T T Mboweni: ICBS opening statement

Remarks by Mr T T Mboweni, Governor of the South African Reserve Bank, at the formal opening of the 12th International Conference of Bank Supervisors, Cape Town, 18 September 2002.

*   *   *

Good morning ladies and gentlemen. On behalf of the South African Reserve Bank, welcome to sunny South Africa. It is indeed a privilege for us to be hosting the twelfth International Conference of Banking Supervisors (ICBS). This gathering of the world's bank supervisors has been taking place every two years since 1979, in some of the most attractive venues in the world. And I am sure you will agree that Cape Town is no exception. The ICBS has become an essential forum to promote cooperation among national banking supervisory authorities in the arduous task of supervising international banking. This year it will enable about 280 representatives from some 130 countries to exchange views on a range of current issues of common concern.

One has only to glance at the programme and advance documentation to realise that ICBS 2002 will be among the most important and most demanding for delegates ever held. The steady build-up of inter-linkages and complexity in global financial systems, the events of 11 September 2001, the protracted tardy growth in the key economies of the world, and the systemic financial crises in a number of emerging market countries have all contributed to an acute awareness of the inherent fragility of the global financial system. Bank regulation and supervision is right up there in the first line of defence against financial instability, and from what I can see, the international best practice setting authorities have not dallied in responding to the challenges. Extensive work by the Bank for International Settlements (BIS), the Basel Committee on Banking Supervision (BCBS), the Financial Stability Forum (FSF), as well as many other international organisations and national supervisory authorities, will form a solid base for the discussions in the next two days.

The discussions on dealing with weak banks and international bank insolvency are clearly important in these times of turmoil. Since capital is an effective, yet costly, buffer to protect depositors from the effects of banking problems, the scheduled discussion on the draft Basel II Capital Accord is very opportune. The draft accord holds the promise of ensuring that banks will have capital more relevant to their real risks, closing the gap between regulatory capital and economic capital, and eliminating many of the regulatory arbitrage opportunities that exist in the current framework. It is important that the ultimate accord is applicable not only to developed countries with banks that have sophisticated risk management models and formally rated credit risks, but also to emerging market economies and banks with portfolios of retail and small/medium enterprise (SME) loans. I am particularly pleased to note the intended discussions on the transition of emerging countries to Basel II. We await in anticipation the results of the forthcoming Quantitative Impact Study (QIS), in which South Africa is participating fully. In fact, the multinational team responsible for driving the study held an important meeting here in Cape Town just last week. I am confident that South African regulators and banks will be ready to implement the Basel II Accord by 2006.

The topics relating to money laundering and "knowing your customer" processes, and those relating to operational risk, are critically important in light of the build-up of terrorist threats to financial stability. I am told that many of the countries represented here are working hard at testing the readiness of their financial systems to endure sudden crisis events, as well as ensuring that the financial system is not abused by terrorist organisations to help fund their activities.

And of course, the recent spate of corporate failures around the world has made discussions on corporate governance the more imperative. So, it is indeed a remarkably relevant and extremely demanding programme in anyone's book. I am impressed, and I wish you well.

South Africa is regarded as having a dual economy. On the one hand it is an emerging market with its fair share of challenges regarding economic growth, wealth distribution, and inflation. In particular, we face the challenges of high unemployment, a low savings level, a high HIV/Aids infection rate, and a volatile currency. We are also severely affected by commodity prices, especially oil and gold.

On the other hand, South Africa is blessed with a sophisticated, privately owned, financial system comparable in many respects with the best of the developed economies. The financial sector is well regulated, as confirmed by the IMF and World Bank's joint Financial Sector Assessment Programme (FSAP). The banking sector is more than adequately capitalised, and its risks are well managed.

Unfortunately, our financial sector is highly concentrated, a natural legacy of our shameful apartheid past. There is also an underlying problem of lack of broad access to basic financial services for the majority of the population, which is why I have noted with interest the topic of microfinance in emerging market economies on tomorrow's programme. In this regard it may be of interest to note that a review of the entire regulatory architecture in South Africa is currently underway to ensure that it remains appropriate to our needs going forward.

These and other challenges are, however, being tackled enthusiastically in a consultative manner, and we remain highly optimistic about the stability of our financial system, the growth prospects of our economy, and the future of our country. Being so integrally part of Africa, you can be sure that our enthusiasm also extends to the impact of the New Partnership for Africa's Development (NEPAD) process on the future of our continent.

I view the fact that ICBS 2002 is being held in South Africa, the first time outside of the developed countries, as a symbolic indication that emerging market countries are recognised as willing and able to throw their weight behind the achievement a robust global financial system. We have been involved in best practice setting processes for a long time, paying specific attention to the special circumstances in emerging countries. Efforts in our region to harmonise regulatory and supervisory practices are well known, and the annual meeting of the Eastern and Southern African grouping of bank supervisors (ESAF) yesterday in this venue has surely advanced that cause further. We can be proudly confident that the Southern African Development Community (SADC) countries will not be found lacking in the quest to ensure that there is no weak link in the global financial system through which disturbances can be propagated.

I wish you the greatest of success in all your deliberations. My final hope is that you, and your accompanying partners, enjoy the beauty of Cape Town and the many interesting aspects of our diverse society. Hopefully this will not be too much of a distraction to you, and that you are able to maintain the focus and concentration that will be required if this conference is to succeed in helping bank supervisors face up to the many challenges going forward.

Thank you.