



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

**PRESENTATION TO THE STANDING
COMMITTEE ON FINANCE ON THE
FINANCIAL SECTOR TRANSFORMATION**

14 MARCH 2017



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

INDEX

- 1. OVERVIEW OF THE FINANCIAL SERVICES SECTOR**
- 2. RATIONALE FOR SECTOR CODE DEVELOPMENT**
- 3. STATUS OF TRANSFORMATION IN THE SECTOR**
- 4. CHALLENGES FACING THE SECTOR ON TRANSFORMATION**
- 5. AMENDED FINANCIAL SECTOR CODE (FSC)**
- 6. CONCLUSION**



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

OVERVIEW OF THE FINANCIAL SERVICES SECTOR

Well developed sector which comprises of more than 30 banks, mutual banks, and a number of foreign bank branches and offices

Also include non-banking financial institutions (including state-owned development finance institutions (DFIs), short-term and long term insurance companies, smaller financial intermediaries

The Johannesburg Stock Exchange which is the 19th largest stock exchange in the world in 2015.

The financial sector in South Africa manages over R8 trillion assets, contributing 21.6 per cent of the gross domestic product of the economy annually, and contributing over 15 per cent of the corporate income tax

The sector has also become one of the fastest-growing employers in South Africa with more than 250 000 employees.



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

RATIONALE FOR THE DEVELOPMENT OF THE FINANCIAL SECTOR CODE

- **In terms of Section 9(1)(e) of the Broad Based Black Economic Empowerment Amendment Act (No. 46 of 2013) B-BBEE Sector Codes are a means to address sector specific issues and peculiarities especially those that hinders transformation within a specific sector.**
- **Development of Sector Charters is an integral and strategic vehicle to advance transformation in the economy at sectoral level**
- **Sector Charters provide sector stakeholders an opportunity to develop a common vision for the growth and transformation of their sector**



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

RATIONALE FOR THE DEVELOPMENT OF THE FINANCIAL SECTOR CODE... Cont.

- **It is also an opportunity to develop innovative mechanisms for transformation and development of sectors**
- **Monitor progress on transformation at sectoral level**
- **Sector Codes should not and is not the means to undermine the Generic Codes**



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

RATIONALE FOR THE DEVELOPMENT OF THE FINANCIAL SECTOR CODE... Cont.

As best as possible, a sector code must seek to address the following.

- The skills backlog**
- Skewed participation**
- Competitiveness**
- Reduction of poverty and unemployment, and**
- Create a class of black people who have sufficient income to uplift their living standards, and to create long term wealth in black hands**



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

AMENDED FSC: HISTORY & PROCESS

- **Emanated from the 2002 NEDLAC Summit where stakeholders committed to a sector charter**
- **The aim is to transform the financial services sector**
- **Stakeholders:**
 - **Government: Department of Finance, Department of Trade and Industry and Presidency**
 - **Black Professionals represented by ABSIP**
 - **NEDLAC Organised Labour represented by COSATU, NACTU and FEDUSA**
 - **NEDLAC Organised Community represented by the Financial Sector Coalition Campaign**
 - **Trade Associations : BASA, ASISA, SAIA, JSE, FIA, SAVCA**



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

AMENDED FSC: HISTORY & PROCESS ...Cont.

- **The existing FSC was gazette on 26 November 2012**
- **Amendment of the existing FSC began after the gazette of the Amended Codes of Good Practice in 2013**
- **Draft Amended FSC was gazetted on 17 March 2016 for 60 days public commentary period in terms of the legislation**
- **Engagements ongoing between the dti and FS Council after comments were received. The code is pending section 9 (1) gazette.**



STATUS OF TRANSFORMATION OF THE SECTOR

- **There is no adequate data on the current performance of the Financial Services Sector produced by the dti**
- **The established BEE Commission will receive reports and will monitor implementation of the B-BBEE Legislation including Sector Codes**
- **Currently the FSC does its own annual monitoring in terms of the B-BBEE Act**



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

CHALLENGES FACING THE SECTOR ON TRANSFORMATION

- **Based on the FSC Report for 2013 & 2014, the Level of transformation is still low**
- **The FSC is not clear on their role in the development of Black Industrialist which is the next phase of empowerment**
- **Expanding access to affordable and reliable financial services including the wider distribution of affordable insurance products and services**
- **Mapping the sector to establish number of enterprises per sub-sectors to properly measure B-BBEE compliance**
- **Response rate for FSC annual reviews is low – no information for some sub-sectors**



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

DRAFT REVISED FSC: SCORECARD

The FSC has 3 (three) different scorecards for entities: a scorecard for Banks and Life Offices, for Short-term Insurers and for other Financial Institutions:

- Banks and Life Offices have over and above the Generic Codes elements, two sector specific elements: Empowerment Financing and Access to Financial Services.**
- Short-term Insurers have one additional element: Access to Financial Services.**
- Other financial institutions' have the same elements on their scorecards as the Generic Codes.**

Small Enterprises are given an option to be verified should they volunteer to. This differs from the generic codes where they only required to obtain a Sworn Affidavit

PRIORITY ELEMENTS

ELEMENT	Generic Codes		SUGGESTED NEW FSC			
	Main	BONUS POINTS	Life offices and banks	Short Term Insurers	Other	Bonus points all
OWNERSHIP	25	0	20	20	20	5
MANAGENT CONTROL	19	0	20	20	20	0
SKILLS DEVELOPMENT	20	5	15	15	15	3
PROCUREMENT	40	4	15	20	20	4(8)
ENTERPRISE AND SUPPLIER DEVELOPMENT FUNDING			0	15	15	
EMPOWERMENT FINANCING (15 SECTOR SPECIFIC 10 ESD)		0	25	0	0	4(0)
ACCESS TO FINANCIAL SERVICES		0	12	12	0	0
SOCIO ECONOMIC DEVELOPMENT	5	0	5	5	5	3
	109	9	112	107	95	19



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

OWNERSHIP

- **The Ownership scorecard for the FSC is different from the Generic scorecard because the sector is highly regulated i.e BASEL III**
- **The overall ownership target is 25%. Local branches of foreign banks can do an equity equivalent of 25% of value in SA**
- **Stand alone asset managers and other industry players (companies not subject to regulated capital requirements) will be subject to the Generic Code rules on exit of Empowerment Shareholders.**



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

OWNERSHIP

- **Shareholders in Banks, Life Officers and Short-term Insurers have practical funding options on exit of empowerment partners. Ownership exit rules, in combination with Empowerment Financing rules create a significant potential catalyst for black business growth (R100bn in potential funding).**



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

MANAGEMENT CONTROL

- **Targets aligned to Generic Codes.**
- **Specifically target African people as opposed to using EAP Formula**
- **Historical challenges for sector**



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

SKILLS DEVELOPMENT

- **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, i.e. unskilled and semi-skilled, and junior management, and lesser for higher levels of the organisation, to facilitate progression and benefit the majority of staff members.**



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

ENTEPRISE AND SUPPLIER DEVELOPMENT

- **The ESD scorecard has been deliberately designed to cater to the core business of the sector and seeks to address the transformation of the entire financial sector value-chain**
- **ESD Funding and procurement targets are phased in over a period of 3 years in the Amended FSC.**
- **Specific PP spend targets to increase access to market for Black Owned intermediaries (e.g. stock brokers, fund managers etc.)**
- **Specific ESD contribution targets for funding & growth support of Black Owned intermediaries**



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

ENTEPRISE AND SUPPLIER DEVELOPMENT

- **ESD Spend requirements for Banks and Long-term insurers are included under Empowerment Financing**
- **The beneficiaries of supplier development especially by banks are not limited to those that directly do business with them. For example, if a bank financially supports a Black Industrialist who is in the manufacturing sector, that support would be considered to be Supplier Development.**



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

SOCIO ECONOMIC DEVELOPMENT

- **The SED element in the FSC differs slightly from the Generic Codes in that it contains a component of Consumer Education.**
- **The full value of Socio-economic Development Contribution made to beneficiaries is recognizable if at least 75% of the value directly benefits black people.**
- **In recognition of the current challenges faced in the funding of higher education in SA, the sector has also incentivized support of the innovative Fundisa program in a form of a grant**



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

EMPOWERMENT FINANCING

This element is unique to the Financial Sector;

- **Empowerment financing includes aspects such as:**
- **Transformational Infrastructure Financing (emphasis here is on funding of**
- **previously neglected areas such as townships and rural areas)**
- **Black Agriculture Funding necessary to assist with the land reform process.**
- **Low cost housing funding**
- **Black business growth (including SME) funding / BEE transaction funding**
- **Targets to be revised from time to time**



ACCESS TO FINANCIAL SERVICES

- **This element is unique to the financial sector**
- **Financial inclusion is critical to the broader transformation of the SA economy**
- **Access to financial services includes aspects such as:**
 - **Inclusive banking**
 - **Access to affordable and understandable long term insurance risk cover**
 - **Access to affordable and understandable short term insurance risk cover**



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

CONCLUSION

- **The FSC remains an important sector code of the South African economy**
- **The level of compliance in the sector remains low**
- **It should play a critical role in facilitating access to finance for Bis, SMMEs and overall implementation of B-BBEE**
- **FSC should focus on Enterprise and Supplier Development investments on these key industrial sectors – manufacturing, automotive, textiles, etc that have high labour absorption rate.**



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

CONCLUSION

- **The FSC builds from the Generic Codes and has incorporated elements and targets that are unique to the Financial Sector**
- **The FS Council is scheduled to ratify the final FSC on 7 March 2016 and thereafter submit to the Minister of Trade and Industry**



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

QUESTIONS & COMMENTS



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

THANK YOU