

Paper for South African Economic History Conference, Sept 2007.

**The Internationalisation of Banking in New Zealand and South Africa
since 1970¹**

John Singleton (Victoria University of Wellington)

Grietjie Verhoef (University of Johannesburg)

(First Draft May 2007; Revised July 2007; August 2007)

Introduction

The last two decades of the twentieth century have witnessed the rapid internationalisation of the global banking industry (Slager 2006; Tschoegl 2001). Banks sought to expand into foreign markets, often through the acquisition of foreign banks. This trend was facilitated by the liberalisation of capital controls and regulatory systems, including nationalistic restrictions on foreign ownership of banks. Of course, the internationalisation of the banking industry was not an entirely new phenomenon, and Geoff Jones (1993) has described the development of an earlier cohort of multinational banks. In response to the economic crises of the 1930s and 1940s, however, national banking systems became increasingly regulated and insulated. It was only towards the end of the twentieth century that there was a return to an emphasis on competition and efficiency in the banking sector.

The current paper seeks to explain the internationalisation of the banking industries in South Africa and New Zealand since the 1970s. Both countries were colonised by British overseas banks in the nineteenth and

¹ We are obliged to the Knowledge Centre of the RBNZ for use of their facilities.

early twentieth centuries and had, broadly speaking, British banking traditions, tempered in the South African case by Dutch influence (Acemoglu, Johnson and Robinson 2001: 1372-3). New Zealand and South Africa attracted massive capital exports from Britain after the middle of the nineteenth century (Lewis and Gallman, 2001: 19-35; Lewis, 1978: 29-32). The development of the mining industry in South Africa and agriculture in New Zealand and subsequent industrialisation necessitated the establishment of supporting financial institutions. Both countries went through periods of nationalism and relative economic isolation in the mid-twentieth century, which contributed to deteriorating economic performance. Both countries deregulated their banking sectors in the late twentieth century and lifted restrictions on foreign ownership of banks, as part of a wider programme of economic reforms.

The results, however, differed substantially between South Africa and New Zealand. Foreign penetration of the South African banking sector remained at modest levels in the early 2000s, ten years after the abolition of the prohibition on foreign ownership, but South African owned banks had expanded significantly into other countries. By contrast, New Zealand owned banks failed completely to establish a viable overseas presence, and became prey to larger Australian banks. Indeed, the New Zealand banking sector became almost totally overseas-owned.

Several factors were responsible for the divergence between the New Zealand and South Africa banking industries after deregulation.

1. Majority overseas ownership of New Zealand banking assets was already widespread on the eve of deregulation, whereas majority foreign ownership of banks in South Africa was prohibited.
2. New Zealand had a large neighbour (Australia) with a powerful and sophisticated banking sector. Australia was a challenging market for New Zealand banks to enter, but Australian banks regarded New Zealand as an extension of the domestic market and regarded its banks, including retail banks, as soft takeover targets. By contrast, South Africa was distant from other sophisticated financial centres, and its leading banks were relatively large and less vulnerable to takeover.
3. In the 1990s, foreign banks may have perceived investing in South Africa to have been riskier, both politically and economically, than investing in New Zealand.

At the end of the twentieth century, 99 per cent of total bank assets in New Zealand were in overseas hands (see table 9). This gave New Zealand the highest level of foreign ownership in banking in the OECD, the next highest level being recorded by Luxembourg (93 per cent) and Hungary (62 per cent) (Dopico and Wilcox 2001: 9; see also table 9). A distinctly different position was noticeable in South Africa: towards the end of the twentieth century all the South African banks were incorporated South African institutions under South African control. Banking legislation towards late 1970s required the diminution of foreign ownership of banks, only to permit re-entry of foreign owned banks during the last decade of the twentieth century.

By the early 1990s foreign banks held less than 2 % of total assets in the South African banking sector.

Overseas control has been an enduring feature of New Zealand banking – a point of difference from small Western European economies and South Africa. In 1985, two years before the opening of the New Zealand banking market to new entrants, 61 per cent of the total assets of the trading banks were already in Australian or British hands (Harper 1986: 169).² New Zealand had been an extension of the Australian banking market before the government's assumption of control over the exchange rate in 1933 and the establishment of the Reserve Bank of New Zealand (RBNZ) in 1934. Most of the trading banks then operating in New Zealand were either Australian or Anglo-Australian (Jones 1993; Hawke 1997; Sinclair and Mandle 1961; Chappell 1961). This state of affairs persisted until deregulation in the 1980s. Between 1987 and 2005 the integration of the Australian and New Zealand banking industries was completed. New Zealand, however, retains a separate central bank and supervisory regime.

In the early twentieth century, the banking sector in South Africa was dominated by the (British) imperial banks, Standard Bank and the National Bank, which controlled 61% of total bank assets by the later 1920s, and by Standard Bank and Barclays Bank after 1926, when those British owned banks controlled 85% of total banks' assets in South Africa (Jones and Muller, 1992: 101; Jones, 194.) The persistent foreign domination of the South African banking industry (73% of total commercial bank deposits were held by foreign owned banks in South African in 1970 – RP87/1970:213-218), coupled

² Note that the definition of 'trading bank' in New Zealand 1985 was not quite the same as that of 'bank' after 1987.

with growing international pressure on the country, paved the way for legislation to restrict foreign ownership of banks. It was only after 1990 that foreign banks returned to South Africa, although not (so far) to dominate the market. These different outcomes were achieved despite the close similarities in the development of the regulatory environment in New Zealand and South Africa.

Regulatory context

(i) New Zealand.

Prior to the liberalising reforms of the 1980s, New Zealand's banking industry was highly regulated. Barriers to entry were almost insurmountable. Since the five incumbent trading banks (or commercial banks) were named in legislation, the creation of a new trading bank would have required an act of parliament (Singleton *et al* 2006: chapters 1-2; Grimes 1998). The BNZ, the largest trading bank, was owned by the government; the Australia and New Zealand Bank (ANZ) was based in Melbourne; the National Bank was a subsidiary of Lloyds Bank. When Westpac was formed in 1981, through the merger of the Bank of New South Wales with the Commercial Bank of Australia, the number of trading banks dropped to four. New Zealand was also served by a network of savings banks, including the Post Office Savings Bank (later Post Bank), local community-owned trustee savings banks, and the savings bank subsidiaries of the trading banks. A handful of small merchant banks completed the banking sector (Deane, Nicholl and Smith 1983: chs 2, 4, 5).

Some regulations protected favoured types of institution – for example, only savings banks could offer certain types of savings accounts. Bank interest rates were subject to control by the state, as were the quantity and direction of lending. The trading and savings banks were forced to purchase far more government securities than they wanted, ostensibly for prudential reasons. (There was no explicit system of prudential supervision and no deposit insurance.) Externally, the RBNZ administered controls over capital *and* current account transactions (Hawke 1973). This *dirigiste* framework harked back to the 1940s and the heyday of the Sterling Area. It was designed to guarantee stability and full employment, objectives that were prized above all others in New Zealand (Singleton and Robertson 2002).

Excessive regulation ensured that the trading banks lost market share. Disintermediation progressed as borrowers and lenders took their business to unregulated institutions, such as finance companies, or arranged mortgages through solicitors' offices. Reporting on the financial system in 1966, the Monetary and Economic Council urged the government to loosen the restrictions on trading banks, but such advice had little immediate impact (Monetary and Economic Council 1966). Although interest rates were deregulated in 1976-77, tight controls were reintroduced in the early 1980s, when the Prime Minister, Robert Muldoon, thought New Zealand was facing an unprecedented economic crisis (Singleton *et al* 2006: ch. 2). Operating costs of New Zealand banks compared unfavourably with those of their peers in North America and Western Europe, reflecting the lack of competition (Harper 1986: 30).

During the 1970s, some of the younger officials within the RBNZ and government service began to advocate the deregulation of banking. In 1982, the RBNZ convened a confidential working group, in conjunction with Treasury, and chaired by Deputy-Governor Lindsay Knight, to consider reforms to the structure of the financial system. Knight's brief was to increase the efficiency of the financial system without weakening public confidence in its stability. Australia was already looking at these issues in the Campbell inquiry (Deane, Nicholl, and Smith 1983: 365-71; Singleton *et al* 2006: 93-6).

Knight's group discussed a range of topics, including deregulation, new banks, foreign ownership, the future of state-owned financial institutions, the role of prudential supervision, and New Zealand's responsibilities under the 1975 Basle Concordat on cooperation in banking supervision.³ The Knight group advocated deregulation, the entry of new banks (both domestic and foreign), and the introduction of a minimalist system of prudential supervision, based on prudential rules, statistical monitoring, and consultation. Routine on-site inspections were not envisaged, but the RBNZ might intervene in the affairs of troubled banks.⁴ The aim of supervision would be to strengthen the banking system as a whole, and not to prop up individual institutions. In contemplating a light-handed approach to supervision, the RBNZ was taking a different tack from most other jurisdictions.

The formation of Westpac led to speculation about the authorisation of one or more new trading banks in New Zealand. Several domestic and foreign

³ RBNZ Archives, Box A0172, Memorandum for Minister of Finance: Structure of Financial System, 22 February 1982.

⁴ RBNZ Archives, PC Docs Box 31154, Knight's Committee, B7d, Prudential Supervision: Institutional Coverage, 8 April 1982; B7i, Existing Provisions of the Reserve Bank Act and Prudential Supervision of Banks and Other Institutions, 27 May 1982; C8a, Prudential Guidelines: Management Consultation/Assessment, 8 February 1983.

institutions were interested.⁵ However, officials assumed – probably correctly – that Muldoon would be unsympathetic to proposals for new banks, and did not raise this matter with him. Although Muldoon expressed general approval of the Knight group’s work, significant reform was unlikely without a change of government.⁶

A Labour government came to power in the midst of the foreign exchange crisis in 1984. Catching many observers by surprise, Labour’s response to adversity was to deregulate. Roger Douglas, the new Minister of Finance, welcomed the proposals of the Knight group. A bonfire of controls over interest rates, bank lending, public security ratios, and external transactions ensued in 1984-85 (RBNZ 1986; RBNZ 1992). The New Zealand dollar was floated in March 1985. But implementation of the more positive recommendations of Knight’s group was delayed until April 1987, when the 1986 Reserve Bank Amendment Act came into force. This Act introduced the registration of banks and a regime of prudential supervision, based on Knight’s proposals (Singleton *et al* 2006: 204-8).

Registration was automatic for existing trading banks. Other entities had to apply to the Reserve Bank for permission to register and use the title ‘bank’.⁷ The capital base, experience, and reputation of applicants were taken into account. No limit was placed on the number of banks to be registered.

⁵ The main candidates were Marac (a finance company), New Zealand South British Group (an insurance company), Fletcher-Challenge (a conglomerate), the Associated Trustee Savings Banks, the Development Finance Corporation (a state-controlled entity), and a consortium of the existing trading banks that wished to establish a separate ‘development bank’. RBNZ Archives, Box A0143, Position Paper from the Reserve Bank of New Zealand, 11 December 1981.

⁶ RBNZ Archives, PC Docs Box 31154, Knight’s Committee, File Note: Meeting with the Prime Minister on Friday, 28 May 1982; Structure of Financial System – Proposed Future Action, 1 June 1982; Box A0172, Memorandum for Minister of Finance: Structure of the Financial System – Interim Report, 4 May 1982;

⁷ There were to be no restrictions on the provision of banking services by non-banks, provided they did not call themselves banks.

Crucially, there was to be no discrimination against overseas applicants.⁸ As the RBNZ put it:

There is no justification on economic or prudential grounds for any such restriction [on foreign entrants]; on the contrary, there is already extensive overseas participation in the financial sector and the degree of openness currently proposed is similarly seen as having further major benefits for the New Zealand financial system (RBNZ 1986: 117).

The prudential system continued to evolve, as New Zealand struggled to reconcile the principles of the Knight Committee with the more prescriptive approach emanating from Basel. Certain minimum prudential ratios, including capital adequacy ratios, were imposed in conformity with the Basel Accord. In 1996, after lengthy debate, further refinements were introduced to the prudential regime in New Zealand. Henceforth the system would be based on the *public* disclosure by banks and their directors of relevant prudential information. Directors would be held accountable at law for the accuracy of such information (Grimes 1996; Grimes 1999; Singleton *et al* 2006: 226-31).

The RBNZ co-operated and shared prudential information with the RBA and the Bank of England. The prudential standards asserted by the RBNZ applied only to locally incorporated banks, while unincorporated 'branches' of overseas banks were subject to the prudential standards of their home

⁸ RBNZ Archives, Box A79, Douglas to Russell, 29 August 1984; Memorandum for Minister of Finance: Prudential Supervision of Banks and Other Financial Institutions, 14 August 1984; Box A0072, Memorandum for Minister of Finance: Prudential Supervision – Proposed Framework, 13 November 1984; A. J. Doughty, 'New Banks and Financial Sector Reform', in RBNZ, *Financial Policy Reform*, RBNZ: Wellington, 1986, pp.111–23.

countries (Morrell 1990; White 1992: 183-93; Heppleston and White 1992). Westpac, the only large 'branch' bank in New Zealand, was the responsibility of Australian supervisors.

The overseas domination of the New Zealand banking sector had some possible prudential implications. In 2003, a visiting IMF team, after concluding that the New Zealand banking industry was efficient and robust in general, commented on the risks arising from the stranglehold of Australian banks. It was feared that the New Zealand and Australian operations of such banks would be difficult to disentangle in an emergency. Several banks had outsourced key functions, including risk management, financial accounting, and computer processing, to Australia. Their parent groups could easily transfer assets back and forth across the Tasman. Under Australian law, moreover, priority had to be given to the claims of Australian depositors over depositors at overseas *branches* (IMF 2004).

The RBNZ was aware of these issues. Westpac, for example, had made large losses outside New Zealand in 1992 (Carew 1997: 338-42). On balance, however, the RBNZ regarded the Australian connection as beneficial. As a result of the Australian link, bank customers had obtained access to a wider range of products and technologies. The RBNZ argued that mechanisms were in place to safeguard the interests of New Zealand depositors in overseas-owned banks. All but one of the big banks was incorporated in New Zealand, while Westpac was required to maintain a surplus of assets over liabilities in New Zealand. Australian banks could not afford to abandon their New Zealand subsidiaries or branches without damaging their own reputations. At the time of deregulation, the RBNZ had

expressed no preference as between subsidiary and branch operations. In the late 1990s, though, it began to favour local incorporation, after reassessing the risks associated with overseas branch banks. Westpac held out for several years, but succumbed to pressure to incorporate in 2006 (Hull 2002; Kaufman 2004).

New prudential requirements affecting overseas-owned banks were introduced in the 2003 Reserve Bank Amendment Act. The RBNZ acquired the power of veto over the appointment of bank directors and senior managers. Henceforth, significant changes in the ownership of banks would require RBNZ approval, as would banks' outsourcing arrangements. When the ANZ announced plans to purchase the National Bank from Lloyds TSB in 2003, the RBNZ insisted on vetting outsourcing arrangements, and an understanding that the chief executive would still be accountable to the National Bank board (Twaddle 2004). The effectiveness of these attempts to provide a buffer between the New Zealand banks and their Australian owners remains untested. In 2003–04, New Zealand and Australian officials began to explore the prospects for enhanced trans-Tasman co-operation and integration in prudential matters (RBNZ 2004: 24-5), but progress in this area has been slow.

(ii) South Africa

The banking sector in South Africa developed as an extension of British banking. The operating environment was relatively free and no attempt was made by either colonial administrations or Britain to nationalise banks or to

establish state owned banks.⁹ (Solomon, 1983:146-152; De Kock,1951; Arndt,1928:236; Houghton,1976:190 – 193) Throughout the history of banking in South Africa there has always been strong resistance to government involvement in banking operations. Banking legislation regulated banking operations and the issue of notes and coins (Solomon,1983:146-148; Houghton,1976:191) but never entrenched government owned banking institutions.

The *Currency and Banking Act, No 31 of 1920* provided for the establishment of a central bank for South Africa, the South African Reserve Bank (SARB) (De Kock, 1954; De Kock, 1976). Although the South African banking industry was privately owned, the monetary authorities regulated the industry by controlling access to banking licences and through statutory liquid asset and capital ratio requirements. (Skinner and Osborne, 1992:60 -65; Jones and Muller, 1992:326-328; Verhoef,1986:109-112)

The banking sector was highly concentrated towards the last quarter of the twentieth century – five large banking groups controlled 97% of the total assets and 98% of the total deposits of commercial banks. South Africa also witnessed the proliferation of building societies from the nineteenth century onwards, but it was only in 1985 that they were freed to compete on equal grounds with banks. All five large commercial banks formed holding companies to manage diversified interests in merchant banks, hire purchase banks, discount houses, investment banks and insurance companies.

The origin of this oligopolistic structure lay in the nature of both the banking and the corporate sector in South Africa. Financial services were

⁹ The Land Bank was rather a government owned lending institution established primarily for the provision of agricultural credit.

reserved for South Africans by 1980 because banking was regarded as a strategic industry. Regulation of the banking sector was perceived to be a prerequisite for financial probity, as it was believed that only in a climate of confidence and trust would banks be in a position to perform their functions properly. Since probity was felt to be better served by a few large institutions, rather than a proliferation of small banks, the SARB encouraged concentration in the banking sector. As gatekeeper to the industry, the SARB controlled the registration of new banks tightly. In 1923 Volkskas Bank was established by Afrikaner capital, but it remained the smallest of the commercial banks until late in the 1960s (Verhoef, 1992:131). No competitive banks entered the financial sector between 1923 and 1956, when Trust Bank was established.

In contrast to the situation in New Zealand, the four largest banks in South Africa were all in private hands in 1960: Standard and Barclays Bank were British owned, Nedbank was Netherlands controlled and Volkskas was South African. Trust Bank, while not a commercial bank, was South African owned. A number of small peoples' banks and co-operative savings institutions existed, but none was state owned.

Beginning with the *Banks Act, No 38 of 1942*, South African legislation regulated the operations of banks along similar lines to the regulation of banks in New Zealand. The 1942 act also introduced prudential supervision of banks by the SARB, a point of divergence from New Zealand. South African banks were required to submit monthly, quarterly and annual statistical returns to the SARB (Verhoef, 1987:109).

By the early 1970s it was clear that the regulatory framework was frustrating the operations of banks in South Africa. The pressures for liberalisation of the banking sector towards the late 1970s in New Zealand were mirrored in South Africa. The SARB realised that disintermediation was increasing as a result of the regulation of the banking industry and the requirements for banks to hold unproductiveness reserves with the SARB (RP70/1984: 46). Another important reason for the gradual movement towards deregulation was the fact that South African had become a member of the Bank for International Settlements in 1971 and was influenced to follow international central bank best practise. (Toniolo,2005: 360-362)¹⁰

In South Africa, the extent of foreign control created serious concerns, especially during the mid-1970s. In 1967 the South African government appointed a commission of enquiry into the banking sector, under the chairmanship of the Vice-President of SARB, Dr D. G. Franszen. In 1970 this commission proposed a variety of measures to control spiralling credit, and reduce foreign shareholdings in South African banks and bank holding companies. By June 1970 foreign controlled commercial banks in South Africa (i.e. commercial banks in which foreign shareholding exceeded 50% of ordinary shareholding directly or indirectly) held 73,2 percent of total commercial bank deposits.(RP87/1970:213,218) Foreign controlled banks held 10,5 percent of merchant bank deposits and 23,3 percent of deposits of all the remaining bank institutions. Thus 55,8% of deposits of the entire banking sector were under foreign control. Of the 29 banks registered since 1953 nine were either directly or indirectly controlled by foreigners. This was

¹⁰ New Zealand joined the BIS in 2003.

perceived to be an exceptionally high degree of foreign penetration, one that was not typical of most western countries. (RP87/1970:185) Franszen proposed a gradual reduction of foreign shareholdings, where these were in excess of 50%, to less than majority control. (RP87/1970:215) The Commission recommended that further participation by foreigners in existing or new banking institutions should only be permitted under exceptional circumstances. It also proposed a limit of 10% foreign shareholding in future South African banks only if it was justified in the public. Franszen followed the Australian example when he proposed that foreign banks with representative offices in South Africa should not be allowed to take deposits from the public. (RP87/1970:187-188)

Franszen argued that limits on foreign banking would inhibit the formation of powerful banking conglomerates that might restrict competition for funds and engage in irresponsible lending to associates. In a public policy announcement in May 1973 the Minister of Finance demanded that foreign shareholding in South African banks be reduced to 10 percent of banks' issued share capital, but in December 1973 this [proposed?] ceiling was lifted to 50%. (Lambrechts, 1975:64; Franszen, 1974:2-4) The banking fraternity welcomed the lifting of the ceiling.

Strong public criticism of the extent of the new limitations on foreign shareholdings in South African banks, led to reduced, but nevertheless explicit, ceilings on foreign shareholdings in the Financial Institutions Amendment Act, No 101 of 1976. All banks with capital and reserves amounting to R20 million or more had to reduce foreign shareholding to not more than 50% of total shares on issue. (SA Banker, 1974(71):23; SA

Banker,1977(74):12). New entry by foreign banks was in effect prohibited. In essence the act sought to ensure that 'webs' of financial control were not 'quietly woven' over the South African economy, 'and in particular webs are not woven by foreigners.' (Nicholson,1976:149) Itzikowitz observed: "Since the Franszen Report ... attempts have been made to control the size of single shareholding in banks. These have been motivated by economic xenophobia and its historical corollary – fear of concentration of power in a few large organisations." (Itzikowitz,1992:181) This was not only a fear of concentration, but also a fear of foreign control of a strategic sector of the economy of a country in a hostile international environment.

Canals observed that, from the late 1970s, the international regulatory framework of banking was changing, first of all because of the liberalisation of capital movements (Canals 1997). In South Africa, however, political developments led to two contradictory tendencies. On the one hand, the monetary authorities moved away from direct control over the banking system and began to place greater reliance on indirect monetary control mechanisms. On the other hand, increasingly mobile international capital flows were prevented from entering the South African banking sector by statutory limitations on foreign shareholding in South African banks. In this respect, South African banking legislation was diverging from the trend towards growing internationalisation, as clearly manifested in New Zealand by 1990.

In following international thinking which rejected direct constraints on banks and other financial firms as inefficient and heavy-handed (Dale and Wolfe,2003:581-582), the De Kock report (1985) displayed substantial resemblance to the report of the Australian Financial System Inquiry of 1979

(the Campbell Inquiry), which observed that the regulatory system in Australia had led to inefficiencies because financial markets had become segmented. As discussed above, the Knight Report of 1982 also addressed these regulatory matters, but added another dimension dealing with foreign and state ownership. (Merrett,2002b:390 ; Singleton *et al* 2006:93-96; Verhoef, 1995: ???? Hodgson,2001:151-156;Kantor,1986:94-103)

The De Kock Report proposed new liquid asset requirements on banks' liabilities to the public, new cash reserve requirements to replace the liquid asset system of control of bank credit and new capital requirements for banks. Greater reliance was to be put on open market transactions by the SARB, discount policy, and intervention in the spot and forward markets. These proposals were embodied in the *Financial Institutions Amendment Act, no 106 of 1985*. This act also removed the explicit divisions between different types of bank institutions introduced in the 1942 and 1965 Banks Acts. The absence of deposit insurance in South Africa was perceived to have been addressed by the new capital requirements applicable to all banks. With these changes South Africa was following international banking trends as well as those in New Zealand and Australia. Deregulation led to increased competition and, eventually, increasing concentration in all three countries (Singleton *et al*,2003: 86; Merrett,2002:278)

There were 47 active banking institutions in South Africa in 1985 – 15 commercial banks, 10 merchant banks and 22 general banks (RP70/1984:42). South African banks were only to a very limited extent exposed to the international environment through contingent liabilities, such as acceptances and promissory notes, bills and certain credit instruments that

they endorsed. In compliance with international supervisory requirements, the 1985 act addressed the question of supervisory responsibilities of the host and parent authorities in respect of banks' foreign establishments. By 1985 the foreign operations of South African banks were limited. Although South Africa was not a signatory to the Basel "Concordat", it endorsed the principles enunciated in them. Under the 1985 amendment act South African banks were required to obtain permission from the Registrar of Banks to establish a subsidiary company or open a branch outside the Republic. Foreign establishments of South African banks would have to comply with the capital requirements of the new Act, while the Minister of Finance would have authority to impose liquid asset requirements on the liabilities of the foreign subsidiaries and branches of South African banks.

While the domestic political environment in New Zealand protracted the implementation of Knight's recommendations on deregulation, in South Africa international pressure against the country made the monetary authorities extremely cautious and reluctant to open up the financial sector. The new market-oriented regulatory measures subjected South African banks to international trends in banking supervision, but the entry of foreign banks into the domestic market (inward FDI) remained strictly forbidden. Only in 1990 was statutory approval granted to new foreign banks to enter the South African market. The opening up of international trade with South Africa during the early 1990s, together with modern banking developments, such as the establishment of cross-border interests by banks, as well as the need for reciprocal treatment by foreign and domestic supervisory authorities, created the feeling that it was appropriate for the SARB to allow foreign banks to

operate in South Africa. Two processes were now unfolding. On the one hand banking legislation was harmonised with the international requirements of the Basle Committee. On the other hand domestic regulators gradually welcomed foreign interests back into the banking market.

As well as harmonising South African banking with international standards in order to afford greater protection to depositors, the *Banks Act, No 94 of 1990* (amended in 1994) permitted an institution which had been established in another country, to conduct banking operations by means of a branch in South Africa with prior authorisation of the Registrar of Banks (Section 18(A)). Henceforth no distinction was made between banks on the basis of the domicile of shareholders. The 1990 act only prohibited the registration of shares in the name of any single shareholder, in excess of 10 percent, beyond which permission had to be obtained from the Minister of Finance. (Itzikowitz,1992:182)¹¹ As the regulatory environment was aligned with international trends, foreign banks were readmitted to the South African banking market and foreign shareholders were permitted to re-enter the market for South African banks (inward FDI was re-allowed).

Actual involvement in banking activities commenced with the permission to foreign banks to open branches in South African and conduct banking business in 1993. Foreign banks had to submit similar prudential returns to those of South African banks. They were also allowed to open representative offices, although these were not allowed to conduct the business of a bank in South Africa. By 1993, foreign banks had opened 33 approved local representative offices in South Africa (SARB,1993:50).

¹¹ This limit was later increased to 49 percent, which required Ministerial approval.

Stringent conditions on the conduct of banking business by a foreign institution by means of branches were subsequently published in 1996 and 2000 (Government Gazette, No 17115 of 1996 and No 21936 of 28 December 2000.) The obligations with respect to supervision were similar to those imposed on South African banks. With South Africa's acceptance of the Basel Committee's Core Principles (SARB,1997:4), new regulations were passed to compel representative offices of foreign banks to accept on and off site inspections. (Government Gazette, No 22939,13 December 2001)

In a relatively short period between 1990 and 2000 South African bank legislation adapted to the opening of the South African economy to international trade and other exchanges. This period was also the crucial time when the Basle Committee on Bank Supervision responded extensively to bank failures and bank crises with the formulation of principles for bank supervision aimed at stabilising international financial markets. South African monetary and central bank authorities followed those initiatives closely and implemented prudential measures in close adherence to international practice. The strong compliance with international standards of supervision and regulation in South Africa contributed to the interest shown by foreign banks in the South African market as soon as statutory conditions permitted. As South African banks had themselves been regulated in close adherence to international practice, they were excellently equipped to engage in international operations as soon as conditions permitted.

Internationalisation of banking: New Zealand and South Africa compared.

On the eve of the 1984 general election in New Zealand, the state was the dominant player in the financial sector in New Zealand. It owned the largest trading bank, as well as the Post Office Savings Bank and several other institutions.¹² Any outward FDI after 1984 would have to have been spearheaded by the BNZ, given that Westpac, National, and the ANZ were already foreign-owned. But successful overseas expansion by a state-owned bank was an unlikely prospect. The BNZ had long-standing but small operations in Australia and the Pacific Islands, and a branch in London (Chappell 1961: 378-9). While the BNZ thought highly of itself, it lacked the critical mass and skill base to grow successfully overseas. Deregulation was far more likely to lead to increased overseas control of New Zealand banking assets.

The removal of interest rate controls immediately after the 1984 election marked the start of a hectic era of deregulation, expansion, and intense competition in the financial sector. It was difficult for New Zealand (and Australian, on which see Merrett, 2002b: 380,387,390) banks to adjust to a more competitive environment. Risk management was in its infancy as a discipline, and there were few suitably trained practitioners in New Zealand. Equity and property prices rose strongly between 1984 and 1987. Many reckless lending decisions were made by banks in the period of euphoria before the stock market crash of October 1987. The banks scrambled to satisfy pent-up demand for credit, and did not always give sufficient thought to

¹² On the drawbacks of government ownership of banks see La Porta, Lopez-de-Silanes and Shleifer (2002).

the risks involved. Because of delays, the RBNZ did not begin to introduce its new prudential monitoring regime until April 1987.

Ten new banks – Banque Indosuez, Barclays, the Canadian Imperial Bank of Commerce, Citibank, Countrywide, HSBC, Macquarie, NZI, Broadbank/National Australia Bank, and Security Pacific – were registered in 1987 (Grimes 1988). Most sat at the wholesale end of the spectrum. The National Australia Bank (NAB) ran a small retail operation in New Zealand in the late 1980s. HSBC did not enter the retail market until much later, and then on a small scale. The Dutch co-operative bank, Rabobank, also came into New Zealand in the 1990s, offering services to the rural sector and, eventually, on-line retail customers.

There was considerable churning among the wholesale and small retail banks, but only five large transactions:

- (1) ANZ bought Post Bank in 1988
- (2) Commonwealth Bank of Australia acquired majority control of ASB, formerly the Auckland Savings Bank, in 1989 (Merrett 2002: 385)
- (3) NAB acquired the BNZ in 1992 (Fung *et al* 2002)
- (4) Westpac purchased Trust Bank, the umbrella group for most of the trustee savings banks, in 1996
- (5) ANZ bought the National Bank from Lloyds TSB in 2003 (Slager 2006: 141-3)

By the late 1980s, the New Zealand government was anxious to privatise a wide range of state-owned businesses, including Post Bank and the BNZ, in order to raise revenue and because it felt that private ownership would result in greater efficiency (Duncan and Bollard 1992). Ministers were

willing to entertain offers from buyers at home or overseas. There were hardly any domestic businesses with enough financial or managerial muscle to absorb the BNZ. Fletcher Challenge, a conglomerate with origins in the construction industry, and the highly entrepreneurial Brierley Investments, were about the only credible bidders. Both Fletchers and Brierleys expressed interest when the government offered BNZ for sale in 1988.¹³ Although the disposal of the BNZ was halted in 1989, its subsequent sale to the NAB in 1992 was the main cause of the rise in overseas ownership of New Zealand bank assets from about 65 per cent to 90 per cent between August 1990 and December 1992 (RBNZ 1993: 154).

How the BNZ came to be sold is a pathetic story (Singleton *et al* 2006: 219-22). The BNZ was typical of many New Zealand businesses that struggled to adapt to the new environment after 1984. On the eve of deregulation, the BNZ was undercapitalised. Managerial incentives and governance were weak, while risk management was hampered by a lack of appropriate skills. The BNZ had no special capabilities, apart from detailed knowledge of the New Zealand economy. However, it embarked upon a policy of aggressive expansion in both the domestic and Australian markets (van Dongen 1990: 215-32).¹⁴

The BNZ's strategy was disastrous at home and abroad. The first sign of trouble emerged in October 1987, when the Reserve Bank of Australia (RBA) drew the RBNZ's attention to the large speculative exposures of the BNZ's Sydney branch. (Unfortunately, the RBNZ had not yet begun to ask

¹³ Sir Ron Brierley was chairman of the BNZ at the time of the proposed sale in 1988-89. Dai Hayward, 'Minister Ready to Name Brierley BNZ Successor', *Financial Times*, 18 February 1989; 'Problems for BNZ Aust if FCL Bid Succeeds', *New Zealand Herald*, 1 October 1988.

¹⁴ RBNZ Archives, Box BSD 328, Treasury Document: Bank of New Zealand: Review of Objectives, undated [1985].

supervised institutions to provide such information.) When confronted by the RBNZ, the BNZ at first denied that anything was amiss. The situation continued to deteriorate, as a result of difficulties in both New Zealand and Australia, and in March 1989 the BNZ announced a large loss.¹⁵ Faced with this crisis, the government dropped its plans to sell the bank. Instead, the government and Fay, Richwhite, a local merchant bank, injected new capital into the BNZ, the government retaining majority control. New information about large losses in Australia was revealed to the RBNZ in early 1990. The central bank felt that inadequate provision was being made for these losses, but failed to convince the BNZ that this was the case.¹⁶ Further recapitalisation was required after the 1990 general election. The BNZ's non-performing loans were taken over by Adbro, a new government-controlled company. Subsequently, the Securities Commission found that the BNZ had used 'creative accounting' practices to boost profitability, most glaringly in the accounts for the year to March 1990 (Securities Commission 1993). Inadequate skills, poor risk management, and overconfidence were at the bottom of the BNZ's problems. Most of the BNZ's errors occurred in the period before the introduction of prudential supervision. Once the BNZ was back on its feet, it was sold to the NAB in November 1992.¹⁷

All but one of the trustee savings banks ended up in Australian ownership. After 1984, the RBNZ and the government were pessimistic about

¹⁵ RBNZ Archives, Box BSD 329, Summary of Action Taken by the RBNZ with Respect to Concerns Over the Bank of New Zealand's Financial Stability (1987–9); Box BSD 327, Bank of New Zealand Briefing Notes, 25 October 1990; Michael Hannah, 'Who is to Blame for BNZ Losses', *Evening Post* (Wellington), 12 June 1989.

¹⁶ RBNZ Archives, Box BSD 329, Prudential Supervision Action Undertaken by the RBNZ in Respect of the Bank of New Zealand, undated [1991]; File Note by Peter Nicholl on 'Meeting held on 7 September 1990 re BNZ', 17 September 1990; Janette Manson, 'BNZ Now Gets Hit By The Australian Wave', *Australian Business*, 21 November 1990.

¹⁷ Although the National Bank had considered making an offer, Lloyds had not wanted to make a large additional investment in New Zealand (Holmes 2003: 167-8).

the future of this sector, and urged the trustee banks to reorganise and recapitalise. Most of these institutions were very small, and their ownership was unclear. Their balance sheets had been damaged when the market price of government securities fell after 1984. Trustee savings banks were initially in limbo under the bank registration policy. They were invited to merge into a new umbrella entity, Trust Bank, which would provide coordinated leadership and seek new sources of capital. Most agreed to join Trust Bank, which was still under the ultimate control by the community trusts. In 1989, Trust Bank and its regional subsidiaries were registered as banks.¹⁸ Auckland, Taranaki, and two other trustee banks, refused to join Trust Bank, and were allowed to go their own way.¹⁹ The Auckland Savings Bank became ASB, while the much smaller Taranaki Savings Bank became TSB.²⁰

Only TSB survived as a New Zealand-owned bank, although it was accompanied after 2000 by Kiwi Bank, a subsidiary of New Zealand Post. Although the community trusts were not in a position to finance expansion, ASB was eager to expand and diversify into business banking. In 1989, the Commonwealth Bank of Australia acquired 75 per cent of ASB, moving to 100 per cent in 2000. The Commonwealth Bank takeover helped to transform ASB into one of New Zealand's largest and most competitive banks.²¹ Westpac took control of Trust Bank in 1996, and for a time became New Zealand's largest banking group.²²

¹⁸ Trust Bank New Zealand Limited, *Annual Report 1990*, pp.17, 29–31.

¹⁹ RBNZ Archives, Box A0179, Memorandum for Minister of Finance: Trustee Bank Restructuring – Auckland Savings Bank, 30 April 1986; Memo of Meeting Between Associate Minister of Finance and Officials, and Taranaki Savings Bank, 4 June 1986.

²⁰ No connection with the British TSB which had merged with Lloyds.

²¹ For the history of ASB see www.asb.co.nz.

²² 'Westpac Bid for Trust Bank Passed', *Reuters News*, 8 May 1996; Linda Sanders, 'Community Should Not Fear Loss of Funds', *The Evening Post*, 24 April 1996.

During the 1990s, the New Zealand banking sector performed strongly. The banks met international standards for capital adequacy and reduced their non-performing debt. Bank profitability rose, and costs fell as a percentage of assets. The efficiency gains of financial liberalisation were being realised (Bruce 1995; Minh To and Tripe 2002). New Zealand banks began to adopt more sophisticated risk management procedures. Evidently, the lessons of the 1980s had been absorbed. Of course, the health of the banking sector also owed much to New Zealand's strong macroeconomic recovery after the early 1990s.

In contrast to the position in New Zealand, South African banks still operated in relative isolation in the latter half of the 1980s. Deregulation in the monetary and financial arena did not, unlike in New Zealand, lead to an early reopening of the market to inward FDI into the banking sector.

The international operations of South African commercial banks were limited during the latter half of the 1980s. With foreign liabilities declining from 10,67% of total liabilities in 1985 to 4,76% in 1990, the contribution of foreign funding to total funding was negligible. (See Table 1 in the Appendix) A similar declining trend could be observed in the assets of commercial banks (Table 2) – foreign assets declined from 2,17% of total assets to 1,15%, which means that South African banks were not significantly engaged in international business before the 1990s. This parallels the international activities of New Zealand-owned banks. Taking the entire banking sector in South Africa between 1985 and 1990, foreign assets as a percentage of total assets declined from 8,36% in 1985 to 3,63% in 1990.(SARB,1992:S-24)

The stringent regulation of foreign ownership of banks in South Africa was not the only reason for the isolation of the South African sector in the 1980s. High inflation and an underperforming economy (and political pressures?) made investment by foreigners in South African banking (and other industries) an unattractive prospect. Inflation remained in double digits until the early 1990s, when it started to decline steadily. It was only in 2004 and 2005 that inflation in South Africa compared favourably to that of her main trading partners. The South African economy experienced slow or negative growth during the latter half of the 1980s and the early 1990s. South Africa had little appeal at that time for foreign businesses including banks.

Furthermore, political turmoil gave rise to the debt standstill agreement into which South Africa entered in 1985. When loan capital was readily available during the 1970s, South Africa borrowed heavily. In the 1980s, foreign borrowing rose relative to inflows of foreign investment.²³ The South African government encouraged foreign banks to lend by offering gold swaps or by borrowing from the IMF. The upshot was that South Africa's net indebtedness to international banks rose steeply. By 1984 about two-thirds of South Africa's outstanding loans had a maturity of one year or less. The banking sector was responsible for 44% of the country's foreign liabilities, and the public sector another 16%. This indebtedness caused a serious problem in 1985 when a group of foreign banks led by Chase Manhattan Bank withdrew substantial credit lines. Many short term loans were called in immediately. South African banks were unable to meet their debt obligations and the government declared a debt standstill of US\$14 billion of the US\$24

²³ Equity capital as a percentage of foreign debt dropped from 60% in 1970 to 30% in 1984. At the same time foreign loans rose from 40 to 70% of foreign debt by the mid-1980s.

billion total external debt. Negotiations with creditors resulted in a repayment agreement, which finally resulted in gradual repayment up to 1994, when South Africa had become a net exporter of capital. Only by the mid-1990s was South Africa again considered as under-borrowed and did foreign borrowing start again.

The reversal of isolation commenced in the 1990s, when the political climate changed and South Africa gradually re-entered the international community. The banking sector was exceptionally well positioned to respond to these developments. South African banks worked within an advanced operational banking environment, under an internationally-aligned regulatory framework. This enabled them to respond to the pull and push factors of clients' globalising business, as well as the opportunities of different market structures, and the potential for diversification. The pressure on margins as a result of the high degree of efficiency in the South African banking sector, as well as competition and concentration in the domestic market, served as strong incentives towards internationalisation of banking operations. To foreign banks interested in investing in the newly opened South African market, opportunities were presented by differences in economic structure, while the historical and cultural determinants of the earlier colonial presence and herding were strong incentives to enter the South African market. The potential advantage of economies of scale and scope were also a key incentive for the internationalisation of South African banks. To both parties – domestic banks and foreign banks – “internationalisation was seen as risk reducing.” Slager,2006:57).

The Banks Act of 1990 paved the way for the internationalisation of South African banks. The number of branches of foreign banks rose from 4 in 1995 to 15 in 2005. The first banks to open branches were ABN Amro Bank N.V. , Bank of Baroda, Citi Bank, Commerzbank Aktiengesellschaft, Credit Agricole Indosuez, ING Bank N.V., Morgan Guaranty Trust Company and Société Générale. (SARB,1997:66) Between 1992 and 2005 the number of foreign banks authorised to establish representative offices in South Africa rose from 31 to 61 (in 2000), but then dropped to 46 in 2005. These representative offices did not engage in bank operations, but provided a presence for foreign banks interested in entering the market or supplying vital economic and trade information to clients.²⁴

The question now is: what was the impact of the establishment of foreign banks' branches in South Africa? Did they crowd out domestic banks? What proportion of the market did they capture? Table 5 (Appendix) reflects the successful penetration of foreign banks into the South African market. Between 1993, when foreign banks' branches were permitted to conduct banking business in South Africa, and 2005 the total assets of foreign banks' branches as a proportion of total assets of all banks operating in South Africa, increased by 31,5% per annum. Although starting from a low base, this nevertheless represented growth at a rate more than double the annual increase of the assets of all the banks, which was 15,2%. This impressive performance could be explained by the nature of the business of the foreign

²⁴ The majority of the foreign offices in 1992 were representative of European banks: seven from the Spanish speaking countries, seven from France, eight from Germany, and two each from Britain and African countries, three from Switzerland and one from Israel. (SARB,1992:29) By 2000 banks from the USA, China, Japan, Taiwan, India Canada and Norway had joined the ranks of foreign representative offices in South Africa. (SARB,2000:88-89).

branches. They were primarily engaged in investment business with the corporate sector, which is the higher yielding business in the market. The major interest rate differentials between South African short term as well as long term interest rates and the interest rates of her major trading partners (See Tables 6 and 7 in the Appendix), explain the strong incentive for foreign banking institutions to enter the lucrative market for corporate finance.

The foreign banks have not succeeded in growing their market share in South Africa beyond 8,7% of the total assets of the banks since 2001. The big four banks in South Africa have maintained their domination with a combined market share of more than 77% since the early 1990s. (SARB,1995:30) In particular, the retail sector, with high administrative costs on limited balance small savings accounts, was not targeted by the foreign banks. This was in contrast to the situation in New Zealand, where Australian banks purchased or expanded their retail operations, in effect treating New Zealand as an extension of the domestic market.

The globalisation of South African banking emerged primarily through outward FDI, or South African banks extending their operations abroad, rather than a massive influx of foreign institutions. In this respect the New Zealand and South African internationalization processes were different. The foreign currency loans and advances of South African banks have increased steadily since 1990. Although loans and advances in foreign currency represented only a portion of banks' foreign business, the trend is clear: South African banks were steadily extending their exposure to the foreign business market, either for domestic clients operating in foreign markets, or for foreign business interests entering the South African market. As indicated in Table 8

(Appendix), their foreign assets rose by an annual compound growth rate of 21,93% compared to a rise of 13,98% in total loans and advances.²⁵

Since 1997, the SARB has given permission for South African banks to establish off-shore interests, under section 52 of the Banks Act, no 94 of 1990. The banks have been active in establishing overseas offices and taking up shares in foreign banking and other financial enterprises, through which they have obtained access to foreign funding. The first banks to take advantage of this development were ABSA, Investec Bank, First National Bank, Nedbank, Standard Bank and Rand Merchant Bank. (SARB,1997:90 – 91) ABSA established new subsidiaries or bought financial services companies in Jersey and the British Virgin Islands. First National Bank established offices overseas and obtained trade and financial services subsidiaries in the British Virgin Islands, in Guernsey Island, Ireland and Hong Kong. Investec Bank obtained foreign interests in financial services companies in the British Virgin Islands, Kenya, Zimbabwe, Botswana, Hong Kong, Australia, the Jersey Islands and other parts of the UK the Netherlands, the USA and Mauritius. Nedbank extended interests beyond its long standing London office to Hong Kong, Malta and Mauritius. Standard Bank spread its interests to the UK, Hong Kong, Liberia, the United Arab Emirates and Russia. Rand Merchant Bank invested in Plessey Australia Pacific. These new ventures represented a wide variety of financial services companies, investments subsidiaries and some other related concerns such as health

²⁵ Table 10 shows equivalent statistics for the New Zealand banking sector (M3 institutions) including foreign-owned banks. Foreign currency assets declined as a percentage of total assets of the M3 institutions, whereas foreign currency liabilities showed considerable fluctuation around an apparently upward trend. The New Zealand private sector borrowed heavily overseas in the 1990s and 2000s to support high levels of consumption and domestic property speculation. Private sector overseas borrowing was also a substitute for external government debt which was run down.

care companies. By the end of 1999 South African banks had established further interests in Latin America (Standard Bank established offices in Argentina, Brazil, Peru, Colombia), The People's Republic of China, Singapore, Germany, Switzerland Italy and Iran. (SARB,1999:116 -117) The foreign expansion in 2000 included establishment of interests by Nedbank in India and by Standard Bank in seven African countries, Turkey and Australia. Nedbank, First Rand Bank and PSG Investment Holdings established subsidiaries or representative offices in Australia. (SARB,2000: 120 – 121)

The most notable trend in foreign expansion of South African banks between 2000 and 2005 was the expansion into Africa (Botswana, Uganda, Nigeria, the DRC and Angola), the Cayman Islands, Canada and Australia and more extensively into Guernsey Island. In Ireland the proliferation of South African banks led to the signing of a Memorandum of Understanding between the Department of Bank Supervision of SARB and the banking regulatory authority of Ireland in 2000 on regulation of such operations. (SARB,2000:26) The number of approvals by the SARB for the acquisition of foreign banking interests by South African banks rose from 40 in 1997 to 68 in 1999, then dropped to 43 in 2000, 34 in 2003 and 19 in 2005. The SARB commenced on-site supervision at South African banks' offices abroad in 1999.

Despite the development of extensive foreign exposure, South African banks' primary source of revenue remained their South African business. The D1900 returns to the SARB (as reflected in Table 5 - see Appendix) banks do not distinguish between domestic and foreign operations' revenue. The foreign currency assets (loans and advances) of banks in Table 8 do not fully

disclose the contribution of foreign business, since it excludes foreign revenue generated by subsidiary companies. Some of the large banks in South Africa have only reported explicitly on the geographical breakdown of shareholders since 2001. For example, Nedbank reported in 2001 on the distribution between domestic shareholders (90,94%) and shareholders outside South Africa (9,06%) (Nedcor Annual Report,2001:143).²⁶ The geographical distribution of Nedcor's balance sheet in 2005 displayed the following: 94,85% was denominated in South African currency, 4,49% in USA dollar, 0,17% in sterling and 0,47% in other currencies. (Nedcor Annual Report, 2005:120 – 121) On request the Standard Bank provided a breakdown of its foreign assets as a proportion of total assets since 1992: assets outside South Africa rose from 7,82% of total assets in 1992 to 10,05% in 1993, and 30,22% in 2001, but then declined to 20,21% in 2005. (Standard Bank Communication, 22/01/07) Although it is not yet possible to come to a comprehensive understanding of the contribution of foreign business to South African banks' balance sheet, the collective statistics published by the SARB as reflected in Table 8, indicate the continued domestic focus of South African banks' operations.

Conclusion

A comparison between the New Zealand and South African banking sectors presents a very divergent picture.

²⁶ This distribution changed to 85,3 and 14,7% respectively in 2002. By 2005 Nedcor (the Nedbank Group of companies) geographical distribution of shareholding was 85,16% in South Africa, 10,3% in the USA, 1,44 in the UK, 0,4% in the Netherlands and 2,55% in other parts of the world. (Nedcor Annual Report, 2005: 247).

Banking in New Zealand was internationalised, after 1984, in response to the perceived failure – distortions and inefficiency - of the previous, highly regulated regime. As a result, New Zealand was brought into conformity with, and in some respects surpassed, international thinking and practice in the implementation of deregulation. After deregulation, however, the relatively small banking sector in New Zealand soon became prey to Australian banking internationalisation.

South African banks were much larger institutions with strong links to British and European banks until the 1970s. Politically motivated withdrawal resulted in majority South African ownership by the 1980s. The banks had a legacy of integration into international markets and therefore maintained contact with international developments in terms of management strategies, product development and technology. Since the era of imperial bank domination, South African banks have served the international interests of the foreign shareholders in the mining industry. The Netherlands Bank was never prominent in the gold mining industry, but dominated the trade finance for the diamond industry. This strong alignment with British and continental banks, together with the strong competition amongst the big four domestic banks since the 1960s, resulted in the development of a more sophisticated banking sector in South Africa than in New Zealand. South African banks were in effect only “isolated” from the early 1970s until 1993 – a period of approximately 20 years. In that period majority foreign ownership and inward FDI were prohibited, but not information and skills transfers. South African banks were also never state owned, and did not suffer from the capacity

restrictions, which hampered the Australian and New Zealand banks shortly after deregulation.

Deregulation had profound implications for the banking industries in both countries. In South Africa deregulation increased competition and led to rationalisation in financial services and further concentration in the financial sector. But foreign competitors were not allowed entry until the 1990s. In New Zealand, deregulation had a similar effect on the levels of competition and concentration. However, foreign competitors, especially the Australian banks, could and did take advantage of an initially relative unsophisticated financial market.

The trend in South African banking since the mid-1990s has been towards the expansion of South African banks into the international arena rather than international banking penetration of the South African market. In this respect the New Zealand trend was the reverse. Foreign banks succeeded in growing their business in South Africa faster than the growth of South African banking operations in the domestic market, but this was because they were starting from such a low base. South African banks were more successful in internationalising their operations and servicing the international needs of their clients than foreign institutions. Indeed the big four banks increased their market share marginally from 83,4 percent in 2004 to 83,6 percent in 2005. (SARB,2005: 5 – 6) The high degree of concentration in the banking sector enabled the stronger performance of the domestic banks in the globalisation of economic and banking activities. This development correlates with the wider pattern of international banking

internationalisation, which was stronger in the activities of larger concentrated banking groups between 1985 and 2000. (Slager, 2006: 68-73)

Although banking legislation delayed foreign shareholding in South African banks, banking operations did not stagnate or remain isolated. As soon as political circumstance permitted, South African banks responded to the challenges of globalisation. Foreign banking operations in South Africa remained below 9 percent of total banking assets up to 2005 and can therefore not be regarded as significant. Internationalisation of banking in South Africa developed in the opposite direction – outward from South Africa rather than inward from the international banking environment. Inward investment in South Africa was dominated by European, the UK and the USA, with singular representation from India, Japan, China and the Middle East. Absent were banks from other commonwealth countries, such as New Zealand, Australia and Canada. By contrast, South African banks have penetrated relatively extensively into the Australian market. This trend serves to underline the more extensive internationalization of South African banking operations than the corresponding trend from other commonwealth countries.

The internationalisation of New Zealand banking reflected a reverse trend: relatively small and uncompetitive banks were absorbed by larger Australian banks. Government control of the BNZ inhibited the competitiveness of this institution and resulted in acquisition by NAB. By 2000, only one of the 17 banks operating in New Zealand was locally owned: this was the TSB, a small regional community-owned retail bank. The banking sector in New Zealand is now predominantly in Australian hands, an

outcome that has been consistent with increased efficiency and sophistication.

In neither country can major internationalisation by domestic banks be identified. Slager indicates that the degree of internationalisation of the world's largest banks between 1980 and 2001 fluctuated between 28,9% in 1980 and 40% in 2001. This means that the average ratio of foreign assets to total assets of those banks, the ratio of total foreign income to total gross income and the ratio of foreign employees to total employees of those banks was almost one third of those indicators, growing to 40% by 2001. Neither South African nor New Zealand banks have achieved such a high degree of internationalisation by 2000.

Appendix.

Table 1 : Commercial* Banks' Liabilities to the Public, 1985 -1990.(Rm)

	Total liabilities to the foreign sector**	Total liabilities to the public	Foreign liabilities as percentage of total liabilities.
1985	4 419	41 385	10,67
1986	4 453	44 657	9,97
1987	4 061	51 212	7,9
1988	4 525	70 000	6,46
1989	5 441	96 921	5,61
1990	5 790	121 431	4,76

Source: South African Reserve Bank Quarterly Statistical Bulletin, Third Quarter 1992, S-8 – S-9.*Commercial Banks comprised in excess of 80 percent of the banking sector.** Total liabilities to the foreign sector comprises of total foreign deposits plus total other liabilities to the foreign sector.

Table 2: Commercial Banks Total Assets, 1985 -1990 (Rm)

	Total Foreign Assets	Total Assets	Foreign assets as percentage of total assets
1985	1 040	47 927	2,17
1986	774	50 584	1,53
1987	1 256	61 831	2,03
1988	1362	81 359	1,67
1989	1260	109 254	1,15
1990	615		

Source: South African Reserve Bank Quarterly Statistical Bulletin, 1992,S-10-S-11.

Table 3 : CPI 1985 – 2005 :Comparison of South Africa with countries of origin of main foreign banks in South Africa.

CPI	RSA	USA	OECD/Europe	UK	Germany
1985	16,2	3,6	6,9	6,10	2,08
1986	18,65	1,92	6,27	3,14	-0,13
1987	16,16	3,6	8,01	4	0,27
1988	12,77	4,09	8,98	5,01	1,22
1989	14,73	4,8	6,72	7,8	2,8
1990	14,32	5,41	6,9	9,45	3,13
1991	15,33	4,2	6,15	5,8	4,06
1992	13,87	3,03	5,05	3,69	5,12
1993	9,17	2,9	4,2	1,59	4,41
1994	8,93	2,6	4,47	2,5	2,6
1995	8,6	2,8	5,7	3,4	1,7
1996	7,35	2,9	5,2	2,4	1,5
1997	8,5	2,3	4,55	3,1	1,8
1998	6,8	1,6	3,9	3,4	0,9
1999	5,18	2,11	3,3	1,6	0,6
2000	5,3	3,4	3,9	2,9	1,5
2001	5,7	3,5	2,6	1,8	2,0
2002	9,16	1,6	2,5	1,6	1,4
2003	5,85	2,3	2,45	2,9	1,0
2004	1,4	2,7	2,3	3,0	1,7
2005	3,4	3,4	2,6	2,8	2,0

Source: Bureau for Economic Research, University of Stellenbosch, Quarterly Reports, 1985 – 2006.

Table 4: South Africa Gross Domestic Product: Annual growth, 1985 – 2005. (%)

Year	Annual growth (%)
1985	-1,2
1986	0,01
1987	2,10
1988	4,2
1989	2,39
1990	-0,31
1991	-1,01
1992	-2,13
1993	1,2
1994	3,23
1995	3,11
1996	4,3
1997	2,64
1998	0,51
1999	2,35
2000	4,15
2001	2,73
2002	3,66
2003	3,11
2004	4,83
2005	5,09

Source: Bureau for economic research, University of Stellenbosch,

Quarterly Reports, 1985 -2006

Table 5: Banks Total Loans and Advances, 1993 – 2005. (Rm)

	Banks Total loans and advances	Foreign banks loans and advances	Foreign as percentage of total
1993	241,386	4,255	1.8
1994	284,044	4,809	1.7
1995	329,244	5,327	1.6
1996	392,877	16,406	4.2
1997	464,441	23,201	5.0
1998	538,907	30,104	5.6
1999	597,962	32,114	5.4
2000	655,990	38,797	5.9
2001	790,187	66,570	8.4
2002	883,011	76,322	8.6
2003	957,832	79,063	8.3
2004	1,104,196	96,500	8.7
2005	1,327,498	113,969	8.6
Annual compound growth	15,2	31,5	

Source: DI900 Banks' returns to SARB, 1993 – 2005.

Table 6 : Short Term Interest Rates: South Africa and countries of origin of foreign banks in South Africa, 1985 – 2005

	USA	UK	Germany / Euro Zone	RSA 3 months BA
1985	8,05	12,24	5,45	18,32
1986	6,52	10,94	4,64	10,98
1987	6,86	9,7	4,03	9,09
1988	7,73	10,33	4,33	13,00
1989	9,09	13,88	7,12	17,58
1990	8,15	14,77	8,49	18,59
1991	5,84	11,52	9,25	17,04
1992	3,68	9,62	9,52	14,4
1993	3,17	5,94	7,3	11,64
1994	4,63	5,50	5,36	10,96
1995	5,99	6,68	4,53	13,73
1996	5,39	6,02	3,31	15,35
1997	5,62	6,83	3,33	15,49
1998	5,50	7,34	3,83	16,72
1999	5,36	5,45	2,97	13,01
2000	6,45	6,11	4,39	10,11
2001	3,73	4,97	4,26	9,73
2002	1,70	3,99	3,32	11,59
2003	1,17	3,67	2,34	10,94
2004	1,57	4,57	2,11	7,6
2005	3,5	4,67	2,20	7,02

Source: Bureau for economic research, University of Stellenbosch, Quarterly Reports, 1985 -2006

Table 7: Long Term Interest Rates: South Africa and countries of origin of foreign banks in South Africa, 1994 – 2005.

	USA	UK	Germany / Euro Zone	RSA
1985	10,62	10,97	7,04	17,24
1986	7,68	10,14	6,16	17,01
1987	8,38	9,57	6,25	15,49
1988	8,85	9,68	6,49	16,45
1989	8,5	10,19	7,03	16,88
1990	8,55	11,8	8,71	16,23
1991	7,86	10,11	8,46	16,39
1992	7,01	9,06	7,85	15,51
1993	5,87	7,47	6,52	14,14
1994	7,08	8,17	6,88	15,1
1995	6,58	8,24	6,86	16,08
1996	6,44	7,82	6,23	15,7
1997	6,35	7,05	5,66	14,65
1998	5,69	5,52	4,58	15,21
1999	5,64	5,08	4,50	14,82
2000	6,03	5,31	5,27	13,71
2001	5,02	4,94	4,80	11,30
2002	4,61	4,91	4,78	11,54
2003	4,02	4,52	4,08	9,53
2004	4,27	4,87	4,04	9,5
2005	4,29	4,4	3,40	8,04

Source: Bureau for Economic Research, University of Stellenbosch, Quarterly Reports, 1985 – 2006.

Table 8: Foreign Currency Loans and Advances of South African Banks ,1991
– 2005. (Rm)

	Foreign Currency Loans and Advances	Total Loans and Advances	Foreign as percentage of total
1991	9 066	214 743	4,22
1992	9 877	223 745	4,41
1993	10 865	245 734	4,42
1994	18 058	289 056	6,24
1995	11 977	333 308	3,59
1996	16 272	398 908	4,07
1997	17 722	470 833	3,76
1998	22 434	545 310	4,11
1999	35 412	597 106	5,93
2000	55 991	662 860	8,44
2001	110 249	809 104	13,6
2002	117 932	890 210	13,2
2003	115 091	990 241	11,62
2004	116 959	1 109 496	10,5
2005	145 848	1 342 781	10,9
Annual compound growth %	21,93	13,98	

Source: SARB, Quarterly Statistical Bulletin, 1991 – 2006, S-8 – S-9.

Table 9: Overseas ownership of New Zealand banking assets

	Total overseas ownership of New Zealand banking assets (%)	(Australian ownership of New Zealand banking assets) (%)
1985	61	n.a.
1990 (August)	c. 65	c. 45
1992 (December)	Over 90	c. 65
1998	n.a.	c. 70
1999	99	n.a
2003	n.a	87

Sources: Harper 1986: 169 (for 1985); RBNZ Bulletin 1993: 154 (for 1990 and 1992); Rodgers 1998: 113 (for 1998); Dopico and Wilcox 2001: 9 (for 1999); Matthews 2004: 36 (for 2003).

Table 10: New Zealand M3 institutions: foreign currency liabilities and assets, 1988-2006

	Total foreign currency funding	Total liabilities	Foreign currency liabilities as % of total liabilities	Total foreign currency claims	Foreign currency fixed assets and equity investment	Total foreign currency assets	Total assets	Foreign currency assets as % of total assets
	\$NZ m	\$NZ m		\$NZ m	\$NZ m	\$NZ m	\$NZ m	
Dec 1988	10,167	70,221	14.5	5,150	299	5,449	70,221	7.8
Dec 1989	10,176	70,479	14.4	3,799	306	4,105	70,479	5.8
Dec 1990	9,641	76,366	12.6	3,199	1,073	4,272	76,366	5.6
Dec 1991	8,465	76,404	11.1	2,479	1,120	3,599	76,404	4.7
Dec 1992	9,257	83,724	11.1	2,332	1,135	3,467	83,724	4.1
Dec 1993	9,942	86,607	11.5	3,583	118	3,701	86,607	4.3
Dec 1994	11,460	94,197	12.2	3,267	68	3,335	94,197	3.5
Dec 1995	11,792	104,863	11.2	3,189	36	3,225	104,863	3.1
Dec 1996	13,872	119,582	11.6	4,058	60	4,118	119,582	3.4
Dec 1997	19,314	133,726	14.4	3,657	34	3,691	133,726	2.8
Dec 1998	25,766	142,593	18.1	4,690	36	4,726	142,593	3.3
Dec 1999	34,436	157,907	21.8	6,533	41	6,574	157,907	4.2
Dec 2000	40,362	180,617	22.3	12,398	57	12,455	180,617	6.9
Dec 2001	42,356	188,693	22.4	15,669	87	15,756	188,694	8.4
Dec 2002	35,279	201,198	17.5	14,416	77	14,493	201,198	7.2
Dec 2003	39,260	220,205	17.8	12,328	75	12,403	220,205	5.6
Dec 2004	45,992	236,185	19.5	11,262	79	11,341	236,185	4.8
Dec 2005	53,206	252,320	21.1	7,557	83	7,640	252,320	3.0
Dec 2006	60,873	293,300	20.8	8,937	228	9,165	293,300	3.1

Source: www.rbnz.govt.nz/statistics/monfin/index.html

Source List.

Daron Acemoglu, Simon Johnson and James A. Robinson (2001), 'The colonial origins of comparative development', *American Economic Review*, 91, 5: 1369-1401.

Arndt, E.H.D. (1928). *Banking and currency Development in South Africa, 1652-1927*. Cape Town: Juta.

Don Brash (1992), 'Banking Supervision – Defining the Public Sector Role', *RBNZ Bulletin*, Vol.55, No.4: 307–14.

Don Brash (1997), 'Banking Soundness and the Role of the Market', in Charles Enoch and John H. Green (eds), *Banking Soundness and Monetary Policy*, Washington DC: IMF, 1997, pp.355–68.

Matthew Brosnahan and Tan Chong Lee (1989), 'International Convergence of Capital Measurement and Capital Standards of Banks', *RBNZ Bulletin*, Vol.52, No.1: 37–43.

Denys Bruce (1995), 'The Banking Sector in New Zealand: Aggregate Banking Supervision Data', *RBNZ Bulletin*, Vol.58, No.2: 94–109.

Business Day Survey, 1999: 'Banking in Southern Africa', 19 July: 1 -32.

Canals, J. (1993). *Comparative Strategies In European Banking*. Oxford: Clarendon Press.

Edna Carew (1997), *Westpac: The Bank that Broke the Bank*, Sydney: Doubleday.

N.M. Chappell (1961), *New Zealand Banker's Hundred: Bank of New Zealand 1861-1961*, Wellington: BNZ.

Dale ,R. and S. Wolfe (2003) "The Regulation of International Banking" in Mullineux, A.W. and V. Murinde (Eds). *Handbook of International Banking*. Cheltenham: Edward Elgar.

Stephen Dawe, 'Reserve Bank of New Zealand Act 1989', *RBNZ Bulletin*, Vol.53, No.1: 29-36.

Roderick Deane, Peter Nicholl, and R.G. Smith, eds (1983), *Monetary Policy and the New Zealand Financial System*, 2nd edn, Wellington: RBNZ.

Luis G. Dopico and James A. Wilcox (2001), 'Openness, Profit Opportunities and Foreign Banking', *Journal of International Financial Markets, Institutions and Money*, 12: 1-22.

Duncan, Ian and Bollard, Alan (1992), *Corporatization and Privatization: Lessons from New Zealand*, Auckland: Oxford University Press.

Dunning, J. H. (1992). *Multinational Enterprise and the global economy*. Wokingham: Addison-Wesley Publishers.

Fazio, A. (2003). "Financial Stability and Growth", in De Rosa, L. *International Banking and Financial Systems. Evolution and Stability*. Hants: Ashgate, 225-232.

Ferguson, R.W. (2003). "Consolidation in the Financial Sector", in De Rosa, L. *International Banking and Financial Systems. Evolution and Stability*. Hants: Ashgate, 233-238.

Financial Mail : vol.40 (8), 1974.

Andrew Fung, Elisa A. Bain, John G. Onto and Ian R. Harper (2002), 'A Decade of Internationalization: The Experience of an Australian Retail Bank', *Journal of International Financial Markets, Institutions and Money*, 12: 399-417.

Government Gazette: No 17115 of 1996.

- : No 21936 of 2000.

- No. 22939 of 2001.

Margaret Griffin (1998), 'Core Principles for Effective Banking Supervision – An Assessment of New Zealand's Position', *RBNZ Bulletin*, Vol.61, No.3: 241-54

Arthur Grimes (1999), 'Public Standards and Private Monitoring: New Zealand's New Banking Supervision Regime', *Agenda*, Vol.3, No.3: 277–86.

Arthur Grimes (1998), 'Liberalisation of Financial Markets in New Zealand', *RBNZ Bulletin*, Vol.61, No.4: 291-306.

Arthur Grimes (1999), 'Risky Banks and Risks of Bank Regulation', in Alex Sundakov and John Yeabsley (eds), *Risk and the Institutions of Government*, Wellington: NZIER/Institute for Policy Studies, pp.56–74.

David A. Harper (1986), *The Financial Services Industry: Effects of Regulatory Reform*, Research Paper No.35, Wellington: NZIER.

Gary R. Hawke (1973), *Between Governments and Banks: A History of the Reserve Bank of New Zealand*, Wellington: Government Printer.

Gary R. Hawke (1997), *The Thoroughbred Among Banks in New Zealand*, Vol.1, Wellington: National Bank of New Zealand.

Craig Heppleston and Bruce White, 'Supervision of Registered Banks' Large Credit Risks', *RBNZ Bulletin*, Vol.55, No.1 (1992), pp.18–26.

Hodgson, D.(2001) 'A Tale of Two governors. Monetary policy and the South African economy,1981 – 1999,' in *South African Journal of Economic history*, vol.16(1+20: 47 – 73.

Frank Holmes (2003), *The Thoroughbred Among Banks in New Zealand*, Vol.3, Wellington: National Bank of New Zealand.

Leslie Hull (2002), 'Foreign-Owned Banks: Implications for New Zealand's Financial Stability', RBNZ Discussion Paper 2002/05 (2002)

International Monetary Fund (2004), *New Zealand: Financial System Stability Assessment*, IMF Country Report No.04/126.

Itzikowitz,A.(1992). "The deposit taking Institutions Act, 94 of 1990: Its History and Overview of its main provisions." In *South African Mercantile Law Journal*, vol.4: 170 – 197.

Jacobs, J. (1985). "The Implications of the Amendments to the banks' Act of 1965." *The South African banker*, vol. 82(4) : 143 – 147.

Geoffrey Jones (1993), *British Multinational Banking 1830-1990*, Oxford: Clarendon Press.

Kantor, B.(1986) 'The Ce Kock Commission Report: A Monetarist Perspective,' in the *South African Journal of Economics*, vol.54:94-107.

George G. Kaufman (2004), 'Bank Regulation and Foreign-Owned Banks', *RBNZ Bulletin*, Vol.67, No.2: 65–74.

Malcolm Knight (1997), 'Comment', in Enoch and Green (eds), *Banking Soundness and Monetary Policy*, pp.369–74

Rafael La Porta, Florencio Lopez-de-Silanes and Andrei Shleifer (2002), 'Government ownership of banks', *Journal of Finance*, 57, 1: 265-301.

Lambrechts, J. A. (1975). *Aspekte van die Bemarkingspraktyke van Suid-Afrikaanse Handelsbanke*. University of Pretoria: Unpublished D. Com Dissertation.

Rosa María Lastra (1996), *Central Banking and Banking Regulation*, London: LSE Financial Markets Group.

Peter Ledingham (1995), 'The Review of Banking Supervision Arrangements in New Zealand: The Main Elements of the Debate', *RBNZ Bulletin*, Vol.58, No.3:163–71.

Ken Matthews (2004), 'Developments in the New Zealand banking industry during 2003', *RBNZ Bulletin*, 67, 2: 35-47.

David Merrett (2002), 'The State and the Finance Sector: The Evolution of Regulatory Apparatus', *Australian Economic History Review*, 42, 3: 267 – 283.

Merrett, D T. (2002b) 'The Internationalization of Australian banks', in *Journal of International Financial Markets, Institutions and Money*, vol12(4-5):pp.377-397.

Huong Minh To and David Tripe (2002), 'Factors Influencing the Performance of Foreign-Owned Banks in New Zealand', *Journal of International Financial Markets, Institutions and Money*, 12: 341-57.

Monetary and Economic Council (1966), *The New Zealand Financial System* (Report No.10), Wellington: Government Printer.

Kerry Morrell, 'Banking Supervision – An Overview', *RBNZ Bulletin*, Vol.53, No.3 (1990), pp.270–6.

Nedbank Annual Report, 1985 -2005. Sandton: Nedcor Ltd.

Nicholson, D.T. (1976). " Look at the Recent Changes in Banking Legislation in South Africa." In *The South African Banker*, vol. 73(4):149 -153.

RBNZ (1986), *Financial Policy Reform*, Wellington: RBNZ.

RBNZ (1987), 'Prudential Policy in a Deregulated Environment', *RBNZ Bulletin*, Vol.50, No.1: 9-15.

RBNZ (1992), *Monetary Policy and the New Zealand Financial System*, 3rd edn, RBNZ: Wellington.

RBNZ (1993), 'The Banking Sector in New Zealand', *RBNZ Bulletin*, Vol.56, Vol.2: 153-65.

RBNZ (2002), *Briefing on the Reserve Bank of New Zealand*.

RBNZ (2004), *Financial Stability Report October 2004*.

Andrew Rodgers (1998), 'Developments in the banking industry', *RBNZ Bulletin*, Vol. 61, No. 2: 112-21.

RP70/1984: Final report of the Commission of Enquiry in the Monetary System and Monetary policy in South Africa. Pretoria: Government Printer.

RP87/1970: Third Report of the Commission of Enquiry into Fiscal and Monetary Policy in South Africa. Pretoria: Government Printer.

Securities Commission [of New Zealand] (1993), *Report of an Enquiry into Certain Arrangements Entered into by Bank of New Zealand in March 1988*, Wellington: Securities Commission.

Keith Sinclair and W.F. Mandle (1961), *Open Account: A History of the Bank of New South Wales in New Zealand 1861-1961*, Wellington: Whitcombe & Tombs.

Singleton J., A. Grimes, G. Hawke and F. Holmes. (2003). "Progress Report on the New History of the Reserve bank of New Zealand." In *Australian Economic History Review*, 43(1) : 83 – 88.

John Singleton with Arthur Grimes, Gary Hawke, and Frank Holmes (2006), *Innovation and Independence: The Reserve Bank of New Zealand, 1973-2002*, Auckland, Auckland University Press.

John Singleton and Paul L. Robertson (2002), *Economic Relations Between Britain and Australasia 1945–1970*, Basingstoke: Palgrave.

Alfred Slager (2006), *The Internationalization of Banks*, Basingstoke: Palgrave Macmillan.

South African Reserve Bank: Annual report, Bank Supervision Department, 1992 – 2005. Pretoria: South African Reserve Bank.

South African Reserve Bank : Financial Stability review, March 2004. Pretoria: South African Reserve Bank.

South African Reserve Bank: Quarterly Statistical bulletin, 1985 – 2006. Pretoria: South African Reserve Bank.

Standard Bank : SBK History data: Communication 12/01/07

The South African Banker: Vol. 71(1), 1974: 23.

: - Vol. 71 (3) 1974 : 198

: - Vol. 74(1), 1977:12.

: - Vol. 87(1), 1990: 15 – 17.

: - Vol. 87(3), 1990: 75 – 78.

G. Toniolo, (2005) *Central Bank Cooperation at the Bank for International Settlements, 1930 – 1973*, New York. Cambridge University Press.

Trichet, J. (2003). "The Evolution of the Financial System and the Efficiency of intermediaries and Markets", in De Rosa, L. *International Banking and Financial Systems. Evolution and Stability*. Hants: Ashgate, 247 – 256.

Adrian E. Tschoegl (2001), 'Introduction to the special issue [on the internationalisation of banking]', *Journal of International Financial Markets, Institutions and Money*, Vol. 12, No. 1: 291-7.

John D. Turner (2000), 'The Hayekian Approach to Banking Supervision in New Zealand', *Annals of Public and Cooperative Economics*, Vol.71, No.1: 105–25.

James Twaddle (2004), 'The Reserve Bank of New Zealand Amendment Act 2003', *RBNZ Bulletin*, Vol.67, No.1: 14–20.

Yvonne van Dongen (1990), *Brierley: The Man Behind the Corporate Legend*, Auckland: Viking.

Verhoef, G (1995) "The Dynamics of Banking in South Africa, 1980 - 1993. Special Issue of The South African Journal of Economic History, March 1995. Pretoria

<http://www.bankinggenesis.co.za/tables/template.asp?intYear=2006&intMonth=11&i:DI900>.

Verhoef,G (1987) *Die Geskiedenis van Nedbank, 1945 – 1973*. Unpublished D litt et Phil thesis, Randse Afrikaanse Universiteit: Johannesburg.

Bruce White (1992), 'Banking Supervision in New Zealand', in RBNZ, *Monetary Policy and the New Zealand Financial System*, 3rd edn, pp.183–93.

9075 words plus tables, bibliography and footnotes