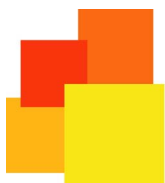


TRANSFORMATION

in the banking industry

2016 – 2017



THE BANKING
ASSOCIATION
SOUTH AFRICA

Highlights

26%

*increase in the
number of black
board members
from 2016 to 2017*



40%

*increase in number
of black women
board members*

R777m

*spent on socioeconomic
development by all
banks in 2017*

R20.7bn

*procured
from majority
black-owned
suppliers*

23%

more than in 2016



30%

*more than in
2016*

*Number of black senior
managers increased from*

2 762 in 2016 to

3 119 in 2017

(12% growth)



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Intellidex was commissioned by the Banking Association South Africa (BASA) to produce this report on transformation in the banking sector. All figures were supplied by BASA. The report reflects transformation in the banking industry and its progress towards achieving the targets set out in the Financial Sector Code.

The publication serves as a report to society on the contribution of the banking industry to the development of the country, and as a platform for thought leadership on transformation.

It demonstrates, with hard data, that banks play a transformative role in South Africa that goes well beyond the prescripts of the financial sector code or the BEE generic codes of good practice.

The publication aims to serve as an authoritative annual reference book of data on banks and empowerment, complemented with a narrative that analyses and explains trends in the statistics.

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The unique responsibility of banks

Cas Coovadia, BASA Managing Director

The Banking Association South Africa (BASA) has long acknowledged that the present patterns of wealth ownership in the country are not sustainable and have their origins in apartheid and colonialism.

We fully support policies and legislation — such as broad-based black economic empowerment and employment equity — aimed at redressing the past and providing the poor and vulnerable with access to jobs, secure income and the opportunity to create wealth for their families. Financial services institutions have a unique set of skills, expertise and resources to help create sustainable wealth for black South Africans.

We are working hard to meet the targets set out in the 2017 Financial Sector Codes (FSC). The codes do not only require us to make the employees, managers and ownership of financial institutions more representative of the people of South Africa, but also to contribute to the growth, development and transformation of the entire economy.

Banks have a unique responsibility among the social partners that determine the course of the economy: they hold in trust the savings and investments of South Africans. These savings must be invested responsibly so that the interest earned can provide for retirement, education and opportunities to accumulate wealth and property.

Banks also use these deposits – and raise loans at home and abroad – to invest in South Africa's social and economic infrastructure and to extend credit to businesses, big and small, to enable them to expand, grow the economy and create jobs. And our customers are often our shareholders. The retirement and investment funds that provide for workers and others are our shareholders.

Banks have substantial FSC commitments. But, given the daily hardships that face the majority of South Africans and the social and economic challenges that face the country, there are often legitimate demands for banks to do more. In the past year, banks have gone beyond what is required of them by, among others:

- Providing support to the social grants system, which was in danger of failing the most vulnerable in the country.



- Contributing to the South African SME Fund, which aims to support small- and medium-sized (SME) enterprises that demonstrate potential for rapid growth and employment creation.
- Being part of the Youth Employment Service (YES) initiative, which aims to provide internship opportunities to 1-million young people over a period of three years. The interns will be paid by the private sector.
- Contributing significantly to the Ikusasa Student Financial Aid Programme (ISFAP) pilot aimed at addressing the funding crisis in higher education, which resulted in the exclusion of many students from poor families. Protests by students disrupted the academic programme in many universities and caused massive damage to property.

This is despite banks enduring 10 years of sluggish economic growth, policy uncertainty, political instability and weak governance and service delivery. The challenges of wealth creation and transformation become much more difficult in harsh economic times.

This report seeks to highlight our successes and where we are still struggling. It is an important benchmark, against which we will measure the success of our future efforts to advance the transformation of the country's financial institutions.

Banks change both inside and out

South Africa's financial sector has been the largest contributor of new jobs and the biggest source of GDP growth over the past two decades, according to StatsSA figures. Yet while it has grown, it has needed to play an important role in the transformation of the wider economy. That has required banks to intervene in their "business as usual" baseline, shifting their activities to support transformation in the rest of the economy. This report considers the progress made between 2016 and 2017, but in so doing draws out the various ways the banking sector has worked to shift the wider economy.

South Africa's financial system, relative to the size of the economy, stands out for the sophistication of its capital markets and the depth of its banking industry. Its equity and bond markets turn over multiples of the amounts of the next biggest African markets. World Bank data show the banking system lends around 50% more, as a proportion of GDP, than the next biggest market on the continent. The banking system is able to deliver services that are simply unavailable in many other developing countries. This means it can play an important role in transforming the economy.

In 2002, at the Financial Sector summit, NEDLAC negotiated the Financial Sector Summit Agreement to transform the financial sector. NEDLAC partners – represented by government, organised business, organised labour and organised community constituencies – committed to develop a Black Economic Empowerment [BEE] Charter to remove inequalities and create a robust financial services sector. That marked the beginning of a historic process through which the financial industry and stakeholders from organised black business and civil society engaged to work out the best way for the financial sector to transform. The focus was on the people who worked in it, its ownership and activities, but crucially it also drafted the financial sector into the task of transforming the wider economy. The financial sector is a key enabler of economic activity – it can use its ability to finance growth and provide financial services to galvanise

transformation of the economy more broadly.

On 1 January 2004, the Financial Sector Charter came into effect. It was the first voluntary BEE Charter and represented a commitment from an entire sector of the economy to transform the financial services industry, as well as support transformation of the wider economy.

Following that initial phase, the charter was revised in line with the Broad-Based Black Economic Empowerment Act and promulgated as the Financial Sector Code (FSC) in 2012, giving it the same legal status as the Department of Trade and Industry's generic codes that were gazetted in 2007. The 2012 version was then revised into its latest 2017 iteration.

While the charter and then code have been a critical formal mechanism for the industry, banks have done many other things to support the broader South African society in confronting the challenges it has faced. That has ranged from new innovations to support tertiary students to innovating new

2018 marks a new
beginning for the
banking sector's
effort to help drive
transformation of
the South African
economy

financial instruments to support early childhood development efforts by non-governmental organisations. While the code sets out a complex measurement approach to score banks on their performance, the on-the-ground experience shows how banks can bring innovation and technical expertise to ensure a larger impact than can be measured in rands and cents.

The banking sector is involved in a wide range of interventions to business-as-normal to contribute to the broader transformation effort. According to FinMark Trust, banks service 77% of South Africa's adult population, while Bankserv data show they process more than 100-million transactions every month and manage total assets of over R5trn, according to Reserve Bank figures. Inwardly, banks have focused on transforming their ownership, the racial composition of their management and staff and spending on skills development. Outwardly, banks have focused on the business they do and the way they do it. From a product point of view, banks have set targets for the financing of BEE transactions, black agriculture, affordable housing, black small- and medium-sized businesses, infrastructure to transform the economy, and access to financial services. From a business point of view, banks have set targets for procurement from black suppliers, educating consumers, enterprise development and socioeconomic development spending.

Some of these interventions have been more successful than others. Among inward interventions, perhaps the most dramatic changes have been achieved in employment equity. Banks

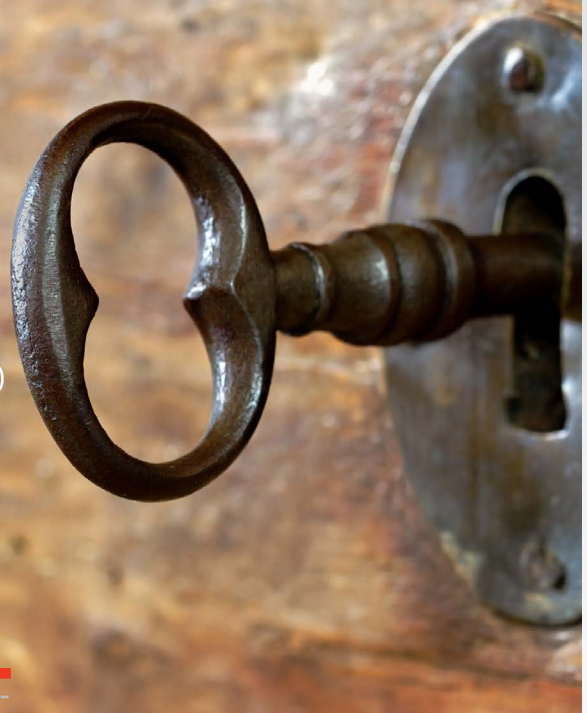
have brought many black employees and managers into their ranks and continue to rapidly increase the numbers. There has been more progress at junior levels relative to senior levels, though senior level growth has been strong off a low base.

Between 2016 and 2017 the number of black board members of banks increased from 43 to 71, according to figures reported by the banks. Excluding banks that reported for the first time in 2017, which provides a better like-for-like basis to assess progress, the number of black board members increased from 43 to 54 in a year (26%). The number of black executive directors more than doubled from five to 13 in the same year.

Black executive directors now occupy key leadership roles in the largest banks. Two, Standard Bank and African Bank, are led by black CEOs, the latter by a black woman CEO. Black executives occupy several other key leadership roles, such as Nedbank's chief financial officer and Absa's deputy CEO. At board level, Nedbank is the most transformed with 11 black board members, of which five are women, out of a total of 18 board members. At FirstRand, 10 of 20 board members are black, five of which are women. Standard Bank Group has six black board members of which three are women, with a board of 19. Absa is similar with six out of 18 board members being black, two of which are women. Investec has four black board members including two women, out of only seven board members.

At senior executive level, FirstRand stands out with 18 black members. Standard Bank has seven black members, followed by Nedbank with six. Absa and

Banks have brought
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Ownership

Investec have five, while Capitec has two. Among middle management, the proportion who are black increased from 59% to 61% between the two years. Among senior management, the proportion who are black increased from 25% to 37% while at top senior management the change was from 26% to 35%. Progress at senior levels has accelerated as the pipeline of junior managers gains experience and moves through the ranks.

The change at more junior management levels has been more dramatic. In that segment, 84% are black – from 82% in the previous year – making up a total of 54,000 people. The number of black junior managers grew last year by 6% year on year.

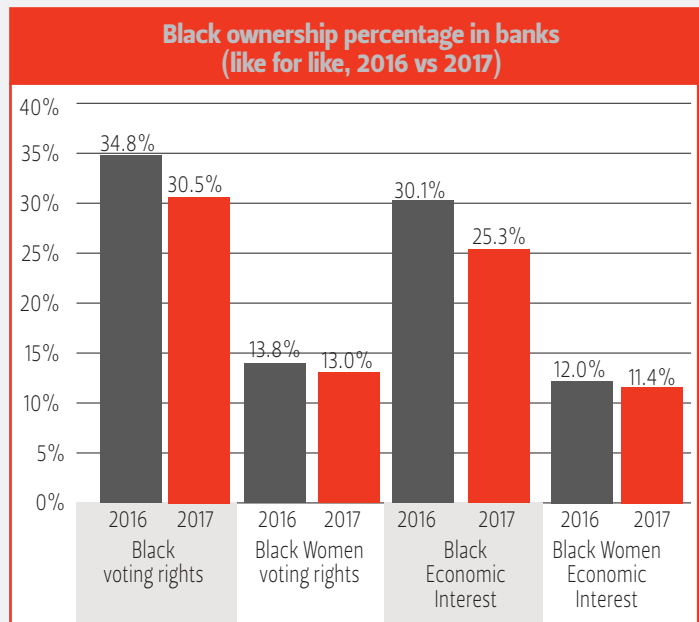
Black ownership, however, has seen some reversal from earlier gains. Using the measurement approach set out in the Financial Sector Code, black ownership measured by voting rights fell from 34.8% to 30.5% from 2016 to 2017, while black economic interest fell from 30.3% to 25.4%. Several empowerment deals matured in 2015, which has enabled black investors to realise gains and exit.

According to estimates by Intellidex, as of the end of 2015, the banks' empowerment deals had collectively generated R57bn of net value in the hands of beneficiaries. Many have since sold their shares in order to diversify their wealth or invest in other assets. The continued consequence provisions, sometimes called the "once empowered, always empowered" principle, only allow for a portion of the previous ownership percentage to be counted, for as long as the ownership period. That percentage is diluted according to a complex formula that depends on the overall empowerment score of the bank. The target for voting rights and economic interest is 25%. On economic interest, therefore, banks are on average just at the level required to meet the targets of the code but cannot afford any further loss of black shareholding.

Banks are also committed to skills development and score points for mentorships they provide for black employees and university studies they cover. The banks collectively funded 964 graduate students and 263 post-graduate students in 2017. They also collectively spent R784m on socioeconomic development, up from R624m the year before.

Banks' procurement spending is another mechanism to drive transformation across the economy. In 2017 banks spent R71bn on procurement from worldwide sources, marginally more than the R70bn the year before. Within this spend however, banks increased their spending on black-controlled companies (at least 51% black-owned) from R15.9bn to R20.5bn, a 29% increase. Spending on businesses that are at least 30% black women-owned increased by 56%, from R9bn to R14.2bn. Spending on small businesses was R14.4bn, R200m higher than the year before.

A big part of banks' efforts, however, is on interventions in their market places. This ranges from consumer education to the products and



Source: bank submissions. Note that all banks' data was weighted by total assets to determine industry aggregates. Some banks did not supply data for 2016 although these represented less than 3% of industry assets and were excluded from 2017 aggregate data to enable like-for-like comparisons.

The reported black ownership of South Africa's banks has declined between 2016 and 2017, using the measurement approach of the Financial Sector Code. The decline reflects the continued exit of black shareholders who received shares through black empowerment schemes established by the large banks in 2005. Most of those matured in 2015, at which point beneficiaries were free to dispose of their interests.

Of the large banks, African Bank increased black ownership from 11.2% in 2016 to 29.2% in 2017. FirstRand and Grindrod reported marginally increased black ownership, the only other banks to do so. Only nine banks report on their black economic interest, with the rest of the banks held by foreign investors and therefore not reflecting any black ownership.

The decline in economic interest has been less pronounced among black women. On this line, FirstRand, Investec and Capitec all reported increases.

services they offer. The banks have several targets for increased lending and other service provision to enhance access to financial services as well as drive the development of black businesses. Consumer education is a key focus and banks increased spending from R114m to R148m year on year. Such education is focused on black consumers to enable better decision making about their financing and lifestyles, as well as their businesses. Banks also spend on developing their suppliers, spending R408m in 2017 (this was not measured in 2016), but that spending in part consumed some of the spending banks were doing on general enterprise development, which fell from R356m to R150m year on year.

Banks also have a complex list of targeted financing objectives, including funding affordable housing, transformational infrastructure, black agriculture, black small businesses and BEE transactions. Across these five different targeted areas, banks lent a total of R244.3bn in 2017, a 5% increase from R232.7bn in 2016. Lending for BEE transactions increased by 13.6%, affordable housing by 26%, black agriculture by 20.6% and transformational infrastructure by 7.6%, but lending to black small and medium enterprises shrunk (-7.7%). This lending can be seen in the context of total industry lending of R3.35trn as of the end of 2017, implying that targeted loans are now equivalent to 7.3% of total loan books.

This report presents the figures on the progress of banks between the years 2016 and 2017. During this period the revised Financial Sector Code was introduced which changed certain definitions. We have attempted to ensure that figures are comparable year on year but in some cases this was not possible. Also, some smaller banks did not report some or all figures in 2016. In such cases we have excluded their figures from the calculation of like-for-like changes in order to obtain comparable figures.

In general, apart from ownership, banks have reported a significant improvement in various empowerment measures during the year. This was during a difficult time for the industry, with weak economic growth reflected in an upward trajectory of non-performing loans. Growing unemployment and the downgrade of South Africa's credit rating to sub-investment grade by two of the three major international ratings agencies added pressure on the industry.

The gazetting of the new code reinvigorates the transformation efforts of the banks. The earlier impetus of the charter had dissipated in the years that it took to develop and gazette the new code and 2018 therefore marked a new beginning for the banking sector's effort to help drive transformation of the South African economy. This report focuses on the year leading up to it. The banking sector has a clearer role to play in future to help the national project of transforming and developing the economy. ■

Guest column



When I think about the pace of transformation and contemplate the role and responsibilities of the country's financial market infrastructures in enabling the transformation of our economy, I am reminded of these words from a poem by Maya Angelou.

*"So you watch yourself about complaining.
What you're supposed to do
when you don't like a thing is change it.
If you can't change it,
change the way you think about it."*

Regulating and enforcing transformation in the financial sector is not within the power of financial market institutions, but we can both influence and enable significant aspects of transformation. In doing that, we can not only influence the lived experience of all South Africans, but we can change the way others think about transformation too.

The capital markets, at which the JSE is at the centre, is one aspect of the financial sector in our country. However, it is a key aspect, since well-functioning capital markets enable both the efficient funding of economic growth and the efficient allocation of capital and savings. While we have continued to raise the standards we apply in the markets in which we operate, we have felt keenly the need to operate our markets in a manner that responds constructively to the socioeconomic pressures our country faces. For us, this means using our core business strengths in a manner that has a positive impact on the



Capital markets can be used to advance transformation

Nicky Newton-King, CEO, Johannesburg Stock Exchange

growth of the South African economy and on the transformation of our part of the financial markets ecosystem.

On one level, there has been the opportunity to think laterally and use our markets to create a trading environment in which only previously disadvantaged individuals can trade stocks, like our empowerment sector. On another level there are products such as the tax-free savings account (which allows retail investors to invest in the market at very low costs); the Special Purpose Acquisition Company on our main board (which allows entrepreneurs to raise capital even before having a viable business); and our new project bond segment (which will help facilitate the building of infrastructure specifically needed to enhance social delivery in this country).

On a third level are our listing requirements stipulating that issuers need to have in place policies to promote racial and gender diversity at board level, and to report on progress against these policies. The JSE's intention of requiring this disclosure is to provide investors (and indeed other stakeholders) with the information needed to engage with issuers on these topics of transformation. And these are just some examples of things we have been able to do to contribute to broad-based transformation.

This is the lesson we have taken on at the JSE: that our social licence to operate is as important as our legal licence to operate. One simply cannot participate responsibly in our economy with its well-documented socioeconomic challenges without examining how one can use one's own core

strengths to make a difference to the extent and rate of transformation in this country.

The challenge now for all of us is to consider what we can do differently, leveraging our core strengths, to accelerate the pace of transformation.

As a start, when one looks at the transformation of the financial services sector, each stakeholder can play a role. Investors (both big and small) can question the boards of the companies, banks, intermediaries, stockbrokers, collective schemes and asset managers about their approach to their social licence to operate. They can also assess the status of their compliance with the BBBEE codes, sector codes and their procurement policies; and then reward those with constructive practices with more investment. Pension fund members can require their trustees to test the transformation commitment and approach of asset managers, administrators and settlement agents before appointing them. Trustees can require their appointed asset managers to disclose their policies on how they allocate their execution business to banks, stockbrokers and other intermediaries and set expectations about where execution is allocated. And so on.

Examination of the value chain and asking those tough questions will change the way we think about transformation. It is such for the financial services sector and so too for the rest of our economy. Now, more than ever, we have an opportunity to think and do things differently. Enough with looking to others to make things change.

Thuma thina! ■

Banks draw on their unique capabilities

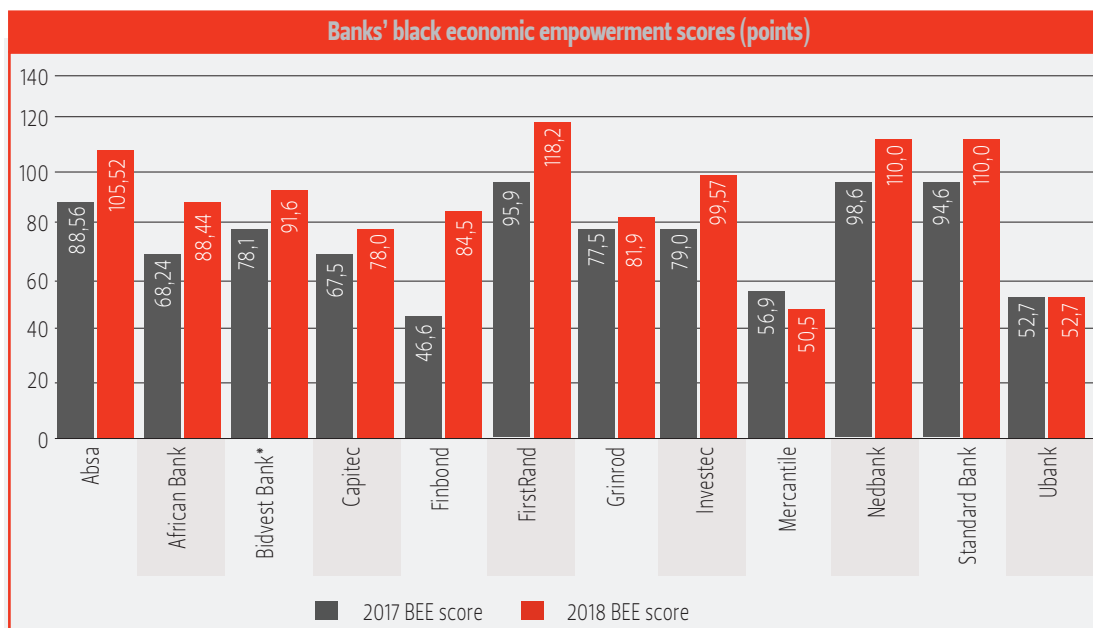
Banking is an industry immersed in numbers. When it comes to setting targets and measuring the industry's performance on transformation, there are a lot of numbers to consider. Banks have targets for the proportion of black ownership, black leadership, amounts of lending in targeted sectors of the economy and much more. It is no surprise that working out the targets and measurements to track transformation has been a long and complex process.

The current set of targets are contained in the Financial Sector Code (FSC), gazetted in December 2017. That was a milestone for the industry. Drawing up the codes took far longer than planned and involved extensive negotiations between business, labour and civil society. For a while no specific

charter applied to the industry because the original charter, effective from 2004, expired before the new codes had been agreed.

With the 2017 FSC in place, the banking sector is now well positioned to draw on its unique capabilities to drive transformation. The FSC has been crafted specifically to accentuate those capabilities, some of which are aimed at tackling South Africa's structural problems. An example, in a broad sense, is that the sector can enable economic growth by allocating resources from savers to those needing capital for investment. At the forefront of this is financing of black businesses, and empowerment financing is a key element of the FSC. Another core element is increasing access to financial services to low-income communities.

Both those elements tackle structural problems that are a legacy of the apartheid era's exclusionary



Scores are derived from the scorecard for banks under the Financial Sector Code. The maximum score is 120 and seven different elements are considered. See the table on page 14.

Management control

The number of black directors on the boards of South African banks increased sharply from 2016 to 2017. This was due to two factors: more banks provided data on the composition of their boards, but also there was an increase in the numbers of black board members across most banks.

If one excludes banks that did not report in 2016 in order to obtain like-for-like figures, there is still a sharp increase in the number of black board members. The total proportion of directors who are black increased from 19% of reporting institutions to 24%. Among executive directors, the proportion who are black increased from 32% to 37%.

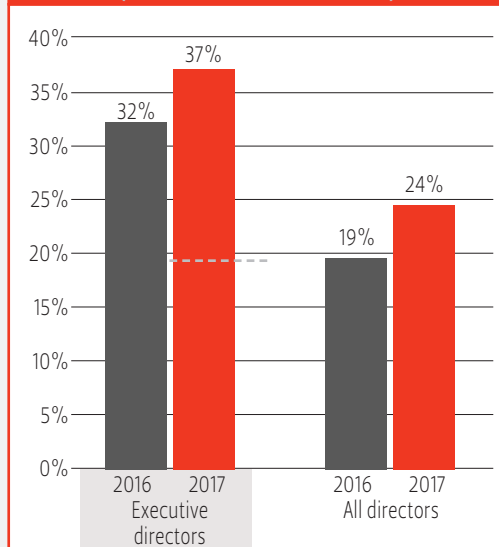
policies where black people were effectively barred from participating meaningfully in the economy. They are also two of the major ways in which the FSC deviates from the Department of Trade and Industry's (DTI's) generic Codes of Good Practice, which is the baseline for the country.

The codes are complex, and necessarily so. The financial sector is diverse and covers companies ranging from stockbrokers to insurance companies. Each has its unique characteristics and transformation drivers and each is required to measure practices and outcomes that are not always easy to quantify. Measuring financial inclusion, which is outlined below, is one such example.

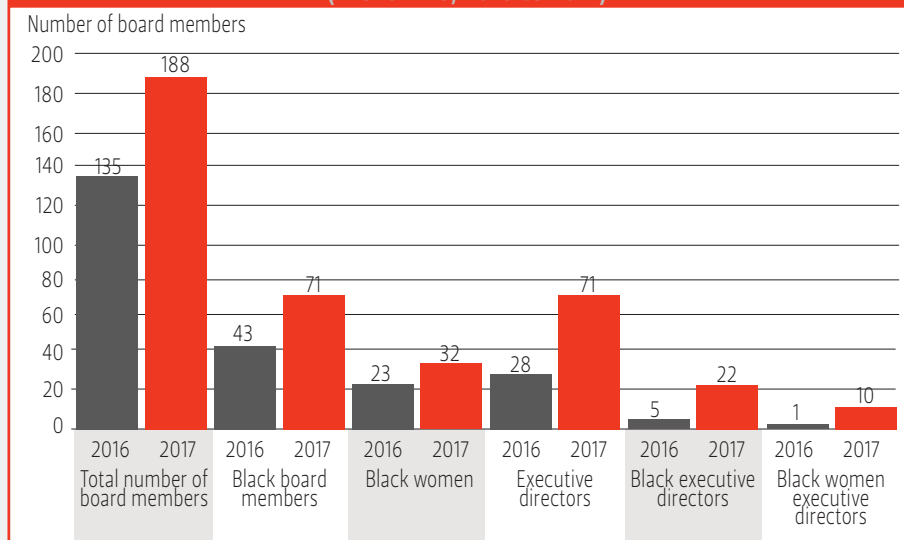
Each sector within the financial services industry has its own scorecards outlining the targets for each element. The Financial Sector Transformation Council (FSTC) has issued 16 guidance notes explaining the intricacies of each category within the FSC. This article outlines the core policies of the FSC from a banking perspective, focusing particularly on areas where the FSC diverges from DTI's generic Codes of Good Practice.

Recognising that most local banks' black economic empowerment (BEE) deals were

**Proportion of directors who are black
(like for like, 2016 vs 2017)**



**Board members
(like for like, 2016 vs 2017)**



The number of black executive directors soared from five to 22, increasing as a percentage of total executive directors from 18% to 31%. The number of black women executive directors shot up from one to 10. Black executive directors increased at African Bank, Capitec, Nedbank and Standard Bank, while no bank reported a decrease.

Continued on page 13

initiated in 2004/2005 and have since expired, with many beneficiaries having sold their shares, the FSTC included the black business growth funding concept in the FSC as a productive way for banks to use their unique capabilities to increase the rate of financial inclusion broadly in the economy through empowerment financing. That also addresses the fact that today still, black entrepreneurs struggle to gain access to finance as they have no assets to put up as collateral. Furthermore, a large portion of the population remains unbanked – the latest Finscope South Africa survey puts the unbanked population at 23%.

Empowerment financing

Empowerment financing is designed specifically to boost the growth of black business, a crucial factor for the future economic health of South Africa. The DTI believes the black business growth funding factor within the FSC creates a significant catalyst for black business growth. Other aspects of the empowerment financing section of the code target funding of transformational infrastructure, black agriculture and affordable housing.

The FSTC, in its guidance note on black business growth funding, says the provision of risk capital

was negotiated as part of the codes because of the sector's unique position to drive BEE, particularly by allocating resources to develop black businesses.

The empowerment financing element includes an equity equivalent opportunity for local subsidiaries of foreign banks, which means they may gain ownership points for their black business growth funding and for improving financial inclusion for black SMEs. These equity equivalent contributions include, but are not limited to, National Development Plan-aligned initiatives, growth of black business, enterprise development, empowerment financing and access to financial services.

Local banks may also use equity equivalent programmes, but are restricted to 5% of the value of their operations.

The aim is to unlock funding for black entrepreneurs and industrialists across all sectors, as well as black business people within the financial sector such as asset managers and financial brokers.

There are two prerequisites. The first is that financing must support businesses in which black people (as defined in the B-BBEE Amendment Act of 2013) are directly involved in the origination and creation of the business, or, through the transaction, will become intimately involved in the management

Financial inclusion

Elements	FSC targets		Absa		Capitec		First Rand		Nedbank		Standard Bank	
	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
Transaction points	85%	85%	61.6%	61.7%	43.3%	45.7%	63.8%	65.8%	51.68%	52.79%	66.57%	67.1%
Service points	70%	70%	76.9%	76.7%	60.5%	64.4%	72.6%	73.4%	59.41%	59.50%	71.71%	70.5%
Sales points	60%	60%	73.5%	73.6%	59.3%	60.0%	73.9%	74.1%	61.64%	61.62%	76.07%	70.6%
Electronic access	19%	19%	13.1%	12.5%	91.5%	93.6%	44.6%	49.7%	18.85%	9.75%	5.44%	29.0%
Product-related access	12.37m accounts	12.37m accounts	2.453m	2.378m	NA	NA	3.954m	2.282m	265 684	120 693	2.142m	3.628m

The percentage figures for each bank is the percentage of the target population in an area that the bank has reached with those particular services.

Management control, continued

and operation of the business. The second stipulates that the enterprise is, or will become, a financially sustainable business or cooperative that results in the creation or preservation of jobs.

Recognising that it may be a challenge to find enterprises that already have significant black ownership, the codes offer flexibility whereby funding can be issued over time, stepped up year by year from 25% in year one of funding the business to 80% in year five. The FSTC emphasises that the growth capital must be to fund operational black businesses and not create passive empowerment stakes in businesses not owned by black people. In addition, the majority of the capital must be intended to be used in the business to support growth as opposed to funding buyouts of untransformed partners.

Top senior management

The total number of “top senior management” across race groups fell sharply from 2016 to 2017 with the number of black top senior management also decreasing, though at a lower rate. The only bank where there was an increase in African top senior management was African Bank.



Continued on page 15



AMENDED SCORECARD: BANKS

Element	Weighting
Ownership	23
Management Control	20
Skills Development	20
Procurement and ESD	15
Socioeconomic Development and Consumer Education	5
Empowerment Financing and ESD	25
Access to Financial Services	12
Total	120

The underlying aim, clearly, is to promote the growth of small black businesses rather than enrich individuals.

The FSC recognises that financial institutions are subject to specific types of regulation – banks, for example, are beholden to Basel III capital reserve requirements. As such, categories of funding with lower risk profiles receive lower benefits while funding that comes with significant risk to the provider receives a higher weighting.

Numerous other elements that aim to address South Africa's socioeconomic problems are incorporated under empowerment financing.

Transformational infrastructure is one. This element provides incentives for financial services companies to fund infrastructure that solves structural problems within the country. The FSTC says in its guidance note on this theme that the FSC recognises the need for the financial sector to dedicate funding to infrastructure projects in underdeveloped areas where communities have historically been denied equitable access to economic resources. Typical sectors for such funding include transport, telecommunications, water and waste solutions, energy, social infrastructure such as health, education and correctional services facilities, and municipal infrastructure and services.

Other elements include black agriculture funding “necessary to assist with the land reform process” and low-cost housing funding.

Financial inclusion

Apartheid's numerous racial separation laws resulted in millions of citizens being confined to rural areas that remained commercially undeveloped. Improving access to finance for rural populations and poor communities in urban areas has been a primary government goal since the advent of democracy in 1994. Strong progress has been made – in 1994 about 67% of the population was unbanked, according to AMPS survey figures, against 23% today, according to Finscope.

However, expanding access has proven difficult. One major drive was the Mzansi entry-level bank account, a joint initiative by the big four banks and the Postbank, launched in 2004. While initial take-up was strong – by 2009 more than 6-million accounts had been opened – the initiative fizzled out as banks developed their own entry-level products.

In a guidance note on banking access, it states that while banks' product offerings must be affordable to the target market, it recognises that they need to be commercially viable to ensure sustainability. The target market for improved access to financial services is individuals who earn less than R5,000 a month (a figure that may be adjusted annually by the Charter Council). The council will monitor and report every year on the use of “access qualifying products”, with the prerequisite being that they must be a factor in expanding access.

Existing Mzansi accounts do qualify under this scheme, and the FSTC says: “Mzansi is acknowledged as a product that paved the way for the penetration of the LSM 1-5 market. However, the industry contends that the needs of this market would not be fully served by a one-size-fits-all product. There is merit in developing innovative products that would allow for the use of current technology while meeting the needs of the target market and enabling banks to do so competitively. This led to the debate and introduction of access qualifying products.”

Banks need to submit their access qualifying products – including transactional and savings products – to the Banking Association South Africa. BASA will then calculate the weighted industry net average cost to

Senior management

In the senior management category, there were gains in the total number of black managers and in the proportion of black managers. Black senior managers at banks increased from 37% to 48% of the total. In absolute terms, total black senior managers increased from 2,762 to 3,119.



customers for each product category and circulate these two figures to all banks. These figures are then plugged into an “affordability factor formula” to determine an overall “product access score”.

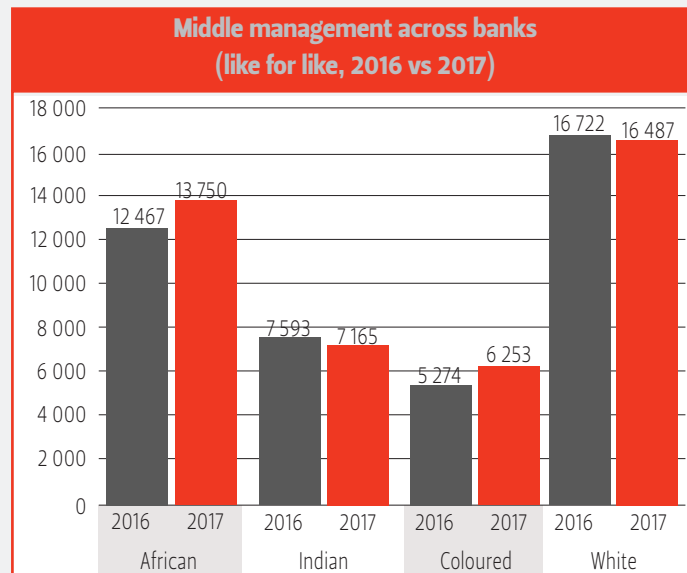
A qualifying area is defined as municipal suburbs or sub-areas in which more than 50% of households earn less than R5,000 a month (LSMs 1-5). Targets include a physical transaction point where people can draw cash or transact on their account within a 5km radius, which does not need to be staffed; a lightly staffed service point within 10km that can handle customer queries and conduct certain transactions such as money transfers; and a sales point within 15km that is effectively a normal branch that caters to full banking services.

BEE categories

Other elements of the FSC operate similarly to the generic codes, with minor variations. One area where it does diverge is that banks are not obliged to incorporate the economically active population element to determine how transformed they are. However, they do get bonus points for performing well against economically active population statistics. This effectively means banks do not have specific targets for the different race groupings – Indians, Coloureds and black Africans – but rather see them

Middle management

In the middle management category, the growth in black managers was lower, but off a higher base. The proportion of middle management who are black increased from 60% to 64% while the total number of black middle managers increased from 25,329 to 28,199.



Almost all banks saw an increase in the numbers of black middle managers, with exceptions being where overall headcount reductions were experienced over the two years.

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The empowerment financing element and promotion of black businesses are crucial to the economic wellbeing of South Africa

as one homogenous race in their management and employment equity targets.

Other targets are the same as the generic codes. In management control, for example, targets are aligned to the generic codes (ie, 60% black senior management, etc).

In skills development, the FSC diverges from the generic codes in that it focuses more on people who can be developed and promoted from within the organisation, although it also incorporates external skills development projects. The generic codes look at skills development more generally – for the employed and unemployed.

The FSC has tiered targets ranging from a lower target of 2% for higher levels of management to 8% for non-management staff. Training spend is weighted towards the lower levels of the organisation (unskilled and semi-skilled, and junior management) to facilitate progression and to benefit the majority of staff members.

However, the market has changed dramatically since the skills development codes were first drafted about 20 years ago and BASA and the banks will be proposing changes to make the learning programme matrix more relevant. For example, gamification is a growing trend in skills development and educational programmes. Communicators use game design elements and gaming principles in their educational content. This is thought to improve effectiveness through greater involvement on the part of the trainee.

The beneficiaries of supplier development are not limited to those that directly do business with them. For example, if a bank financially supports a black financial services provider such as an investment broker, that would count for supplier development.

The socioeconomic development element in the FSC differs slightly from the generic codes in that it contains a component of consumer education. In recognition of the challenges in funding higher education in SA, the sector has also incentivised support of the innovative Fundisa Retail Fund. Fundisa is an educational savings account for anyone saving for the tertiary education of a South African citizen who comes from a household earning less than R180,000 a year. Banks can also commit a maximum

of 20% of empowerment financing funding to higher education.

Meeting socioeconomic needs

The need for black economic empowerment derives from the economic imbalances caused by South Africa's apartheid history. The underlying aim of all empowerment initiatives is to improve the lives of the historically disadvantaged, be that through economic upliftment or improving the ability of people to embark on or progress in a career.

South Africa's financial services sector is highly developed, particularly relative to the rest of Africa. Its sophisticated financial infrastructure and expertise enables it to deliver funding solutions that would otherwise be impossible.

Drawing on those advantages, many BEE deals have been structured to ensure black beneficiaries receive the benefits of owning shares, but without being fully exposed to the downside risk. The concept of notional financing, too, was pioneered by SA's banking industry. This allows BEE entities to gain exposure to shares without the immediate cost of financing. And beneficiaries face no risk should the share price underperform, but they are able to receive unencumbered shares when the share performs well.

Through these means the financial sector is thus an enabler of transformation. Its sophisticated financial infrastructure and SA's developed capital markets are a national asset.

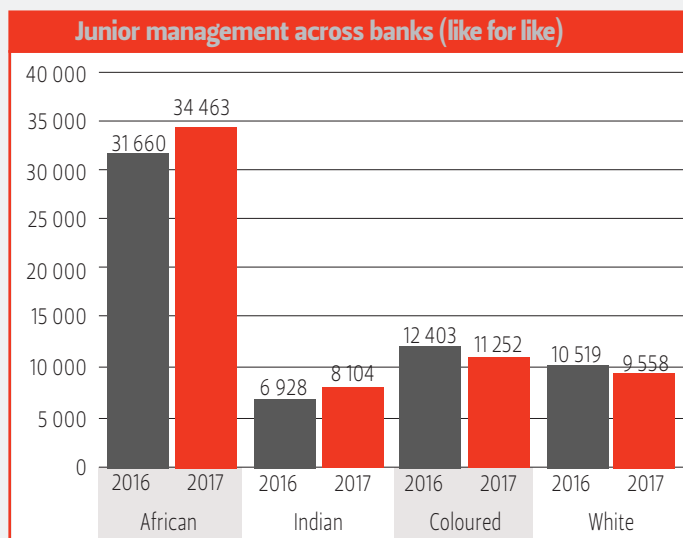
The FSC aims to utilise that asset to promote further transformation. The Charter Council has identified two structural problems that stem from apartheid's legacy – access to finance and access to financial services – and incentivised banks to address these issues through the codes.

Those two elements are part of banks' core business and the codes aim to convert what is possible into reality. The empowerment financing element and promotion of black businesses are crucial to the economic wellbeing of South Africa. The development of a large base of black businesses will improve employment levels, contribute to a growing middle class and lead to a healthier, more stable economy. ■

Management control, continued

Junior management

Among junior management, which is the largest category in terms of head count with over 64,000 employees in 2017, the proportion who are black increased marginally from 83% in 2016 to 85% in 2017.





The first YES Community Hub in Tembisa, launched in June and funded by Investec, Sanlam and Unilever, offers free wi-fi and digital skills training. Absa will make its Ready-to-Work online training programme available to youth and has committed to co-sponsoring another YES hub to be launched next year. “All these things get the flywheel to move. Once it starts moving it gathers its own momentum,” says Investec CEO, Stephen Koseff.

Photo: Sanlam

Banks campaign for a better South Africa

Banks contribute to transformation in a number of important ways that are not formally recognised by the Financial Sector Code, but which have a considerable impact on South African society.

Arguably, one of the most important initiatives over the past few years, in the context of the country’s political and economic backdrop has been through the CEO Initiative.

The CEO Initiative arose off the back of “Nenegate” – former President Jacob Zuma’s abrupt firing in December 2015 of then finance minister Nhlanhla Nene – and was spearheaded by Nene’s successor at the time, former finance minister Pravin Gordhan.

The firing of Nene catalysed representatives from business, labour and government to work together to help SA stave off a credit ratings downgrade and make the economy more inclusive.

“People realised the fragility of the country. We were starting to see state capture in front of our eyes. Business could not sit on the sidelines and do nothing,” recalls Stephen Koseff, former CEO of Investec.

Koseff, along with the CEOs of SA’s other major banks, has been an active participant in the CEO Initiative. Together with Goldman Sachs SA MD Colin Coleman, he co-chairs the Youth Employment Service (YES) programme, which arose out of the CEO Initiative. YES is a business-led collaboration with government to create one million work opportunities for black youth, with a push to create new businesses, particularly in townships.

Investec and the Investec Foundation have been the primary funders in establishing YES, while Absa was one of the first 10 companies to commit to the initiative.

“Transformation is not just about growing and developing executives or appointing people into positions, it’s about what you are doing to uplift people from poverty and improve society,” says Koseff. “At Investec we have a saying: ‘you don’t live off society, you live in it’, therefore you have to make a contribution.”

Banks are rising to the challenge. Together with insurance companies and other financial sector players, they will set aside R100bn to fund the growth of black-owned businesses.

This is in addition to financial contributions towards the CEO Initiative’s Small and Medium Enterprise Fund (SME), which will deploy capital to fund managers already investing in SMEs.

Bank CEOs have also actively defended the country’s institutions, such as the Treasury and the Reserve Bank, while speaking out against corruption. The integrity of SA’s institutions is crucial to attracting investment into the economy, which will help it grow and create jobs.

Nedbank Group CE Mike Brown heads the ratings agency stream of the CEO Initiative, which continues to engage with credit ratings agencies on staving off a downgrade of SA’s credit rating. Nedbank views the CEO Initiative as an important part of its partnership and advocacy work. “Our success is contingent on the role the bank plays in building and delivering value to society, or the nation,” it says.

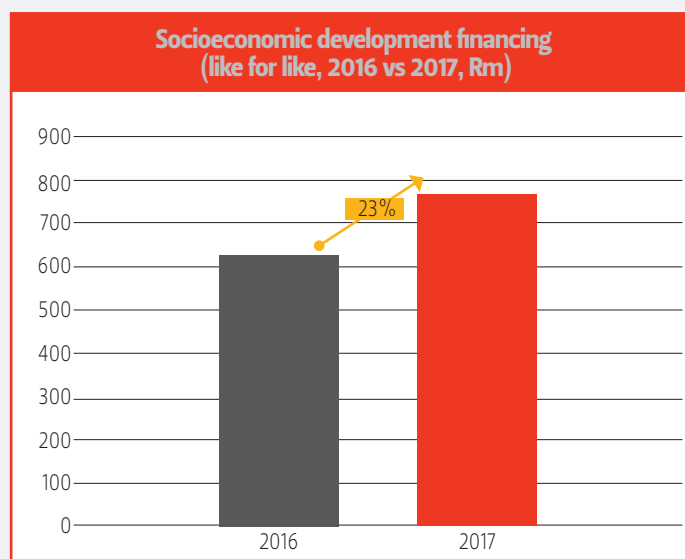
Banks refused to buckle when faced with political pressure to continue banking Gupta family companies when these companies were flouting the country’s financial laws. Instead, by reporting these transactions to the Financial Intelligence Centre, banks upheld the country’s anti-money laundering laws and the integrity of its financial

Continued on page 22

Scorecard element in depth

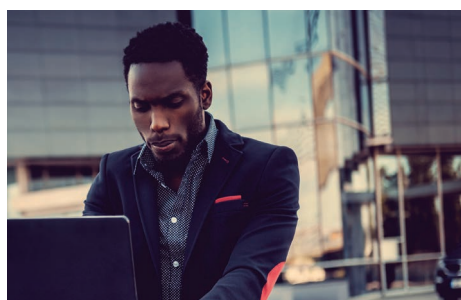
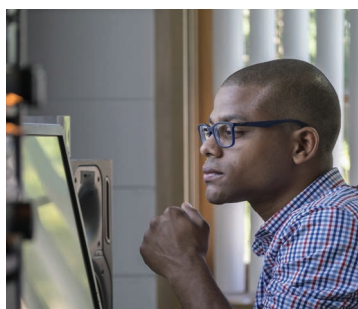
Socioeconomic development spending

Socioeconomic development spending, which includes spending on organisations that predominantly benefit black people, grew by 23% between 2016 and 2017.



Banks' education initiatives			
Bank	Initiative	Details	Outcomes
Absa	Adopt-a-TVET work-based exposure programme	Partnering with 36 Technical and Vocational Education Training (TVET) colleges to support the work-based exposure aspect of curricula.	Since 2016, 2,828 students have participated in the programme, gaining exposure to various areas within the bank. PwC was brought on board in 2018, hosting 81 students in July and offering 35 of them 18-month internships.
	Ready-to-Work	Facilitating job shadowing and placements for young people who have completed Absa's online Ready-to-Work curriculum.	Nearly 11,000 young people have been placed in jobs or training opportunities since this phase of the Ready-to-Work programme was launched in 2017.
Capitec	IkamvaYouth	After-school support to learners in grades 8 to 12. It supports 2,400 learners across 16 branches.	In 2017, 472 grade 12 learners in five provinces wrote final matric exams: 85% passed, of which 73% were either Bachelor or Diploma passes, ensuring these learners are eligible for tertiary studies.
	Management Development Programme at UCT Graduate School of Business	Attended by 27 principals from the Cape metros and Winelands districts. Extending to Komani, Eastern Cape in 2018/2019.	Improved school leadership leads to improved teacher and student performance.
FirstRand	Work experience initiative	This year, FirstRand placed 86 university graduates and 1,186 matriculants into work opportunities within the organisation, providing training for unemployed youth. Learners also undertake research on how the financial services sector can contribute to economic inclusion in SA, encouraging complex problem solving, critical thinking, creativity and innovation.	Unemployed youth with a matric certificate who are at risk of not finding permanent employment are targeted. These individuals are trained in skills necessary for the fourth industrial revolution.
	Supporting students to graduate	In partnership with the Ikusasa Student Financial Aid Programme (ISFAP) and in the wake of the Fees Must Fall movement, the FirstRand Foundation disbursed R37m in funding to 10 higher education institutions, benefiting 1,860 students in 2016 and 2017.	Assisting financial constrained students.

Banks' education initiatives			
Bank	Initiative	Details	Outcomes
Investec	Promaths	Extra tuition in maths and science to learners in Grades 10 to 12 at township schools across the country. More than 7,000 learners have completed the programme since inception 12 years ago, with 84% having completed or are in the process of completing tertiary education.	Of the Promaths learners who wrote matric in 2017, 26% achieved a distinction in mathematics and 32% achieved a distinction in science. All of the learners passed, 88% of those with a mark between 50% and 100%.
Nedbank	Letsema and Kuyasa learnership programmes	Nearly 1,500 unemployed graduates, matriculants and Nedbank employees attended learnerships in the bank in 2017.	Addresses SA's skills shortage and improves career prospects of participants.
Standard Bank	Partnering with ISFAP	The bank has committed to fund a cohort of 183 university students, based on academic performance, until they graduate.	Addressing funding for higher education.
	Learnerships	Since its launch in 2007, about 5,000 learners have participated in Standard Bank's learnership programme, many of whom are still with the group.	Addressing racial, gender and geographical challenges to educational advancement and developing the kinds of skills needed by the bank.



Continued from page 19

system, ensuring it remains an attractive investment destination.

“You can’t have prosperity unless you have a commitment to constitutionalism, an important element of which is the rule of law,” says Sim Tshabalala, Standard Bank CEO. “A big lesson for all of us as business is that we’ve got to stay engaged. No profession or sector of society is free of blame for where we find ourselves, whether in terms of the joblessness rate, inequality, poverty or corruption.”

Tshabalala, who spent as much as a quarter to a third of his time focusing on country risk issues in 2017, says businesses should think about economic growth in the context of the need for social cohesion. “If you want SA to be more competitive, you don’t have a choice but to contribute to social cohesion and economic growth. You can’t have prosperity unless you have a reduction in disparities in society,” Tshabalala says.

Tshabalala co-chaired the investment and capital work stream in the CEO Initiative. This stream identified projects in sectors such as agriculture and tourism that would boost economic growth, and also contributed to discussions on building viable state-owned enterprises.

Some of these proposals have found their way into government’s stimulus package, while others have been taken up by organised business, including the Banking Association of SA, Business Unity SA and Business Leadership SA.

“There is a lot we can do as a society to help make a difference,” says Koseff, who says he is “getting more positive on SA” as the Cyril Ramaphosa-led government begins to create an enabling environment and increasingly partner with business for positive societal outcomes. “You can’t transform without growth. Inclusive growth is about ensuring that everyone in society benefits from the growth,” he says.

Spotlight on education

Despite education being the single largest expenditure item after salaries in the national budget, claiming more than 20% or R340.5bn of spending in the 2018/19 financial year, outcomes remain disappointing. Too few black South Africans are enrolled in pre-primary schooling, even fewer obtain a post-school qualification and the quality of secondary schooling is in many cases poor.

Unsurprisingly, education is a major focus for banks, with the country’s six largest banks collectively donating more than R1bn in 2017 to basic and tertiary education, as well as vocational education and teacher training. These amounts are in addition to the study loans they grant as part of their normal business processes.

While banks are providing funding and other resources to education-focused projects that are too numerous to list them all, some are listed on pages 20 and 21.

Spotlight on land reform

Banks have made extensive contributions, through the Banking Association of SA and individually, to the policy debate on land reform.

Unaudited figures indicate that the “big four” banks had exposure of R148bn to the agricultural sector at the end of June 2018. Banks are thus understandably concerned with how the process is managed, as prolonged uncertainty or the undermining of property rights will considerably reduce property values. This would have a major impact on the collateral held by banks, on the ability of farmers to service their loans and, ultimately, on the health of bank balance sheets.

“If you do land redistribution the wrong way, it impacts property rights and will break the banking system. If your banking system breaks, the system breaks,” cautions Investec’s Koseff. He believes land reform is achievable if government and the agricultural sector work together to develop emerging farmers, particularly considering the vast tracts of unused land owned by government.

“No right-minded South African would deny the imperative need for land reform,” says Standard Bank’s Tshabalala. However, like Koseff, Tshabalala cautions that if land reform is poorly managed it could create more risks to the banking system and the economy than is appropriate.

While banks already provide finance to black farmers and extend loans for affordable housing, they are also working with the Banking Association of SA and organised agriculture, in partnership with government, towards developing sustainable funding solutions to support land reform models.

Absa has identified five key areas through which the bank can make a meaningful contribution towards a sustainable land reform agenda.

It is advocating for a rural land reform fund, which would be funded by financial sector players and other organisations, aimed at establishing black commercial farmers.

A second urban land reform fund would be geared towards improving the affordability of urban housing and facilitating urban densification efforts, as well as inner-city rehabilitation. It would also focus on creating more black property developers.

The establishment of a land administration agency, a public-private partnership, would audit the productivity of land that has been transferred through land reform and re-engineer



More than R1bn was donated by banks to basic and tertiary education

Photo: Wesley Lazarus

the cumbersome process through which land restitution claims are assessed and settled.

A new land administration system would support a new land records system, which is especially important in former homeland areas where administration systems are non-existent.

Finally, Absa seeks to drive a national dialogue for a new land policy white paper, which would culminate in an agreed national land policy.

Other initiatives include Absa's African Youth Agri-preneurship Programme (AYAP), which is delivered in partnership with Technoserve and targets existing youth-run businesses along the agricultural value chain.

Interventions include face-to-face training, help with integrating into formal markets and access to finance. In the last two years, nearly 100 businesses have been incubated as part of the programme across Limpopo, Mpumalanga and

KwaZulu-Natal.

In one case, five Limpopo youths secured R914,000 in finance in the 2018/19 season for tomato production. They recorded a combined supply of R1.2m into the Tiger Brands supply chain and posted combined crop revenue of R2.4m, sustaining 21 jobs.

A crucial element of land reform is land tenure, particularly providing black families in rural and urban areas with title deeds. In SA, an estimated five to seven million black families still do not have ownership rights to the houses they have lived in for generations, according to Standard Bank.

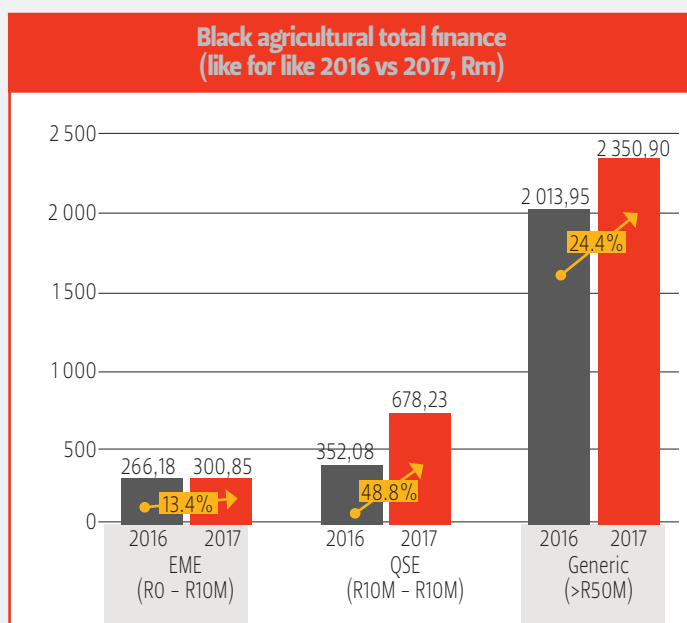
In 2017, Standard Bank helped 100 residents of Kwakwatsi Koppies in the Free State to secure title deeds for their homes by funding the legal process for issuing the deeds at a cost of about R2,100 per person. ■

Empowerment financing

Black agricultural empowerment finance

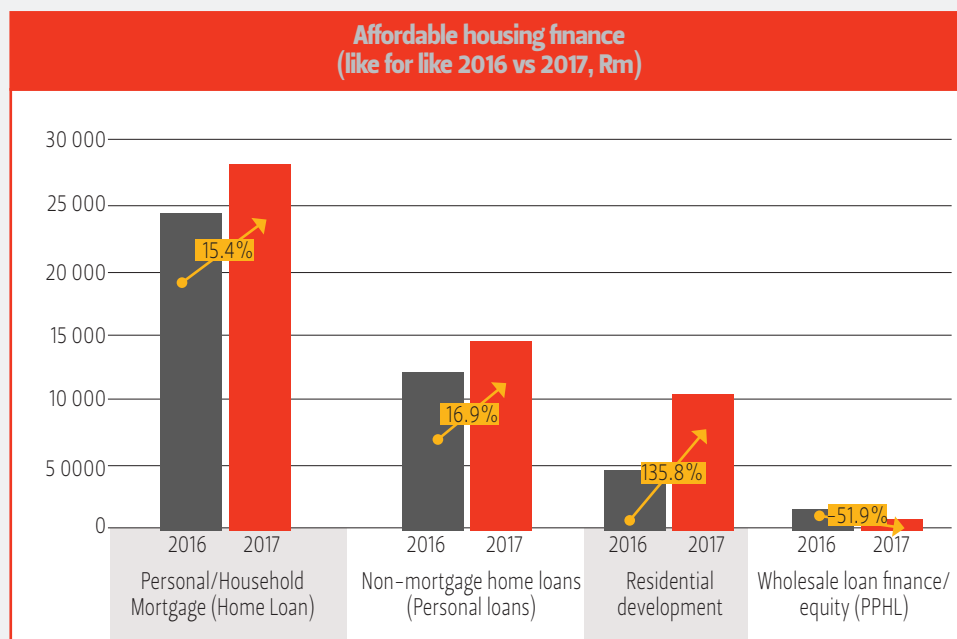
This is the first of the targeted financing objectives of banks, through which they set several targets for funding of empowerment-related lending. These targets all refer to total balance sheet exposure to new loans written after 2011.

Spending on financing black farmers increased across all three size categories including exempted micro enterprises (EMEs), qualifying small enterprises (QSEs) and generic enterprises. Growth was particularly substantial in the middle tier, which includes farming businesses with annual revenue of R10m to R50m. Only the four large banks reported funding figures in this category.



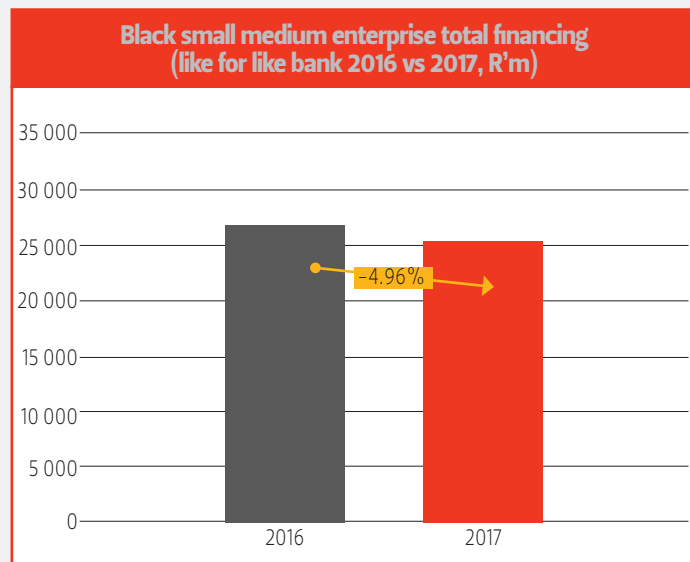
Affordable housing empowerment finance

There was considerable growth in funding of affordable housing across different categories. The one exception was the relatively small component direct to wholesale loan financing. Residential development showed the largest growth, more than doubling.



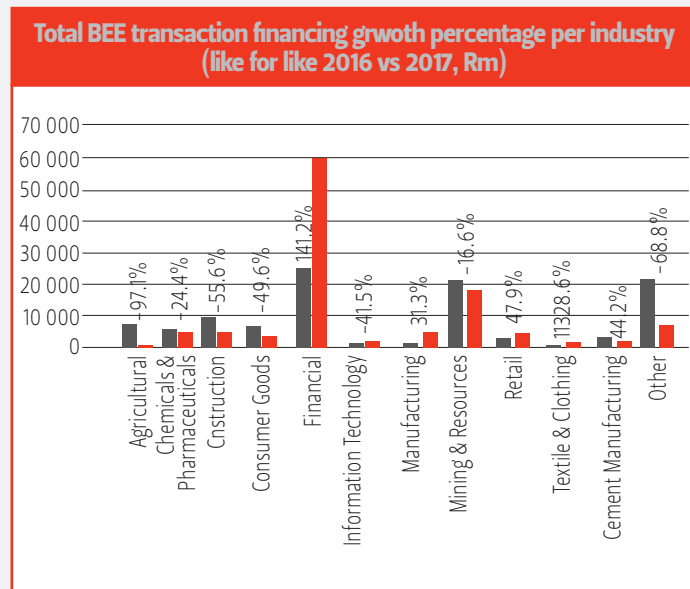
Black small medium enterprise empowerment financing

The funding of black small- and medium-sized enterprises declined 4.96% year on year on a like-for-like basis. Strong increases in funding were reported by Nedbank and Standard Bank but the rest of the market saw more constrained lending to black SMEs.



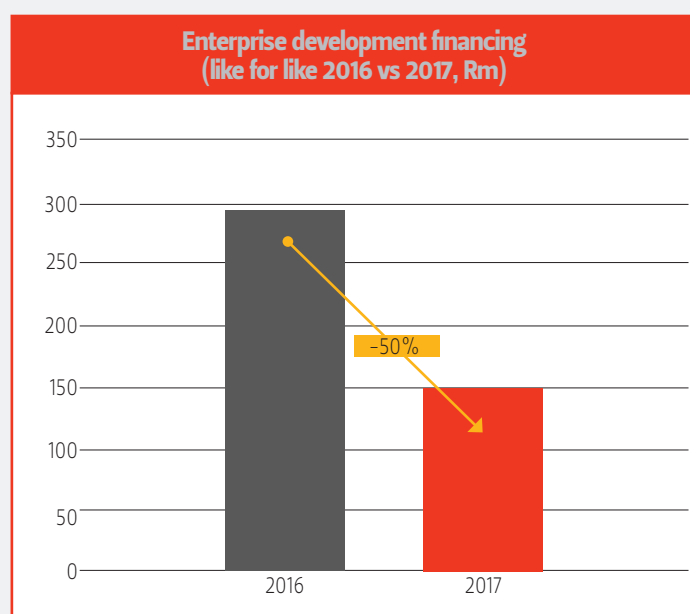
BEE transaction empowerment financing

BEE transaction financing tends to be volatile from year to year as large transactions can lead to significant changes in total values. Financial services was by far the largest recipient of BEE transaction funding with almost R6bn of financing, more than double the amount the year before. Manufacturing and textiles also saw significant growth but on a much lower base. The large banks have a target of R32bn for funding.



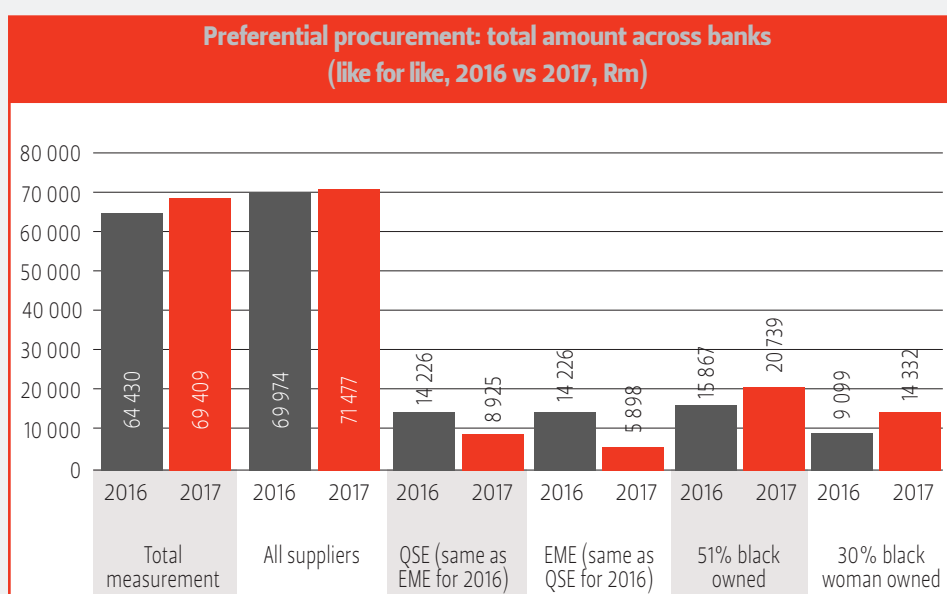
Enterprise development financing

Banks have a target of spending 0.2% of their net profit after tax on enterprise development, which includes funding of new businesses and small business to increase scale and capabilities. There was a sharp decline in enterprise development spending following a record 2016 in which a few banks spent exceptional large amounts.



Scorecard element in depth

Preferential procurement



Between 2016 and 2017 the relevant definitions for small business changed and two categories replaced one – “qualifying small enterprises” and “exempt micro enterprises”. These two sums should be seen as one in comparing with 2016, and on that view there was a small growth in spend. R14.5bn was spent in 2017 on both QSEs and EMEs compared to R14.2bn in 2016.

Substantial growth in spend on black businesses was recorded by the big four banks. Among smaller banks, Grindrod posted large gains.



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