SOUTH AFRICAN REPUBLIC

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FINANCIA L SYSTEM

South Africa's financial services sector is strong, with numerous of domestic and international institutions offering a full range of services including commercial, retail, and commercial banking, mortgage lending, insurance, and investing.

Central banks and deposit-taking organizations make up Africa's banking system. Although the Central Banks are technically independent of government control, they work closely with the Ministries of Finance in their respective states to assist design and implement macroeconomic policies. Local banks and foreign bank branches or subsidiaries make up the deposit-taking institutions. Foreign banks have had a significant role in Africa's banking development.

BANKING SYSTEM

THE FOUR BIGGEST BANKING GROUPS IN SOUTH AFRICA ARE

- **STANDARD BANK GROUP,**
- **FIRSTRAND LTD (WHICH OPERATES FIRST NATIONAL BANK), ABSA GROUP,**
- **NEDBANK GROUP.**

THESE FOUR BANKING GROUPS PROVIDE MORE THAN 80% OF BANKING SERVICES IN SOUTH AFRICA.

National banks have branches across South Africa. Bank branches are generally open from 9am to 3:30pm Monday to Friday (sometimes up to 4-5pm), and 8:30am to 11am on Saturdays (sometimes up to 12-1pm). Some branches open on Sunday mornings, but this is rare. Banks located in airports may adjust their hours to accommodate international flights.

CENTRAL BANK

- South Africa's central bank is the South African Reserve Bank (SARB).
- The fundamental goal of the South African Reserve Bank, in addition to regulating monetary policy, is to keep inflation under control.
- The South African Reserve Bank is one of the world's few privately owned central banks, however it has recently been discussed as being nationalized.

FINANCIALS

According to the SARB's most recent annual report, net investment income climbed by South African R5.8 billion, while operational costs increased by R1.8 billion. The overall result was an R4.6 billion profit after taxes.

Total assets increased by R131.0 billion to R872,839,514 billion.

OWNERSHIP

Unlike most other countries' central banks, the South African Reserve Bank has always been privately held. It has over two million outstanding shares and over 783 shareholders as of February 2020. The majority of the people are South Africans; little over 8% are immigrants, mostly Germans. 3 The bank's monetary policy and the selection of its governor and deputies are not influenced by the stockholders.

ASYMMETRIC INFORMATION

01

Asymmetric Information is a situation whereby unequal knowledge between the parties of a transaction results in a unique advantage with additional knowledge. It occurs primarily before the transaction/pre-contractual problem. Adverse selection and Moral hazard can result from severe asymmetric information problems.

02

Adverse selection – Occurs when bad credit risk (a company with a poor investment channel and high inherent risk) is more likely to borrow than good credit risk (a company with good investment opportunities and low inherent risk).

03

Moral hazard – Moral hazard occurs after the money has been disbursed to the borrower and it arises out of the fact that the borrower may have an incentive to breach the loan covenants by investing in projects (criminal which are unacceptable in the eyes of the borrower because such as they have a high possibility of gain to the borrower, they also have a high possibility of failure which will have the most detrimental effect on the lender.

Adverse selection

In banking, the consumer will have superior information than the bank. Whether it's a small loan, a mortgage, or a business loan. The consumer will know their spending habits better than the bank. Equally, a business owner will know more about the industry and its future growth – although this may also be overly optimistic.

Moral hazard

In the case of the sub-prime mortgage market 2000-2007; lenders faced a situation of moral hazard. They were able to sell on mortgage bundles to other financial institutions. Because there was strong demand from other people, and because other banks were taking on all the risk, the mortgage companies had less incentive to check the mortgages could be repaid. Therefore, there was a big growth in sub-prime mortgage lending with inadequate checks made.

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THANK YOU