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HIGHLIGHTS OF THE 2019 TRANSFORMATION IN BANKING REPORT

In the past year, the banking industry has exceeded many of the key transformation targets set out for it in the Financial Sector Code (FSC), despite political uncertainty and business headwinds which hindered inclusive economic growth. The 2019 Transformation in Banking report, and the studies that underpin it, highlight where banks are doing well, as well as their shortcomings.

- Overall, banks have exceeded the target for black ownership, measured by voting rights. The FSC target for Black ownership is 25%. Between 2016 and 2017 black ownership fell from 34.8% to 30.5%, while black economic interest fell from 30.3% to 25.4%. This is because several empowerment deals have matured and black investors realised their gains and exited their investments. Research agency Intellidex estimates that by the end 2015, R57 billion in net value had been created to beneficiaries of bank empowerment schemes.

- Lending for Black Economic Empowerment (BEE) transactions increased by 13.6%; for affordable housing by 26%; for black agriculture by 20.6% and transformational infrastructure by 7.6%. Unfortunately, lending to small and medium enterprises decreased (-7.7%).
  Total industry lending at the end of 2017 was R3.35 trillion, implying that targeted loans are now 7.3% of total loan books. Despite the debates on land reform, most improvement is evident for black agriculture financing across all sizes of the enterprises.

- Banks employ approximately 158 000 people and have many black managers into their ranks. Most notably, 84% of the 54 000 junior managers in the industry are black. The numbers of black senior managers, executives and directors, are all improving.

- Banks paid ‘pay as you earn’ (PAYE) of R16.5 billion in 2016 and just under R18 billion in 2017.

- In 2017, banks spent R71 billion on procurement of goods and from local and international suppliers. Over R20 billion of this was spent on black-controlled companies (at least 51% black-owned) and just over R14 billion from businesses that are at least 30% black women-controlled. R14.4 billion was spent on small businesses.

- Banks spend just over R5 billion on skills development and various corporate social investment initiatives. Education received two-thirds of bank socio-economic development spending. Three quarters of skills development spend targeted employees at middle and junior management levels. These are the results of study conducted by Trialogue on behalf of BASA to quantify the contribution of banks to social development.

- The 2018 FinMark Trust survey showed that 80% of adults had transactional bank accounts, a global measure of access to financial services. It is likely that this percentage will increase further with the entry of new banks into the market. Financial inclusion and inclusive economic growth are part of the core business of banks.

The transformation report was compiled by Intellidex, an independent research agency, with the cooperation of the Banking Association South Africa (BASA) and its members. The report, and the studies that underpin it, aim to provide evidenced-based research and statistics, showing the progress

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that banks have made towards meeting the targets set out in the FSC and their broader contribution to social and economic development in South Africa.

The report comes at a time when:

- There is an ongoing review of the transformation targets set out in the FSC
- Banks face increasing demands to contribute to the social and economic development of the country and its fiscal stability
- Ahead of the May 2019 general election, when different party policy proposals may increase political uncertainty, which has a real and immediate impact on financial institutions and the economy as a whole.

Banks have a unique role in the growth and development of the economy and society. They hold in trust the savings and salaries of South Africans – workers, professionals and companies – and lend and invest them in the businesses and people that create jobs and inclusive economic growth.
This is why they are carefully regulated by the South African Reserve Bank (SARB), in the interest of their customers and the financial stability of the country.

Banks are used by government, businesses and people to pay for services, salaries and social security grants. Commercial banks have made their infrastructure available to help ensure the distribution of social security grants and National Student Financial Aid Scheme (NSFAS) funds, in the interest of social stability and community development.

As responsible corporate citizens banks are committed to inclusive economic growth and have a robust transformation agenda, which goes beyond what it required of them by the FSC. This includes being part of the financial sector's R100 billion funding for black business growth, as well as making commitment to the Youth Employment Scheme (YES) and the SA Small and Medium Enterprises Fund.

Given the unsustainable levels of unemployment, poverty and inequality in South Africa, banks accept that there will always be demands for them to 'do more'. However, this cannot be done if they cannot remain sustainable businesses that can safeguard their depositor's money, and meet the reasonable expectations of their regulators, shareholder and broader stakeholder community.

This report serves as a benchmark from which BASA can engage its members and their stakeholders, in the coming months, on how best to strengthen and speed-up transformation of the banking industry.

ENDS

Issued on behalf of The Banking Association South Africa

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