



FIRSTRAND

Annex 9 – The role of banks in the South African economy

The Registrar of banks noted in his 2005 Annual Report “The South African banking system remained stable, and, in general, banks were sound and continued to benefit from and contribute to South Africa’s economic health during 2005”.

1 The Importance of banks in the South African economy

Banks contribute to the operation and growth of the economy through various roles, including that of intermediary and provider of payment settlement facilities. Banks must also execute these roles faultlessly in order to promote confidence and stability in the system. The Global Competitiveness Report 2005/06 notes the positive contribution banks make to the ease of doing business in South Africa in its ranking South Africa 15th out of 117 countries for the soundness of its banks.

The traditional role of banks has been that of intermediary, that is, the bringing together of borrowers and lenders (savers or depositors). This can only be done successfully and for a sustained period with the careful management of credit, liquidity and interest rate risk. Essentially, because a bank is funded primarily by depositors, it has an obligation to ensure that the risk which depositors’ funds are exposed to is minimized.

However, in its role as intermediary, banks have developed systems to facilitate the transfer of funds, such that money can be transferred almost instantaneously, and with minimal risk to the parties involved. In fact, South Africa is ahead of many developed nations in this regard.

The banking system ensures the efficient allocation of resources in an economy through lending to businesses and individuals using sophisticated credit scoring systems. Additionally banks facilitate business through the settlement of funds and the provision of credit to consumers, provide 24-hour access to funds and facilities to save/invest with safety. Banks must continually upgrade their technologies, products and services in order to facilitate economic transactions and economic growth, while maintaining its focus on the minimisation and management of risk.

Bank failures expose the banking system to systemic risk, which is the risk that all depositors panic and attempt to withdraw their funds. The strain on liquidity would lead to a collapse of the entire system. Therefore the sound management and regulation of all banks in the system is crucial.

The government looks toward banks in addressing the socio-economic needs of its citizens, notably the provision of banking services to the previously un-banked, as well as assisting in the financial education of the public. In South Africa financial literacy is so poor as to necessitate face-to-face interaction of bank staff with the majority of its customers. Banks have pledged to provide this facility in even the remotest of areas in order to address this customer need.

Banks have a positive impact on the economy in various other ways, including the employment and training of over 120,000 staff¹ and the payment in excess of R7b per annum².

2 FirstRand Social Initiatives

FirstRand group companies annually contribute 1% of after tax profits to the FirstRand Foundation. In 2006, the total allocation for Corporate Social Investment related activities was R77million. While the majority of our giving is done through the Foundation, we also have formalised employee volunteer programmes at business unit level through which our staff continue to respond to identified needs both locally or nationally. Some business units elect to allocate further funding to community related initiatives, such as the OUTsurance traffic assistance programme. The feedback we receive through the Foundation and the volunteer programmes plays a significant role in the development and marketing of appropriately priced and structured products and services for those communities which we service. The funding and volunteers touch the entire country and are assessed against the impact they have.

A good example is the FirstRand Foundation support for the Business Trust Expanded Public Works Programme with funding of R5,2 million per annum. The support programme targets those areas with the highest possible return measured by the largest number of people to benefit in the shortest possible time. The programme began in March 2005 and is expected to run until December 2009. The programme aims to create in excess of 450 000 work opportunities, assist 600 SMMEs as well as established contractors, work with 234 municipalities, and assist with R1,3 billion worth of contracts in the infrastructure, social, and environmental sectors.

¹ FirstRand, ABSA, SBSA, Nedbank, Investec and Capitec employed a total of 120,643 staff according to their latest Annual Reports

² FirstRand, SBSA, Nedbank, ABSA and Capitec reported current direct and indirect taxes totaling R7.037 billion in their latest Annual Financial Statements

The Financial Sector Charter (FSC) is a voluntary commitment by the financial sector to Black Economic Empowerment (BEE). It was signed in August 2002, at the NEDLAC Financial Sector Summit.

FirstRand Limited achieved an "A" rating for our FSC balanced scorecard submission to the Financial Sector Charter Council. This rating was audited by PricewaterhouseCoopers. "A" Rating is the highest rating achievable and is equivalent to >80% of scorecard.

3 Consolidation and Globalisation

Through globalisation, South African banks, like all others internationally, are exposed to overseas competitors and need to operate in a manner consistent with international best practice. The takeover of ABSA by Barclays PLC is one incidence of the global phenomenon of consolidation in the banking industry, across international borders.

Consolidation is happening not only across banks, but across financial services, where integrated financial services firms are becoming the norm, offering the full range of financial services from retail and merchant banking to asset management and long and short term insurance.

Given there is global consolidation taking place and that South African banks are small by international standards, it is important that South Africa has highly efficient and competitive banks that are able to compete internationally and are able to compete against new global competitors who may enter the South African market.