



2020 BASA Transformation Report

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Dr Stuart Theobald, CFA
Orin Tambo, CFA
Letta Maponyane
Colin Anthony



THE BANKING
ASSOCIATION
SOUTH AFRICA

intellidex 
Researching Capital Markets and Financial Services



Methodology



Economic context &
highlights



Findings

Data covers FY16-FY18 for all banks with December year ends (most), and FY17-FY19 for those with March year ends (Capitec, African Bank and Investec)

Data supplied by the banks were based on the Financial Sector Code scorecard methodology

Ownership and management control data were weighed by banks' total assets to determine industry aggregates

Earlier year figures (2016, 2017) were recalculated to reflect changes in the same group to allow year-on-year comparisons (two banks exited and four banks entered) and therefore differ from last year's report



Submitting banks:

Absa, African Bank, Albaraka, GroBank, Bidvest Bank, Capitec, Finbond, FirstRand, Grindrod, Investec, Mercantile, Nedbank, Sasfin, Standard Bank, China Construction Bank Corporation, Citi, Ubank and HBZ Bank

Economic context

Economic environment

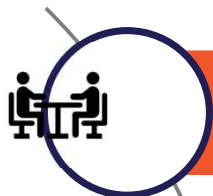
- Weak economy
- Worsening credit environment
- Bank balance sheets grew 6.5% (inflation 4%)
- Bank ROE declining
- Bank profit growth of only 4.7%

Impact on transformation

Difficult to drive transformation that depends on lending growth to targeted sectors

Difficult for banks to incur the costs of enhanced skills and supplier development

Limited promotion opportunity

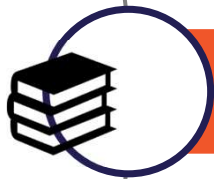


Black board directors up from 43% to 51%.
Top black senior managers up from 32% to 36%



Socioeconomic development spending 6% up to R666m
Supplier development almost doubled to R795m

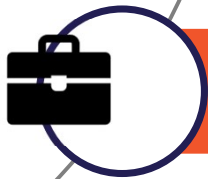
Highlights



Black skills development spend up 23% to R3.3bn



Spending on consumer education up 24% to R180m

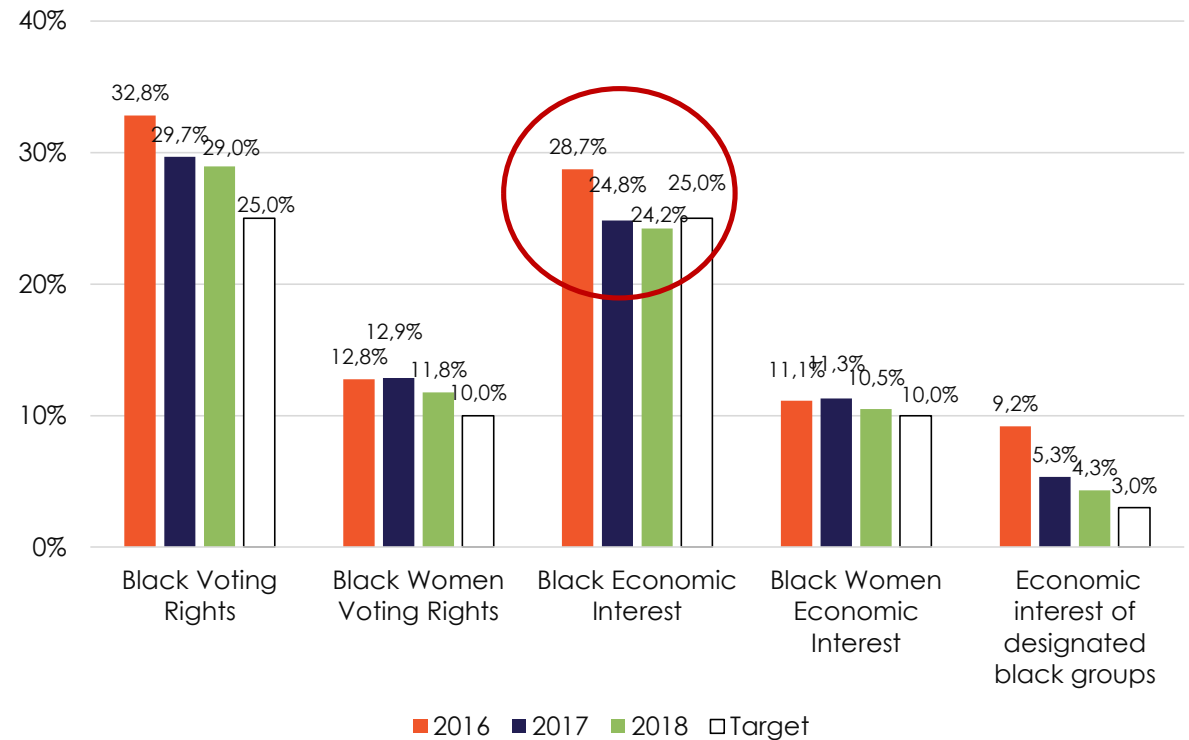


Exposure to black SMEs 13% up to R28.8bn
Black agricultural financing up 41%

Ownership

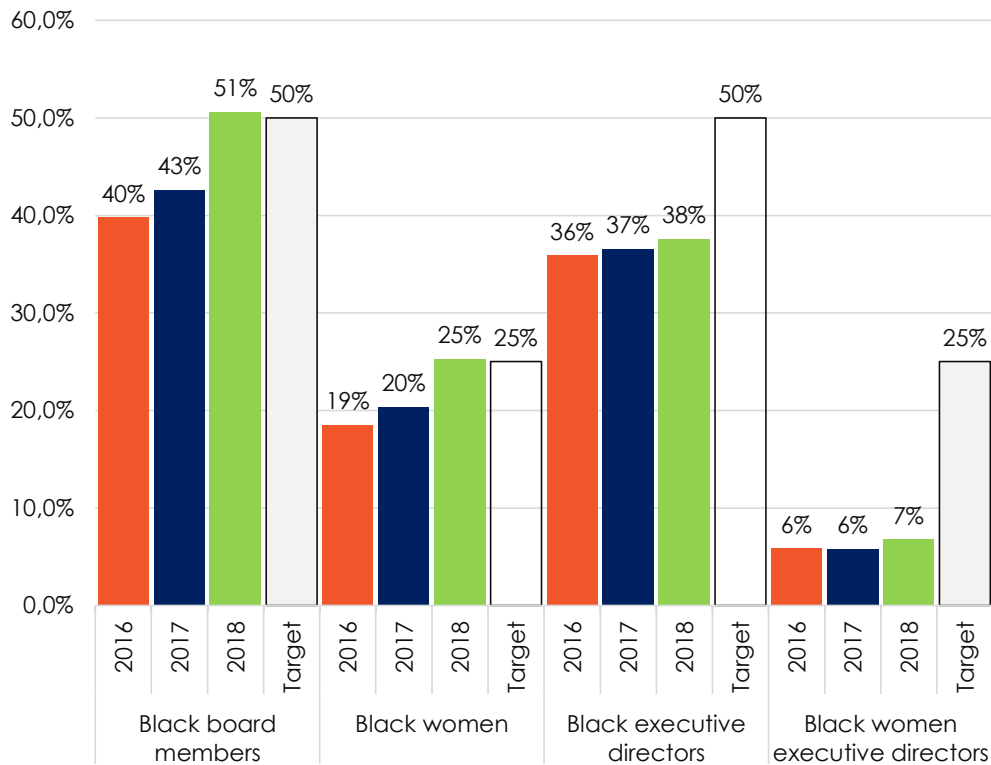
- Black ownership measures have declined across the three years on all measures but on aggregate remain above the FSC targets, except for black economic interest.
- Economic interest of black women, which had improved marginally in 2017, also declined during 2018 but remains above the FSC target for individual banks of 10%.
- The decline in black interest is mostly due to a continued exit of black shareholders who received shares through black empowerment schemes established by the large banks that matured 2015/16.

Black ownership percentage in banks

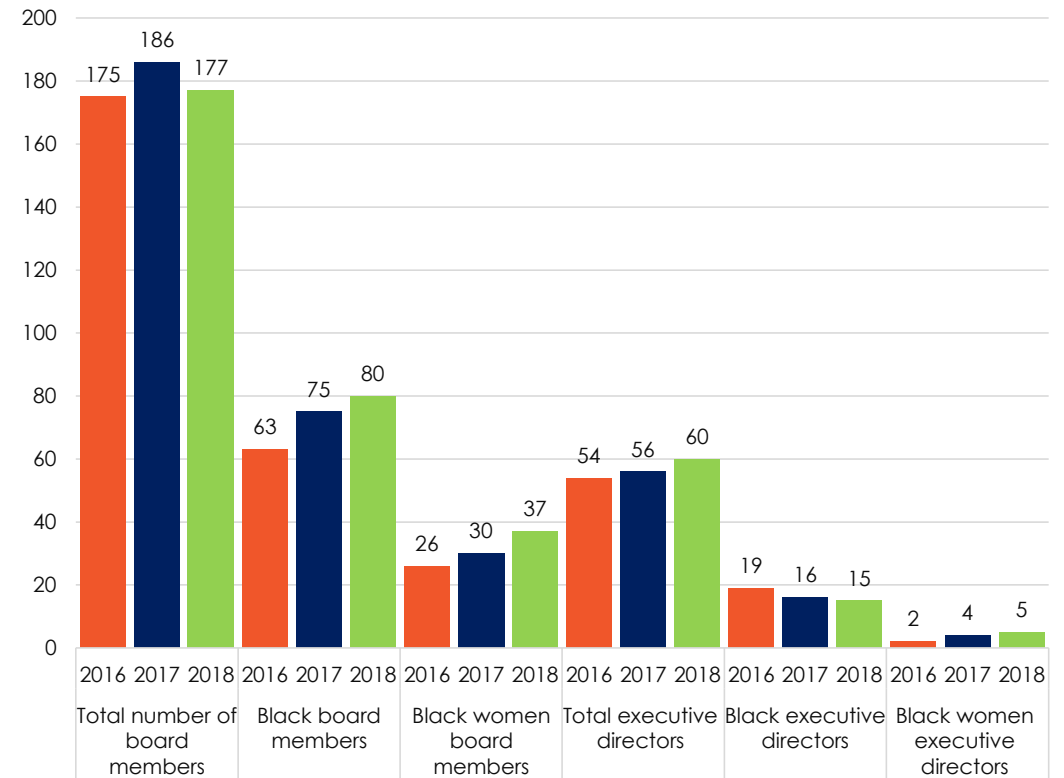


Management control – board

Proportion of directors who are black

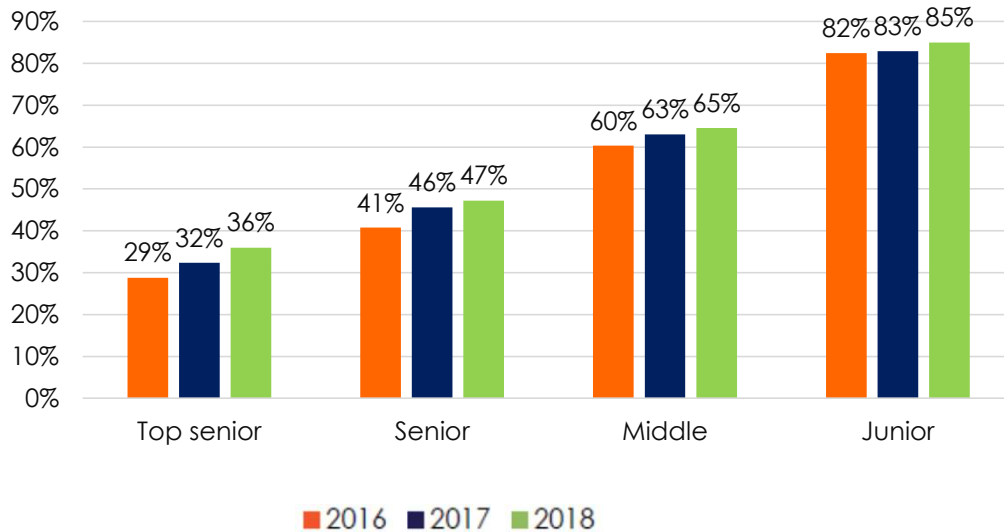


Number of directors

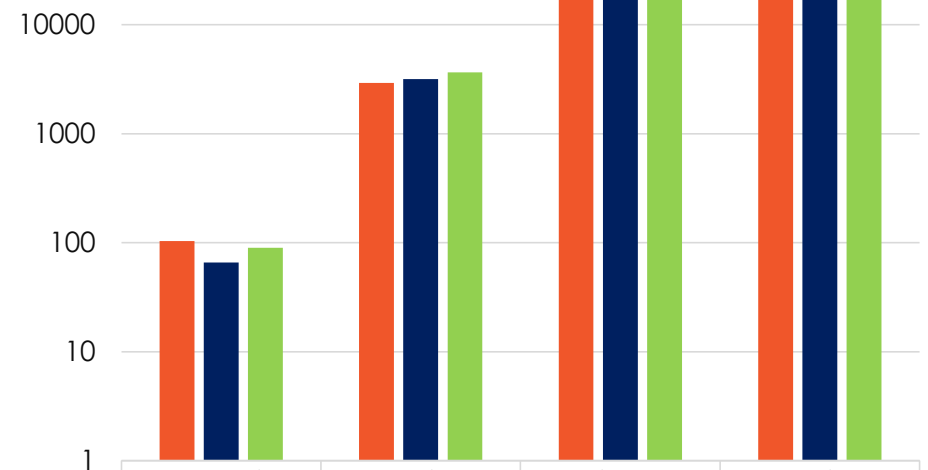


Management control

Black representation in executive management



Black representation in management
(X axis log 10 scale)

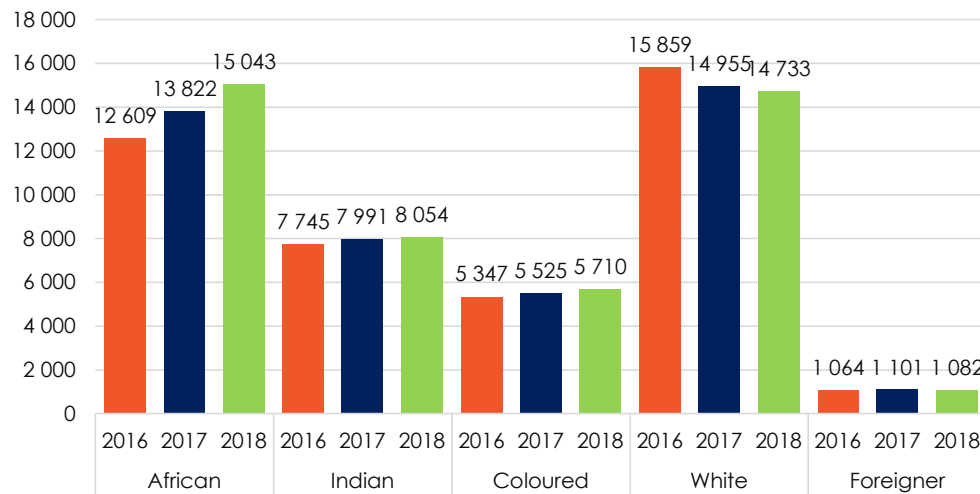


	Top senior	Senior	Middle	Junior
2016 Black	104	2920	25803	51103
2017 Black	66	3164	27338	51218
2018 Black	90	3651	28807	51682

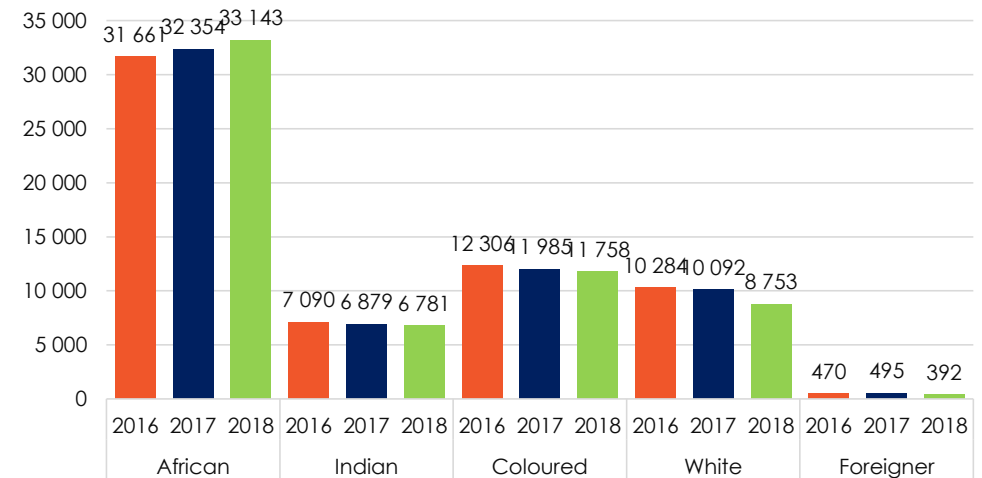
- The number of black managers across all levels has ticked up over the past three years and has grown in every category in percentage terms.
- Overall, black managers accounted for 74.7% of bank management teams during 2018, up from 72.8% in the previous year
- Black top senior management roles climbed to 36% during 2018 from 32% in the previous year

Break down of race categories (1/2)

Middle management across banks



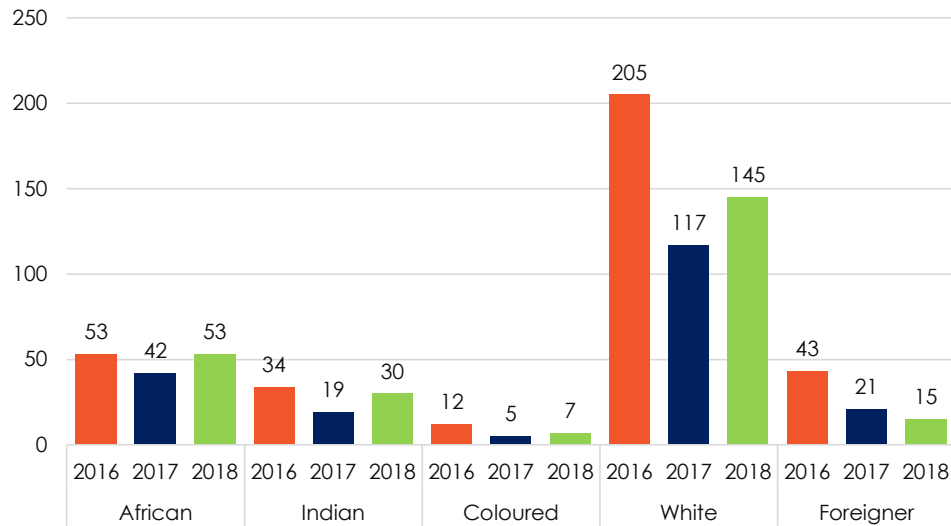
Junior management



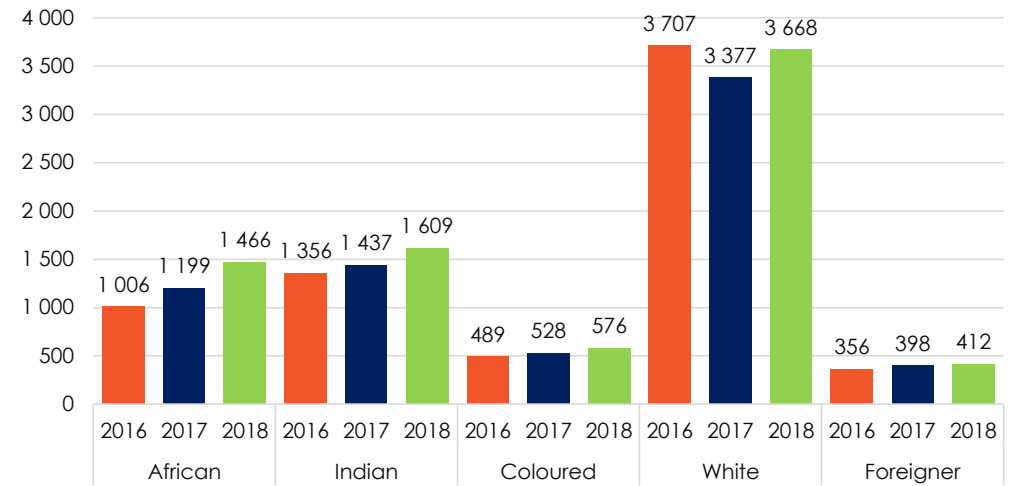
- There has been a sustained increase in the number of black managers (particularly African) in junior and middle management level.
- Conversely, the number of whites in junior and middle management is declining.

Break down of race categories (2/2)

Top senior management

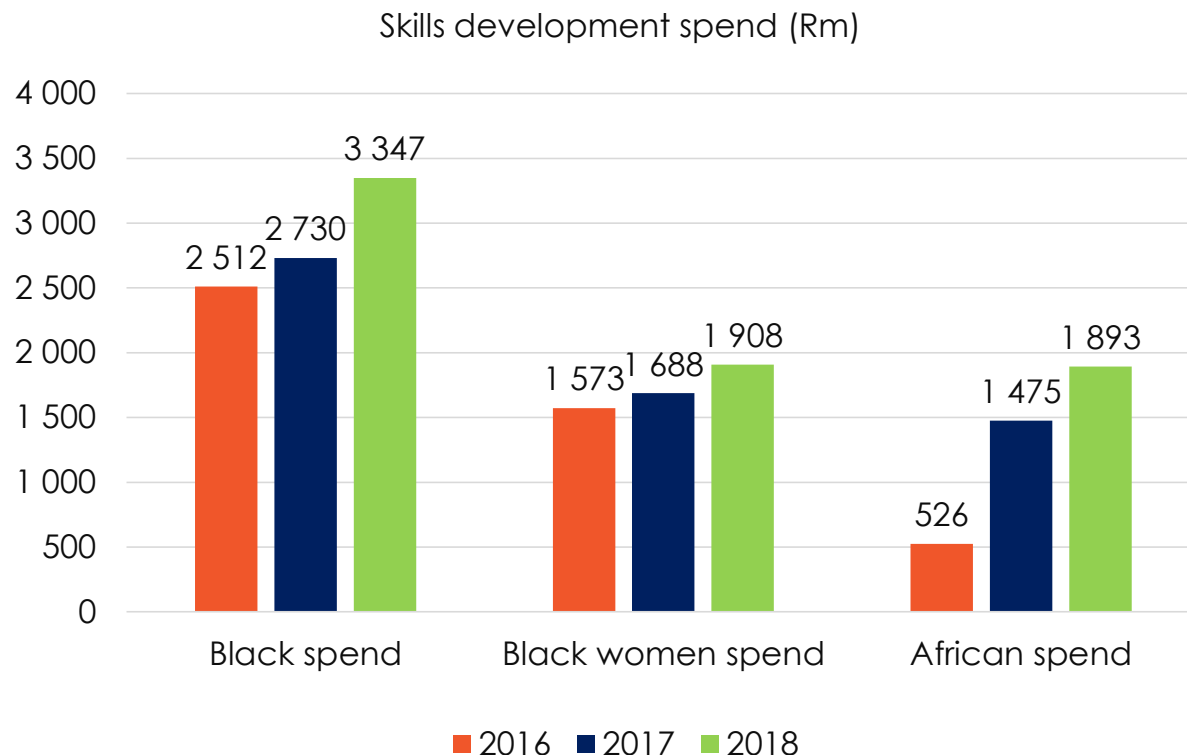


Senior management across banks



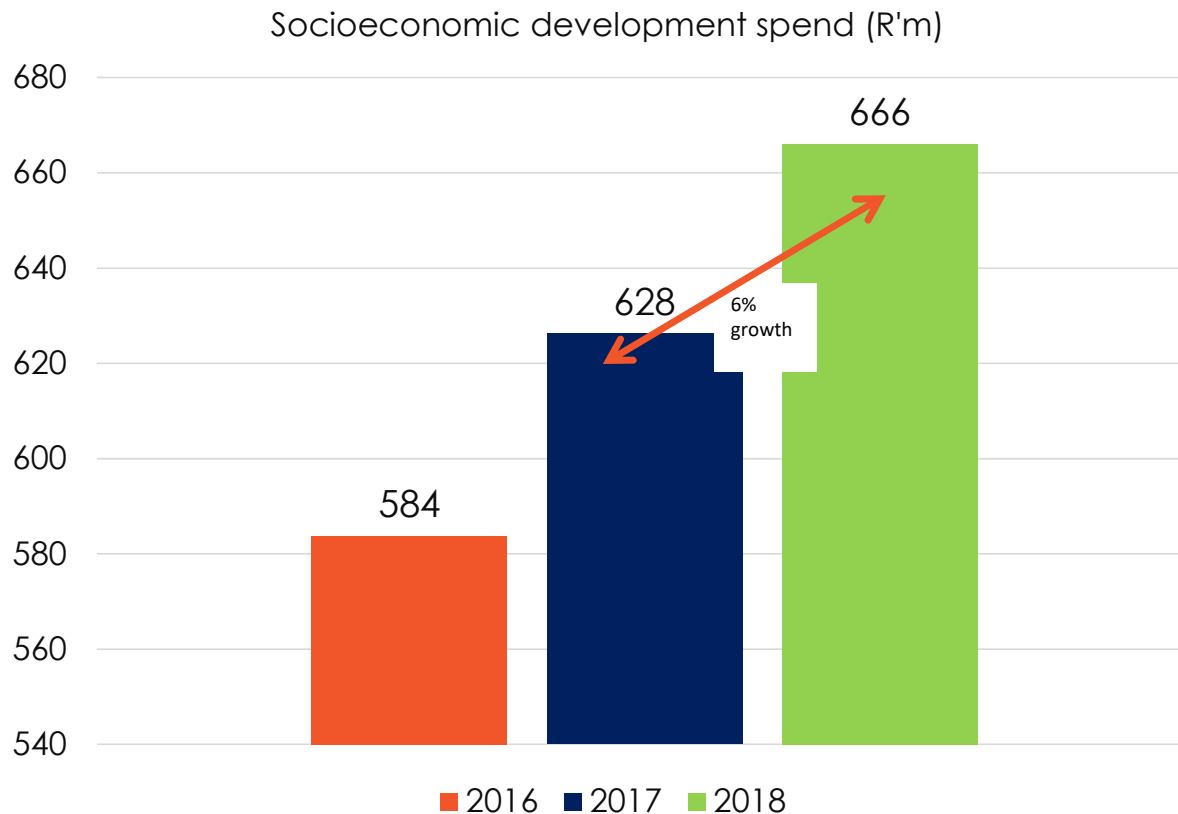
- The number of white, African and Indian top senior management and senior management increased

Skills development



- Banks continued to channel more resources towards initiatives aimed at developing black skills.
- During FY18 banks spent R3.3bn on black skills development, 23% more than the previous year.
- Notably, more than 60% of banks' spend on skills development of black employees over the past three years was on black female employees.
- More than half of spending was on black Africans.

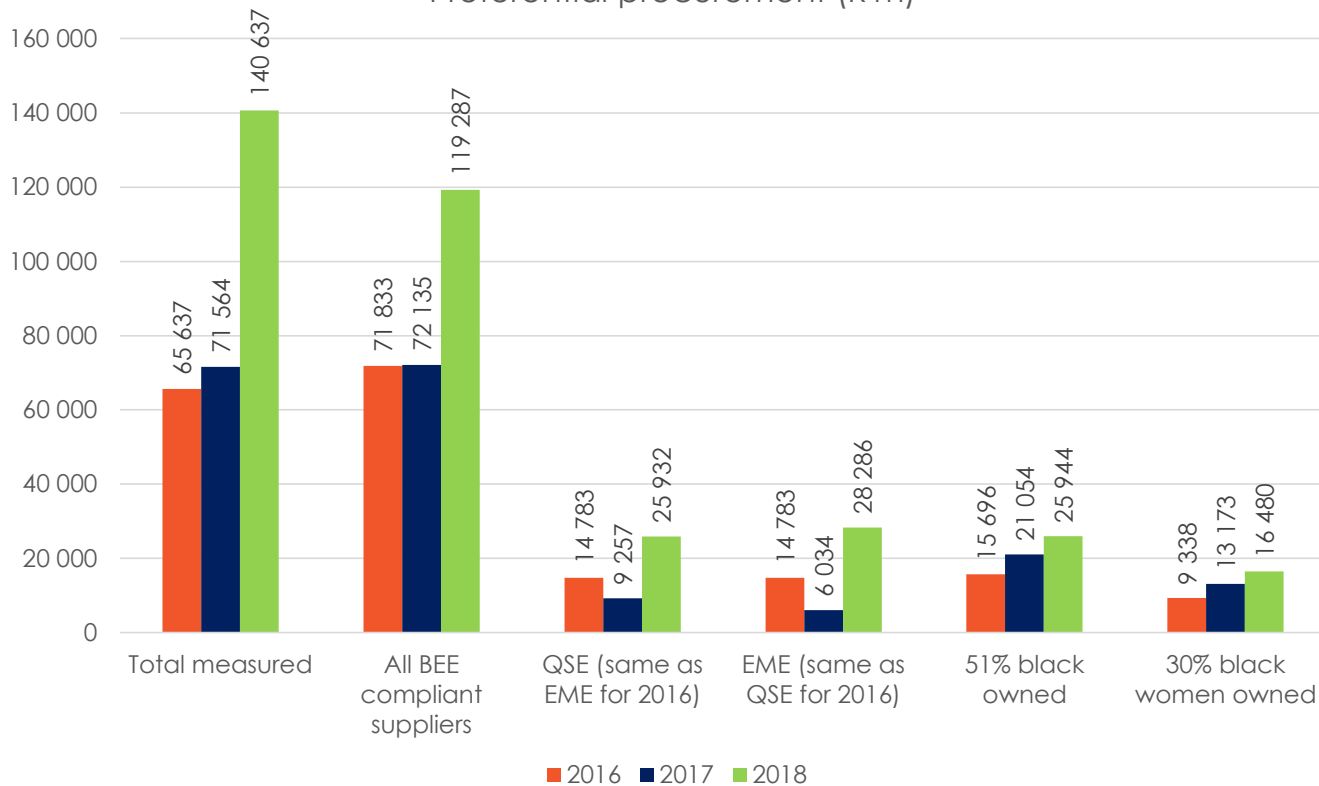
Socioeconomic development



- Socioeconomic development spending, which includes spending on organisations that predominantly benefit black people, increased 6% between 2017 and 2018.

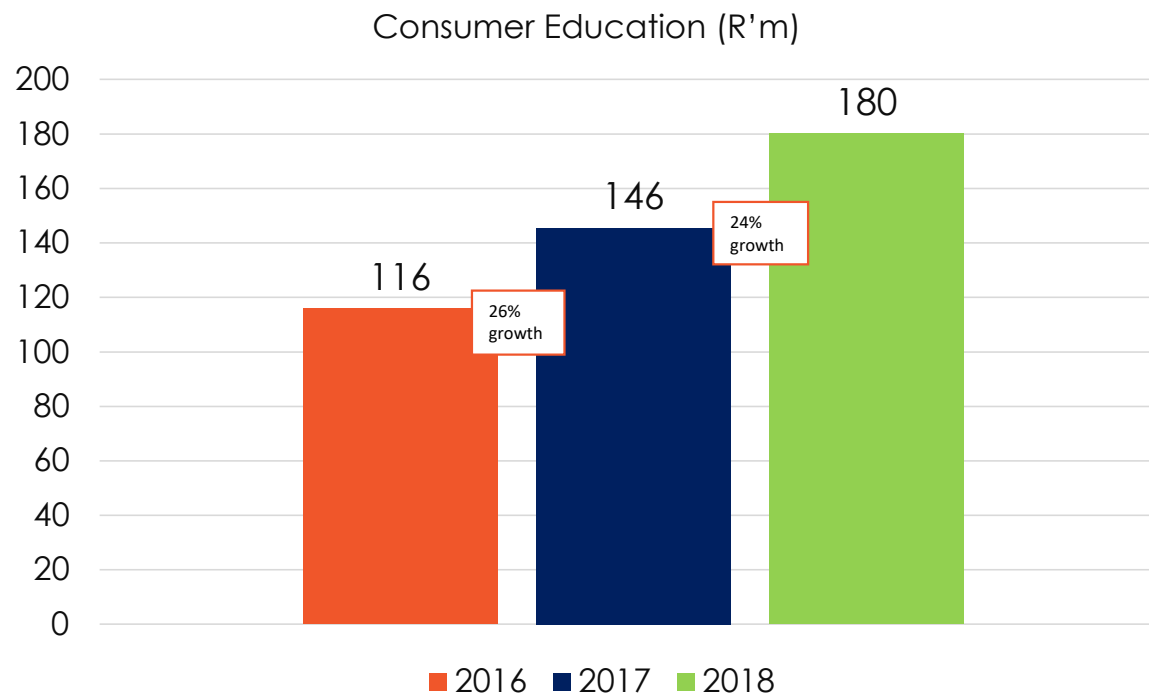
Preferential Procurement

Preferential procurement (R'm)



- Banks' total measured procurement spending almost doubled during 2018, with a large portion of that going to black suppliers.
- All categories of black suppliers benefited from the increased expenditure.

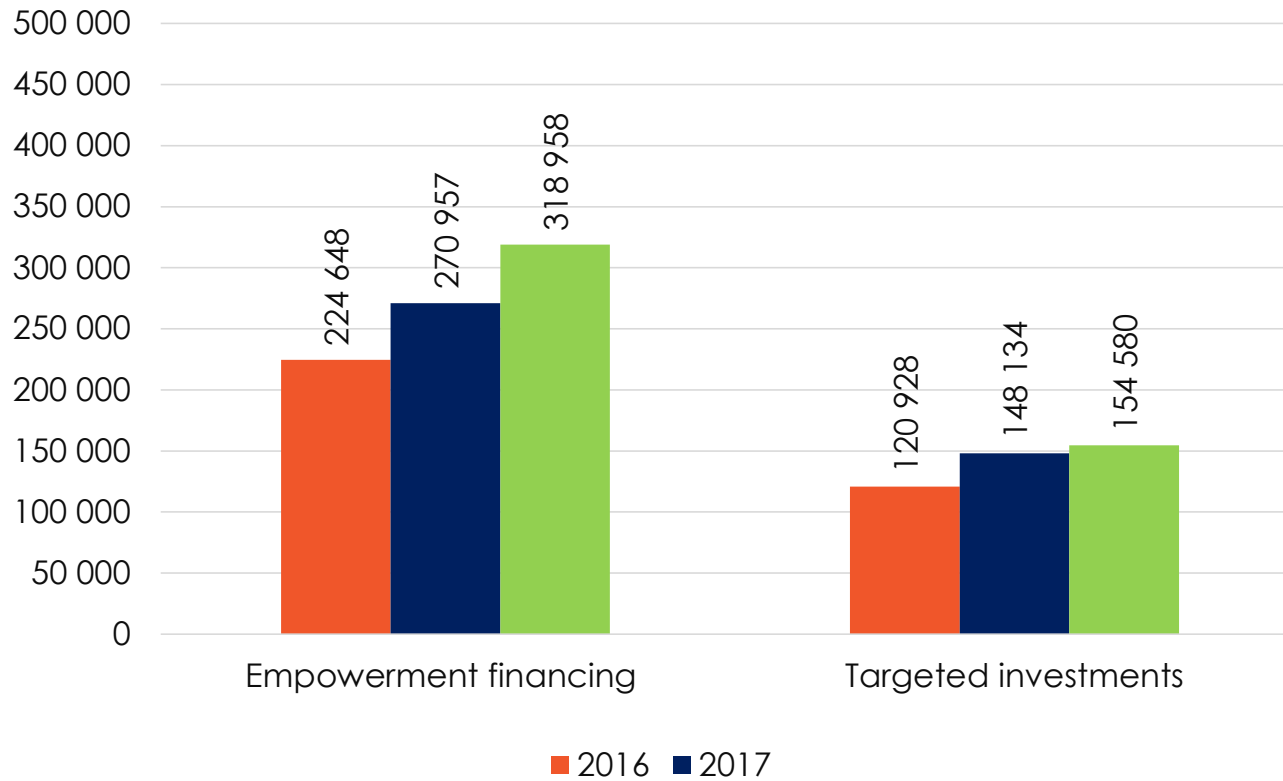
Consumer education



- Bank spending on various consumer education initiatives increased 24%

Empowerment financing

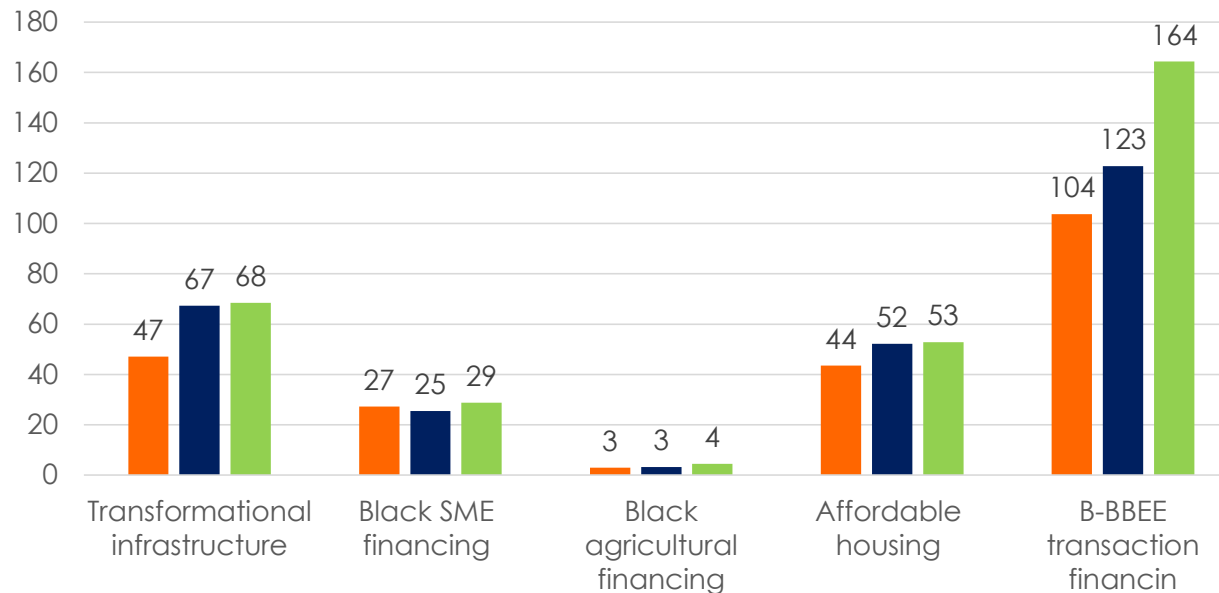
Overall empowerment financing within the big six (R'm)



- Banks' total balance sheet exposure to empowerment financing jumped 18% while targeted investments increased 4%.

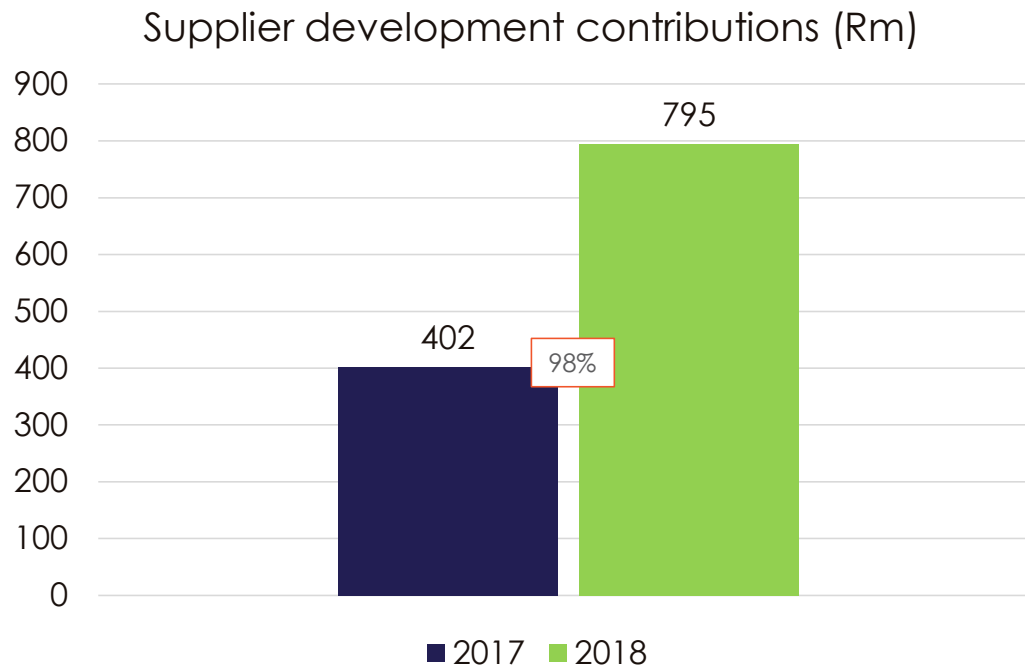
Empowerment financing: components

Empowerment financing (R'bn)



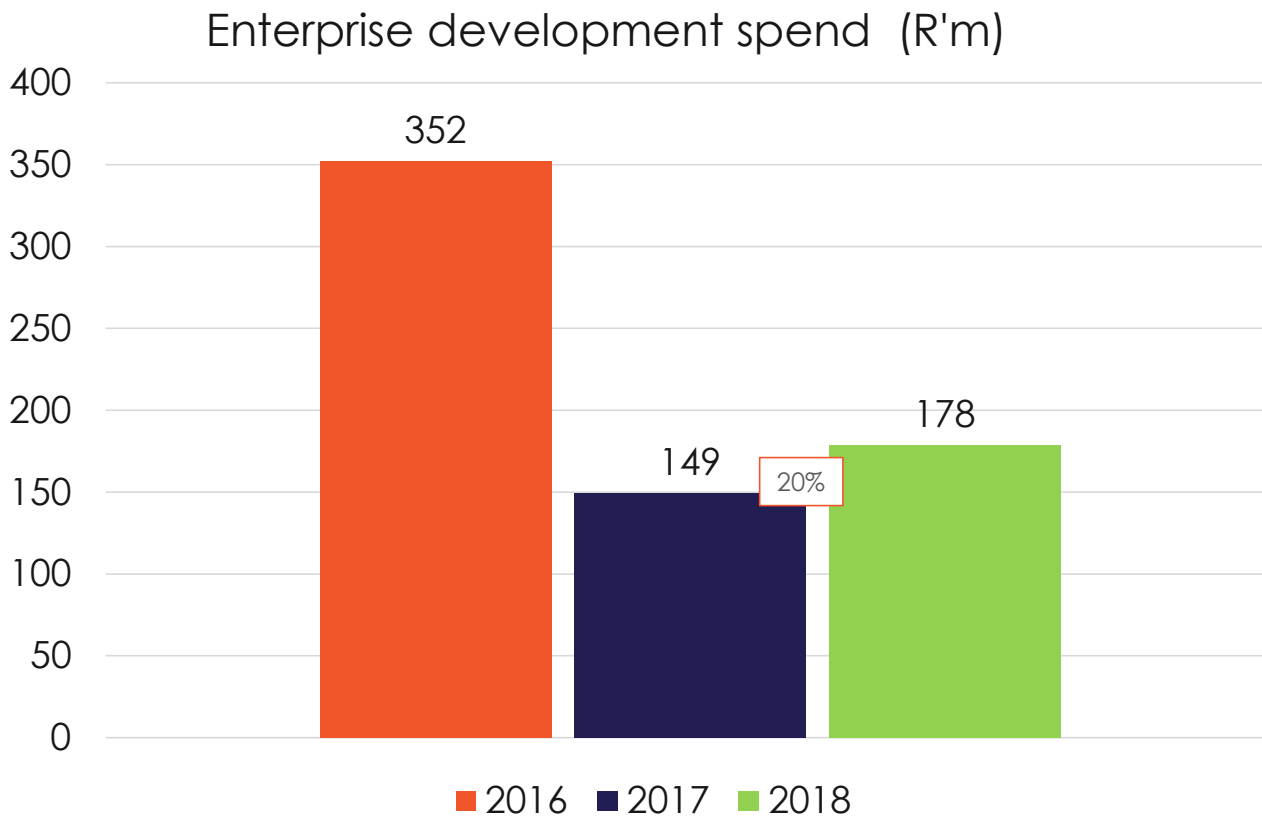
- Balance sheet exposures to transformational infrastructure financing were largely flat between 2017 and 2018.
- Overall exposure to black farmers rose 41% from 2017 to 2018.
- Exposure to the affordable housing market increased slightly as growth in mortgage loan books and residential development loan books were offset by declines in non-mortgage home loans and wholesale loans.
- Exposure to black SMEs jumped 13% to R28.8bn with EMEs accounting for the lion's share of that increase.
- Exposure to BEE deals stood at R164bn, 34% higher than the previous year.

Supplier development contributions



- This element was first introduced in 2017. Prior to that, related spend was accounted for under enterprise development.
- Contributions more than doubled, driven by growth from the likes of FirstRand (up R220m – the bank started tracking this element in 2018); Absa (up R48.3m) and Capitec (up R32.4m)

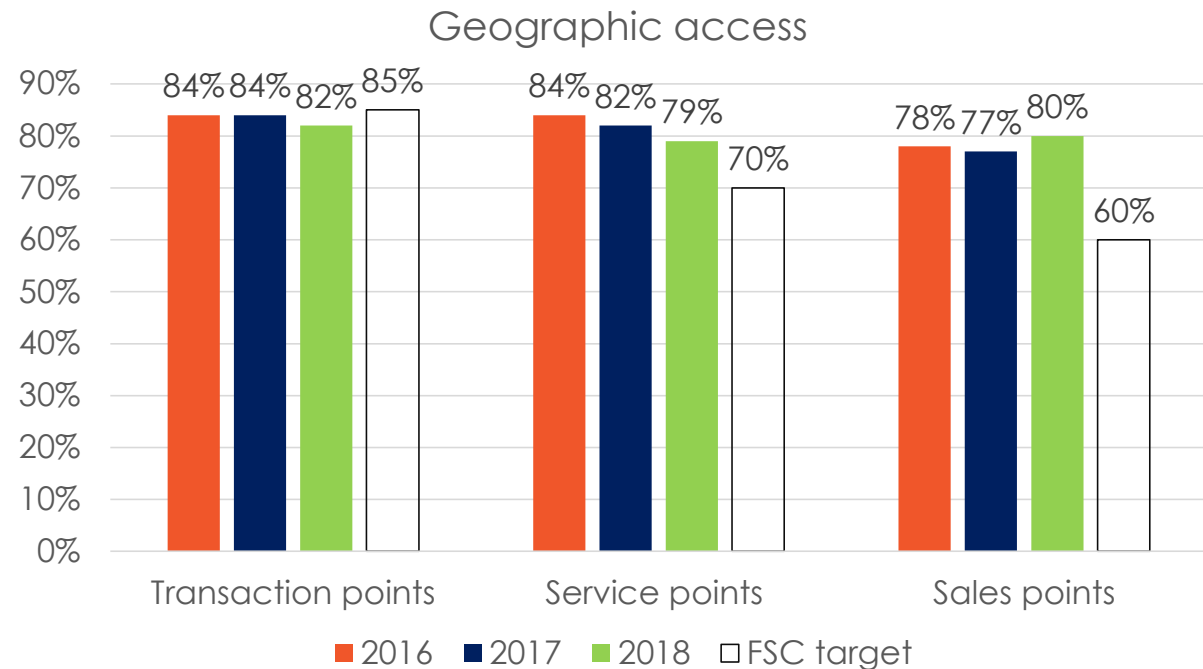
Enterprise development financing



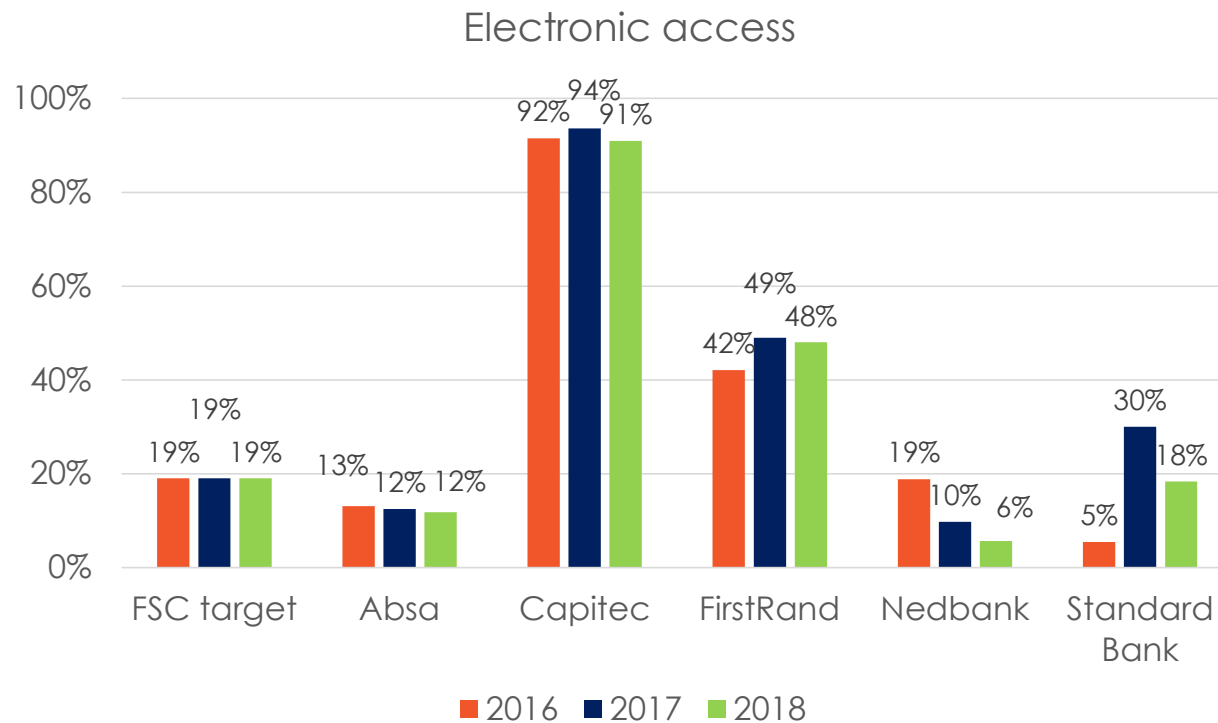
- A significant drop in spend on enterprise development between 2016 and 2017 is most likely a result of changes in the codes
- Bank spending on enterprise development increased 19.5% between 2017 and 2018, with most major banks having increased their expenditure in this category.

Financial inclusion – geographic access

- The banking industry's performance on service points and sales points is largely ahead of sector targets. This in a way indicates that the sector as a collective has done well on these two aspects.
- In contrast, achievements on transactions points lag the sector target and have declined over the three years.



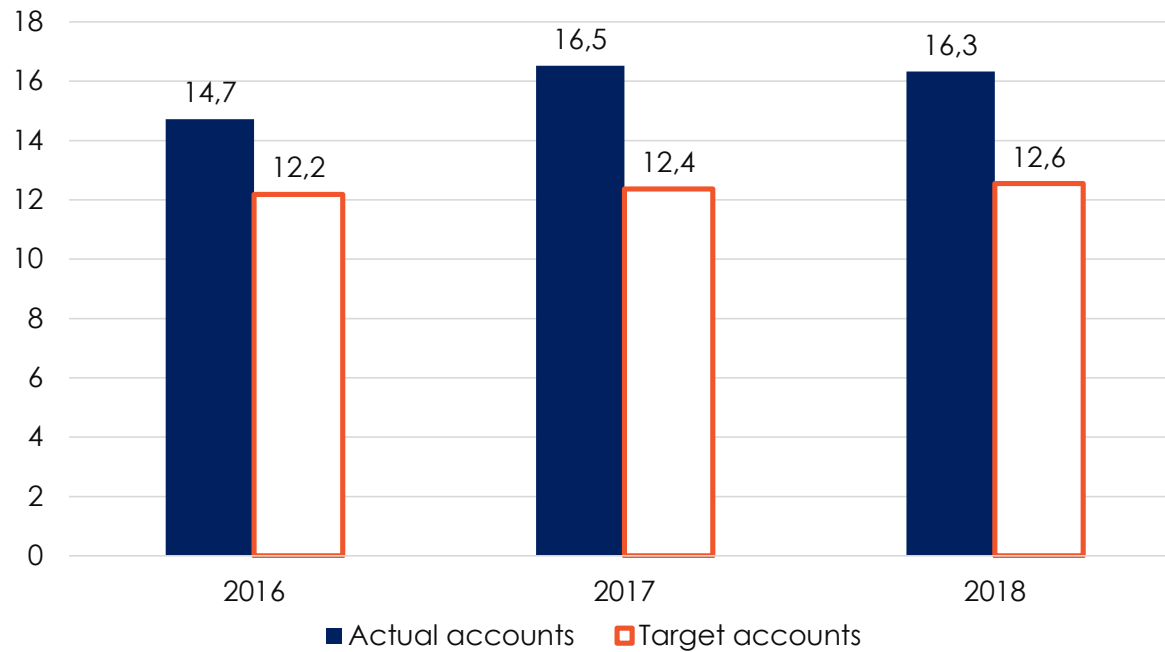
Financial inclusion – electronic access



- Capitec and FirstRand excel in this category.
- Generally, though, banks' electronic penetration within low-income groups is still low and all banks reported declines on this measure between 2017 and 2018.

Financial inclusion – product access

Number of active accounts for qualifying products (millions)



Banks remain well ahead of the targets on this aspect. However, there was a slight dip in the number of qualifying accounts between 2017 and 2018.

The end