board for Financial Services began operations as a statutory body under the Policy Board for Financial Services Act 1993. Reforms of the financial services sector are still ongoing.

South African banks are regulated by the Bank Supervision Department of the South African Reserve Bank, under the guidance of the Registrar of Banks. The aim of the Registrar of Banks, the Reserve Bank and the Council is the creation of an environment that will facilitate the improvement of the quality and effectiveness of financial risk management in the banking system.

The guidelines of the Bank of International Settlements are being implemented by South Africa regarding capital adequacy for banks, with the exception of foreign exchange and interest related contingencies which will be applied at a later date. As of January 1, 1994, South African banks are required to maintain a capital-to-risk-weighted asset ratio of 8%.

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<sup>1</sup>Exchange rates:

At 1993 year end 1 ECU = 3.79 ZAR

Annual average 1 ECU = 3.821 ZAR

**Table 1 - Banking sector indicators - Year 1993**

	Number	Assets (in bn ZAR)	Deposits (in bn ZAR)
Commercial banks	11	294	227
. Non EU foreign banks	1	0.3	n.a.
. EU foreign banks	5	6.8	n.a.
Mutual banks & Post Office savings banks	29	2	2

Source : South African Reserve Bank

### Presence and market share of foreign banks

At the end of 1993, the South African banking sector consisted of 40 banks, of which only 6 were foreign-controlled (5 from the EU), the remaining 34 being South African-owned. There were also 6 provisionally registered banks. There are 11 commercial banks, all of which are privately owned. 24 foreign banks have approved local representative offices (17 from EU).

### Establishment

Foreign banks may establish representative offices, branches or subsidiaries. Draft legislation to allow direct branching was adopted in December 1994. Locally registered foreign banks do not face funding constraints and have equal access to the Reserve Bank discount window. Moreover, local borrowing by South African registered companies with a non-resident shareholding of 25% or more is limited.

### Activities

Government and private sector institutions have stated their support for increased foreign investment. Foreign ownership of banks requires authorisation from the registrar of deposit-taking institutions for shares. Authorisation from the registrar is required for any percentage of shares. Central bank rules limit the local borrowing capacity of any South African company in which more than 25% of the shares are owned by a non-resident. These rules are designed to prevent excessive gearing and to ensure adequate capitalisation of foreign investments. Furthermore, the permissible level of local borrowing is calculated on a sliding scale, based on total effective investment and the percentage of foreign ownership.

**INSURANCE****Overview**

In 1992, there were a total of 98 insurance companies, 41 life and 49 non-life. 8 companies combined life and non-life. Total insurance premiums amounted to ZAR 49.5 bn (ECU 13 bn) which represented ZAR 1253.4 per head (ECU 328).

<b>Table 2 - Indicators of Insurance Business Year 1993</b>			
	Life	Non-life	Total
Premiums (in ZAR bn)	38.4	11.1	49.5
Premiums as % of GDP.	10.0	2.8	12.8
Premiums per capita (in ZAR)	971.6	281.8	1253.4
Number of companies (1992)	41	57	98
Assets insurance companies (ZAR bn)	243.5	19.2	262.7

Source : Registrar of Insurance, 1993 Annual report.

**PRESENCE AND MARKET SHARE OF FOREIGN INSURANCE COMPANIES****Establishment**

The Financial Services Board regulates the South African insurance industry. Direct branching of foreign insurance companies is not allowed. To transact business in South Africa insurers must be incorporated as a public company in terms of the Companies Act.

Approval of the Registrar of Insurance is needed in case that acquisition of a company's shares exceed 25% to ensure that competition is not impaired.

**Activities**

National treatment is granted to establish insurance companies.

## SECURITIES

### Overview

The Johannesburg Stock Exchange (JSE) lists more than 600 companies and is the 15th largest in the world. The JSE is the only stock exchange in South African. The JSE operates an equities market and a trading options market. It is currently awaiting a full licence for a new bond market. Bonds (gilts), futures, and options are also traded on the JSE.

The futures market is operated by the South African Futures Exchange.

The Policy Board for Financial Services and Regulation is responsible for the coordination of overall regulatory policy affecting the financial markets. The government is represented as the executive officer on the Board, and overlooks the securities market. The JSE is a corporate body and a self-regulated body operating within the parametres of the Stock Exchange Control Act 1985.

	1992	1993
Turnover in equity shares (ZAR bn)	22	4412.8
Turnover as % of GDP	6.4	678.0
Capitalisation equity shares (ZAR bn)	501.3	737.6
Number of listed companies	683	647

Source: Johannesburg Stock Exchange

### PRESENCE AND MARKET SHARE OF FOREIGN SECURITIES COMPANIES

Foreign nationals, individuals or companies are prohibited from undertaking securities market activities either directly or by establishing a locally incorporated subsidiary. However, foreign firms have been able to provide underwriting services to South African residents issuing securities offshore. This activity has been initiated by South African issuers seeking foreign service providers in overseas markets.

**Establishment**

Foreigners are prohibited from operating in the South African securities market.

**Outlook**

During 1993, there was increasing activity in the South African securities sector.

In 1992, a committee of the JSE recommended the removal of South African citizenship as a qualification for membership of the exchange. Approval of recent relaxation of access to the JSE by permission of corporate membership is expected in 1995. In addition to this, the committee recommended the suspension of dual capacity in the equities market, a revision of the brokers' capital requirements, and the development of an electronic register.