INTRODUCTION

South Africa is returning to full participation in the global economy. However piecemeal this return may be so far, it is important to prepare for this reintegration before it occurs. One area that is progressing rapidly is that of banking and finance, appropriately so as such facilities will be essential to boosting South Africa’s hoped-for economic recovery. As early as July of last year, Business Day contained the headline "Top overseas banks in rush for South African links". Moreover, events such as the recent opening of a Standard Bank branch in London, the formation of the ABSA banking group as one of the 200 largest banks in the world, the success of the South African bond issue in September 1991, and the probability of South Africa’s readmission to the facilities of the International Monetary Fund (with the consequent influx of private capital that this should bring), all point to the growing linkage between the South African and global financial communities. It is perhaps worthwhile at this juncture to provide an overview of both the changes that have occurred in recent years and the current debates underway in the global financial arena.

RECENT TRAUMAS

Some of these are so well known now that they barely merit attention but it should be stressed that the huge shocks endured by the financial community will have ramifications that are far-reaching and dramatic for the international economy as a whole. The Savings and Loans crisis of the late Eighties in the US, the worldwide scandal of the Bank of Credit and Commerce International, and the ongoing scandals and disasters of Japanese banks compare in their implications to the Third World Debt Crisis of the early and mid-eighties.
Regulatory authorities at the national and international level have found themselves faced with an ailing and sometimes corrupt industry, upon the health and fair dealing of which depends so much.

Another area has been the way that banks are changing their business practices. This metamorphosis has been brought about by the increased competition from non-bank financial actors, such as securities firms and credit card agencies. The drive for profitability has brought (and will continue to bring) not only mergers and a shrinkage in the number of banks, but also a fundamental metamorphosis in the means used by banks in their everyday business. From the traditional method of intermediation (converting deposits into loans at a profit) have emerged a bewildering array of new financial instruments at a bank’s disposal. Such areas as securities trading and swaps and options dealing have become an integral part of banks’ business, and there is a growing movement into insurance trading.

Of course the natural consequence of these two factors, mergers and the use of new instruments, has been the move towards conglomeration, the merging of banks, securities firms and insurance companies into single operational entities. This has come to be known by the delightful terms allfinanz and bancassurance, and the idea is catching on the world over. Globally that is except in the U.S., where it is still illegal for banks to diversify into certain fields and to branch across state boundaries. In other countries where such diversification is permissible, it is the branch nature of banking that is furthering the use of these instruments.

REACTIONS

With these changes in banking practice has come a consequent need for regulators to reassess their position vis-a-vis banks. After what have been seen by many as the excesses of deregulation in the 1980s, there is a full-scale movement to re-regulate, at both national and international level. Having successfully brought about new international capital adequacy requirements, the Basle Committee on Banking Supervision is turning its attention to the control of new banking activities. However there is the fear amongst bankers that this drive to re-regulate will stifle their ability to become profitable institutions, especially in the competitive modern financial marketplace. Rather many would prefer to see a form of supervision, founded on the basis of trust, that does not muffle the market. Although the difference between regulation and supervision is sometimes a grey area, encouraging the use of proper in-house risk-
management mechanisms could be one way of attaining this level of trust-based supervision. Perhaps just as importantly, the Basle Committee has just agreed on new standards ensuring international co-operation between national regulators on all prudential matters relating to international banking. Such sharing of information should go a long way towards preventing another debacle of the magnitude of the BCCI affair.

At a national level, the U.S. has gone one step further than the "Basle ratios" by imposing penalties on banks that are under-capitalised. Obviously a reaction to the Savings and Loans debacle, it is hoped that such methods will help remove the weaker banks from the market before they are able to impose a similar threat to the system. These moves will enhance the general shrinkage in the number of financial players, and should bring about a stronger, healthier industry.

It is vital that we remember that banks, important as they are to the global and national economies, should first and foremost be healthy, profit-making businesses, if they are to continue to provide liquidity. The Basle Committee seems to have realised this, and it is hoped that future accords will tend towards supervision of banks rather than regulation and restriction of activities.

The implications for South African banking of these developments are three-fold. First, the financial industry must decide if it is to follow the lead of banks worldwide and form larger, hopefully more efficient entities, much as ABSA has already done. Second banks must be prepared to adopt new financial instruments, to move beyond mere intermediation, if they are to compete with foreign institutions, and here the expertise and sophistication that the South African financial community has maintained will be essential. Finally, the regulatory authorities in South Africa have to choose between a policy of restrictive regulation, or a more liberal, trust-based supervisory role, and indeed they appear to be moving in this direction. In this way banks will remain profitable and may continue to play their vital function of providing liquidity to the economy.