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HEADLINE: South Africa welcomes foreign banks' entry

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BODY:

South African central bank governor Tuesday welcomed foreign banks to his country, saying " international banks wanting a stake in the South African banking sector will be treated on an individual basis."

Tito Mboweni, governor of the South African Reserve Bank (SARB), told reporter here the authorities will have to examine each application on a case by case basis.

Mboweni said, however, that the Reserve Bank still favored a four-pillar banking system, saying: "it seems important to the Reserve Bank that there still remain four pillars upon which our banking system rests."

Internationally-owned banks would increase competition among South African banks, benefiting consumers, he said.

"The world is changing very fast and the regulatory authorities cannot be seen to be standing in the way of globalization and rapid changes," he said.

Mboweni said the changes were welcome as they indicated an increasingly positive outlook for South Africa.

In a four-pillar banking system, there are a minimum of four substantial, locally owned banks regulated by the Office for Banks.

Mergers between these banks are discouraged, said Mboweni. "The primary reasons for such a policy relate to the maintenance of minimum levels of competition, in the interests of prudential and systemic stability, in order to avoid the spread of risk and to promote reliance on a broader platform of institutions," he said.

The four-pillar system originated in Australia, which initially had a six-pillar policy. Australia's six-pillar policy discouraged mergers between the four major banks and two major life insurance companies.

In 1997, the life insurance companies were dropped to increase competition, resulting in a four-pillar policy.

The Australian government decided to ban mergers among the big four banks as they feared this would decrease competition.

Mboweni's comments could be an indication of the Reserve Bank's position in relation to the proposed bid by the Britain's Barclays Bank for a 50.1 percent stake in South Africa's largest retail bank, Absa.

Mboweni said New Zealand could guide South Africa in how to maintain a sound financial system while having non-resident owned banks.

If a South African bank was to be foreign-owned, the governor said, they would follow the internationally agreed framework for "home-host" banking supervision.

He said: "the success of such a system relies largely on both the home-country and the host-country regulator ensuring compliance with the Basel Core Principles for Effective Banking Supervision and the various guidelines flowing therefrom."

This ensures that banking regulators' requirements are not in conflict with the home country's banking regulations, he added.

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