After nine difficult years for South Africa and its economy, the election of President Cyril Ramaphosa in May 2019 ushered in hope for an acceleration in economic reform, which would lead to higher levels of inclusive growth, job creation and social upliftment.

While the new administration has made significant efforts to improve the governance of key departments and state-owned enterprises, insufficient progress has been made on the structural reform required for higher levels of growth and employment. The country ended 2019 in a technical recession, with a negative outlook from Moody’s – then the sole investor services agency that still rated South Africa investment grade – and with gross domestic product (GDP) growth of 0.7%, not nearly enough to reduce unemployment, poverty and inequality or sustain the ever increasing levels of government borrowings. The financial and operational challenges at Eskom remain a key risk to the economy.
ECONOMIC REFORM

In August 2019, National Treasury released a discussion document – “Economic Transformation: Inclusive Growth and Competitiveness Towards an Economic Strategy for South Africa.” The Minister of Finance, Tito Mboweni, attended the BASA 2019 Banking Summit to brief delegates on the document. It was the view of BASA that the discussion document spoke to the realities of the economic crisis facing our country and the urgency with which it must be addressed.

The document included proposals from the National Development Plan (NDP) and policies and initiatives announced by President Ramaphosa in Parliament. One of the economic strategy’s greatest strengths was that many of the proposals – from making it easier for business to acquire vital skills to greening telecommunications spectrum and boosting tourism and small businesses – could have been implemented relatively quickly. It is unfortunate that at this stage the document has not seemed to gain the required traction necessary for implementation.

BASA is of the view that difficult economic choices must be made to achieve tangible economic gains and impose living standards for all. Key among these are: • A stable macro-economic environment, in which the state is factually responsible and has sustainable levels of debt, which must be used for productive infrastructure and social development services. • An efficient, responsive, accountable and honest public service, along with effective law enforcement. Whatever the cost of doing business becomes prohibitive, especially for small businesses. • A social compact in which the good faith of all parties – who will be affected by structural economic reforms – is accepted. While we may have different interests, there are many practical programmes that can be implemented for the common good.

Banks are committed to inclusive economic growth and transformation. BASA and its members have long acknowledged that the present pattern of wealth ownership in the country is not sustainable. We fully support policies – like black economic empowerment and employment equity – aimed at redressing the past and providing opportunities for sharing wealth and social development services.

The proportion of black board members increased from 43% to 51%. Top black senior managers increased from 32% to 36% and black skills development spending increased by 23% to R3.3 billion.

South African banks have contributed to the South African SME Fund, the Youth Employment Service (YES) and the Black Business Growth Funding initiative, among others. BASA also participated in a number of other economic development initiatives, including the 2019 investment and jobs summits.

Banks accept they have a unique responsibility among the social partners – business, labour and government – as they hold in trust the savings and investments of South Africans. Banks use these savings and investments to help finance South Africa’s social and economic infrastructure and to extend credit to individuals and businesses, big and small, to enable them to expand, grow the economy and create jobs. Banks also spend around R5 billion on social development projects – mainly education – of which R3.5 billion went to skills development for employees in 2019. Given the growth in the number of banks and financial technology companies, the overall financial sector was a source of jobs in the past year.

TECHNOLOGY

Digital innovation is changing the way customers use financial services. In part because of these changes, many in the South African banking industry are in the throes of a deep, complicated and sometimes painful restructuring to ensure they continue to meet the evolving needs of consumers. Changes in technology and regulation have also made it easier for new banks, among others, to enter the financial service market, which will increase competition to the benefit of customers.

The National Treasury forecasts South Africa could lose 1.7 million jobs, depending on how long it takes the economy to fully recover and recover.

A social compact in which the good faith of all parties – who will be affected by structural economic reforms – is accepted. While we may have different interests, there are many practical programmes that can be implemented for the common good.

This combination of changing customer behaviour and increased competition means many banking operations and businesses have to be restructured. In this process, BASA members are doing whatever is possible to minimise job losses and provide training and new opportunities for affected employees. South Africa’s six largest banks had 148,000 employees in 2019. Banks contribute one percent of their salary bill to the Sector Education and Training Authority (SETA), which received R633 million in line with its strategy in the past year.

Digital innovation is changing the way customers use financial services. In part because of these changes, many in the South African banking industry are in the throes of a deep, complicated and sometimes painful restructuring to ensure they continue to meet the evolving needs of consumers. Changes in technology and regulation have also made it easier for new banks, among others, to enter the financial service market, which will increase competition to the benefit of customers.

If we are to emerge from this situation and build a new inclusive and more vibrant, growing economy, we have to use this crisis as a catalyst to implement structural reforms along the lines of those proposed by National Treasury. An economy in crisis cannot be fixed by making small incremental reforms. Decisive action is needed to enhance growth, meaningfully boost business and investor confidence and stimulate the economy. We need to set in place actions to once again restore our investment grade rating.
Beside engagements at Nedlac, BASA and its members directly engage ideological alliances and the increasingly harsh business and economic environment. BASA has long been concerned that presidential or ministerial announcements – which is impractical and unaffordable in the present context, as well as reckless political promises and rhetoric – saps business and investment confidence. BASA will continue to engage with the Minister of Trade, Industry and Competition to find practical ways to implement the Act.

• Impaired enterprises – and sometimes even in particular – are a real and immediate threat to the functioning of the economy and the financial stability of the country. BASA and its members met with the Minister of Public Enterprises to discuss efforts to salvage state-owned enterprises. BASA is of the view that the state should solve the operational and financial crisis at strategic state enterprises, sell those that serve no developmental purpose or are not sustainable businesses, and prosecute those implicated in corruption and looting. BASA opposes the use of ‘prescribed assets’ to force banks to risk their customers’ deposits and returns on badly managed, unsustainable public enterprises.

• BASA committees and divisions regularly meet with the South African Reserve Bank, the Prudential Authority, and the Financial Sector Conduct Authority to ensure the stability of the financial system, that its customers are treated fairly and that South Africa maintains its position as a world-leader in financial regulation. Working with its members, BASA is able to produce well-researched, evidence-based submissions on the regulations and legislation that govern the industry.

• South African banks often put their infrastructure and expertise at the service of social projects that are in the national interest. In 2019, these projects included the unclaimed mining benefits project that aims to track and trace potential claimants who may qualify for pay-outs from these funds; assisting the South African Social Security Agency (SASSA) with the distribution of grants; and helping the National Student Financial Aid Scheme (NSFAS) to co-ordinate the opening of bank accounts for students. This year also saw the end of my term as the Chair of the International Banking Federation (IBFED). South Africa was the first emerging market country to hold that position. The South African financial system, its regulators and its banking operations were often acknowledged as world-class by other national bank associations. Our financial system consistently ranks high in global competitiveness reports and we must ensure we protect this as a national advantage.

• BASA staff and member banks remain involved in the various IBFED sub-structures as well as in the councils of the Basel Committee for Banking Supervision, the African Union for Housing Finance as well as the SADC Banking Association – whose secretariat is housed at the BASA offices. Apart from these international organisations, BASA staff and member banks continued playing an active role in the work of Business Unity South Africa (BUSA), Business Leadership South Africa, the National Business Initiative, Nedlac, as well as organisations closer to home such as the Ombuds of Banking Services, FinmarkTrust and the South African Banking Risk Information Centre (Sabric).

South African President Cyril Ramaphosa and his government consulted BASA and other business organisations extensively during the year under review. While this was a welcome break from past administrations, it unfortunately did not result in the implementation of the structural economic reforms necessary for inclusive economic growth and job creation.

The National Economic Development and Labour Council (Nedlac) was the preferred forum for interaction between business, labour government and civil society. BASA is enthusiastic about the active inclusion of the private sector through a social compact, in the development of economic policy and direct sectorial microeconomic interventions. However, agreements reached at public forums, like the job and investment summits, often floundered when it came to implementation.

BASA has long been concerned that presidential or ministerial announcements – without effective implementation of the agreed programmes – will simply further undermine confidence in South Africa. The social partners also often struggled to find common ground between ideological alliances and the increasingly harsh business and economic realities being faced by banks and others.

BASA committees and divisions regularly met with the South African Reserve Bank, the Prudential Authority, and the Financial Sector Conduct Authority to ensure the stability of the financial system, that its customers are treated fairly and that South Africa maintains its position as a world-leader in financial regulation. Working with its members, BASA is able to produce well-researched, evidence-based submissions on the regulations and legislation that govern the industry.

South African banks often put their infrastructure and expertise at the service of social projects that are in the national interest. In 2019, these projects included the unclaimed mining benefits project that aims to track and trace potential claimants who may qualify for pay-outs from these funds, assisting the South African Social Security Agency (SASSA) with the distribution of grants, and helping the National Student Financial Aid Scheme (NSFAS) to co-ordinate the opening of bank accounts for students.

This year also saw the end of my term as the Chair of the International Banking Federation (IBFED). South Africa was the first emerging market country to hold that position. The South African financial system, its regulators and its banking operations were often acknowledged as world-class by other national bank associations. Our financial system consistently ranks high in global competitiveness reports and we must ensure we protect this as a national advantage.

BASA staff and member banks remain involved in the various IBFED sub-structures as well as in the councils of the Basel Committee for Banking Supervision, the African Union for Housing Finance as well as the SADC Banking Association – whose secretariat is housed at the BASA offices. Apart from these international organisations, BASA staff and member banks continued playing an active role in the work of Business Unity South Africa (BUSA), Business Leadership South Africa, the National Business Initiative, Nedlac, as well as organisations closer to home such as the Ombuds of Banking Services, FinmarkTrust and the South African Banking Risk Information Centre (Sabric).

A WORD OF THANKS

This year was my last as Managing Director of BASA. After 20 years with the association – I joined as Managing Director – I have retired from BASA. During this time, the banking industry has substantially transformed by many measures, including ownership, management and inclusive financial services. I was in the team that negotiated the Financial Sector Charter (FSC) in 2002. The banking sector since then has become a credible partner in the social and economic transformation and development of the country. While the Transformation in Banking Report presents the statistics that underline the significant – ongoing – changes in the industry banks are among the first to acknowledge that there is more that still needs to be done to achieve the vision set out in the Financial Sector Code (FSC). However, it is personally gratifying for me to see how far the industry has come in securing its social licence to operate. South African banks are among the most sound, safe and efficient in the world and are globally recognised as such. I must acknowledge the proactive and appropriate regulation of the sector by the South African Reserve Bank, particularly the Prudential Authority and Financial Sector Conduct Authority.

I would like to take this opportunity to thank members of the BASA Board – past and present – for the support and guidance they offered me during my tenure as managing director. The chief executives of the banks operating in South Africa trusted me to represent the interests of an industry that provides the economic infrastructure of the country and holds in trust the savings and investments of South African workers, professionals and companies. It was a heavy responsibility made light by our shared commitment to ethical governance, a stable financial system and an industry that is sustainable and able to contribute to the social and economic transformation of the country. Over the years, the BASA board displayed remarkable leadership, not just in the industry but also in business and the political and social life of the country – and South Africa is a better place for it.

I would like to thank BASA members of staff – past and present – with whom I have shared many hours of hard work, some frustration and many successes, as well as a lot of fun and laughter. Together we ensured that BASA was able to represent the interests of banks on policy, regulatory and legislative proposals that were critical to the business of banking. My thanks also to the many colleagues with whom I served in management and on boards of organisations in banking and business. Finally, a special word of thanks to my wife and children who gave up much family time, so I could do the work I needed to. Their understanding and patience was much appreciated by all – but by me especially.

I was fortunate to spend a few weeks working with my successor as Managing Director, Rupangene Kunene before I vacated my office at BASA. To her my congratulations and best wishes.

A WORD OF THANKS

This year was my last as Managing Director of BASA. After 20 years with the association – I joined as Managing Director – I have retired from BASA. During this time, the banking industry has substantially transformed by many measures, including ownership, management and inclusive financial services. I was in the team that negotiated the Financial Sector Charter (FSC) in 2002. The banking sector since then has become a credible partner in the social and economic transformation and development of the country. While the Transformation in Banking Report presents the statistics that underline the significant – ongoing – changes in the industry banks are among the first to acknowledge that there is more that still needs to be done to achieve the vision set out in the Financial Sector Code (FSC). However, it is personally gratifying for me to see how far the industry has come in securing its social licence to operate. South African banks are among the most sound, safe and efficient in the world and are globally recognised as such. I must acknowledge the proactive and appropriate regulation of the sector by the South African Reserve Bank, particularly the Prudential Authority and Financial Sector Conduct Authority.

I would like to take this opportunity to thank members of the BASA Board – past and present – for the support and guidance they offered me during my tenure as managing director. The chief executives of the banks operating in South Africa trusted me to represent the interests of an industry that provides the economic infrastructure of the country and holds in trust the savings and investments of South African workers, professionals and companies. It was a heavy responsibility made light by our shared commitment to ethical governance, a stable financial system and an industry that is sustainable and able to contribute to the social and economic transformation of the country. Over the years, the BASA board displayed remarkable leadership, not just in the industry but also in business and the political and social life of the country – and South Africa is a better place for it.

I would like to thank BASA members of staff – past and present – with whom I have shared many hours of hard work, some frustration and many successes, as well as a lot of fun and laughter. Together we ensured that BASA was able to represent the interests of banks on policy, regulatory and legislative proposals that were critical to the business of banking. My thanks also to the many colleagues with whom I served in management and on boards of organisations in banking and business. Finally, a special word of thanks to my wife and children who gave up much family time, so I could do the work I needed to. Their understanding and patience was much appreciated by all – but by me especially.

I was fortunate to spend a few weeks working with my successor as Managing Director, Rupangene Kunene before I vacated my office at BASA. To her my congratulations and best wishes.
THE COVID-19 PANDEMIC

Covid-19 was first reported on 31 December 2019 by the World Health Organization country office following a cluster of pneumonia cases in Wuhan City in the Hubei Province of China.

The virus reached South Africa in March 2020 and government responded with a five-week lockdown of the country which while completely necessary had devastating economic consequences. Government introduced an economic relief and stimulus package worth as much as R500 billion, by some estimates. Banks played an important part in the measures introduced to keep the economy going and save jobs. BASA members introduced debt relief measures to assist customers who experienced financial difficulties due to the Covid-19 pandemic and national lockdown. These included cash flow relief, like payment breaks, to individual customers in good standing and commercial, small and medium enterprises to protect the funds of depositors, the relief measures, which were worth tens of billions of rand, did not envisage debt write-off but rather leniency in terms of the repayment of loans for a period.

BASA members also partnered with the National Treasury and SARB on a Covid-19 Loan Guarantee Scheme to help small and medium enterprises, support the economy and save jobs. The scheme allowed qualifying businesses to apply for loan funding from their primary bank for three months of operational costs, such as salaries, rent and supplier payments. Risk-sharing mechanisms in the scheme – which may run for five years – balanced the need for government to support qualifying businesses, with ensuring the continued safety and soundness of the banking system.

Banks also made the industry’s infrastructure available to assist in the distribution of social grants and provided funding amounting to just over R176 million to social support initiatives, including the provision of food distribution of social grants and provided funding amounting to just over R176 million to social support initiatives, including the provision of food and hygiene products for vulnerable communities and the purchase and distribution of personal protective equipment, medical equipment and beds for isolation wards. This was in addition to the normal corporate social investment that banks make on an ongoing basis.

As important as these emergency measures were, they are not a sustainable solution to the devastating social and economic damage caused by the pandemic. South Africa must urgently implement a sustained economic recovery strategy – which would include infrastructure development, structural reforms and sustainable transformation – to kickstart inclusive economic growth, create jobs and boost consumer and investor confidence.

PRUDENTIAL

A major focus for BASA during the year was the Fundamental Review of the Trading Book (FRTB), which is a comprehensive suite of rules for market-risk related capital requirements for banks and is intended to be applied to their wholesale trading activities.

Several workstreams commenced, including:

- Impact studies to inform the revised technical and legislative South African market risk frameworks.
- A quantitative impact study of the application of the Simplified Standardised Approach (SSA) under the proposed framework for minimum capital requirements for market risk.
- Treatment of internal risk transfers between the banking and trading books.
- Internal default risk charge for all trading desks with Internal Model Approval (IMA) and standardised Default Risk Capital (DRC) equivalent requirements.
- Proposed implementation timelines.
- Reaching out to New Zealand, Brazil, China, India, Indonesia and the Association of South-East Asian Nations (Asean) to raise common concerns on FRTB and highlight issues around sovereign risk weightings and the possible impact on emerging markets.

The FRTB Standardised Approach Industry Benchmarking (FRTB-SA) was a key project that was completed. FRTB-SA has a prominent role in the revised market risk framework as all institutions are required to calculate market risk capital based on a standardised approach, irrespective of whether they use internal risk modelling.

SOVEREIGN RISK IN LOCAL CURRENCY

As part of the FRTB, local (rand-denominated) sovereign debt receives the same risk weighting as foreign currency denominated sovereign debt. The impact of assuming local currency sovereign bonds are not risk-free has numerous implications, the most severe of these being an exit of primary dealers from the market and a significant increase in the cost of debt to the National Treasury. Furthermore, the need to hold capital against credit risk for sovereign rand debt can have the unintended consequence of creating a market in rand sovereign credit default swaps purely to manage regulatory capital charges. BASA and its members are raising these concerns with the Prudential Authority.
CENTRAL CLEARING PLATFORMS

Central Clearing Platform (CCPs) increase the efficiency and stability of financial markets by reducing counterparty, operational, settlement, market, legal, and default risk, for traders. They take on the buyers’ and sellers’ credit risk when clearing and settling market transactions.

Work on an optimal solution to best suit the local financial markets for over-the-counter (OTC) derivatives has been submitted to the South African Reserve Bank (SARB).

The PwC South Africa OTC Presentation report, conducted on behalf of the Prudential Authority, found:

- Interest Rate Derivatives (IRDs) represent 85% of the potential clearable market. Equities make up the remainder.
- The total clearable market for IRD’s is R14 trillion. Included in this amount are local, ZAR denominated swaps (73%) and Forward Rate Agreements (27%) with maturities of less than 36 months and 120 months respectively.
- Up to 32% of the outstanding interbank IRD market is executed with internationally domiciled banks, as a result, foreign banks will not look to clear trades through a local CCP as this will disrupt their netting-sets with existing international clearing houses.
- Trade volumes for rand IRD on the London clearing house, LCH, far exceed those of any local activity. It is evident that the bulk of rand activity takes place in the offshore markets and sustained access to this liquidity should be a key policy outcome.

From an operational and capital perspective, having an internationally domiciled CCP or trade repository with or without a local presence, was deemed the optimal solution from both a systemic risk and cost perspective.

THE FOREIGN EXCHANGE COMMITTEE

BASA and its members signed a Statement of Commitment to begin work on the key principles of the Global Foreign Exchange Committee. This includes implementable action plans with timelines and a gap analysis to align business with the FX Global Code. Some of the key topics under discussion at SAFXC included:

- Last look principal, where the provision of quotes, rather than firm prices, has resulted in cases of misconduct
- Disclosure and transparency reports
- Practices to limit, monitor and control risks related to FX market trading
- Authorised dealers with limited authority
- Treasury outsourcing companies
- Ensuring orders are handled fairly and with transparency

BASA and its members are actively engaging the South African Reserve Bank (SARB) on the implementation of the code.

RISK DATA AGGREGATION AND RISK REPORTING

Risk management is central to banking and there is mandatory risk and financial reporting to regulators and supervisors. However, during the global financial crisis, banks were not able to aggregate the risks to their groups, across business lines and between legal entities. Regulators and supervisors were therefore unable to get the information they needed to make informed decisions, in what became a rapidly evolving crisis.

In January 2013 the Basel Committee on Banking Supervision (BCBS) issued the Principles for effective risk data aggregation and risk reporting, also known as BCBS 239. Although principles based, the objective was to make banks take responsibility for the quality of their risk data and enhance their own internal risk reporting capability. Aggregation of better-quality risk data provides banks with the ability to make informed decisions and manage their risks holistically. The 14 principles were targeted at globally systemically important banks (G50), those viewed as too big to fail. Several jurisdictions, including South Africa, voluntarily adopted the principles.

BASA initiated a work stream to develop a common industry understanding of what it means to be BCBS 239 compliant. Along with internal auditors, the Recommended Internal Audit Testing Guidelines, which set out an approach to assessing a bank’s level of compliance with the principles, were formulated.

The latest BCBS progress report on banks’ implementation of the principles for effective risk data aggregation and reporting was published in June 2018. The progress report noted that G50 banks have found it challenging to comply with the principles, mainly due to the complexity and interdependence of IT improvement projects. As a result, the expected date of compliance had slipped back for many banks. One of the challenges stemmed from the varying approaches adopted across the industry highlighting how principles-based regulation can generate different expectations of the definition of compliance between regulators and banks.

In September 2019, the BCBS Risk Data Network, whose membership includes the SARB, held its conference in Cape Town. During the conference, the regulators were tasked with determining what “compliance” means, as well as what regulators would require for a bank to evidence compliance. The Prudential Authority reported that banks in South Africa, under the auspices of BASA, had developed internal audit guidelines. The Risk Data Network expressed their interest in the RDARR Recommended Internal Audit Guidelines as there was no known equivalent audit attestation procedures for BCBS 239. It is hoped that the BCBS will find the content of the RDARR Recommended Internal Audit Guidelines useful, as banks begin grappling with the challenges of enhancing their internal risk data.

BENCHMARK INTEREST RATE REFORMS

The South African Reserve Bank has set up the Market Practitioners Group (MPG) to work on proposals to reform key interest rates used in South Africa.

During the year, work commenced to develop a list of potential risk-free rates. The focus was on secured and unsecured overnight rates, with the Risk-Free Rates work group looking to provide analysis of each rate type and a decision tree to guide the process on recommending a benchmark rate. The roadmap on both secured and unsecured overnight rates is expected to take up to 24 months to complete.

The Risk-Based Work Group has made interim recommendations to strengthen the Johannesburg Interbank Acceptance Rate (JIBAR), which is currently not at risk from global equivalence. Steps included primary market post data transparency and developing a data harvesting market infrastructure system.

The Transition Work Group has made recommendations to facilitate the changeover from legacy reference rates to the new rates. This workstream will also provide the final recommendations to the MPG on the timelines and steps to transition.

The Data and Governance work groups will be forming a critical part of all the work groups during 2020.

KEY SUBMISSIONS:

- Bank of International Settlements Consultation Consolidated Framework
- Version three of the proposed amendments to the JSE Debt Listings Requirements Part 2 of 2018
- Implementation of a short sale reporting and disclosure framework for securities transactions
- Covered Bonds Framework for South Africa
- Guidance note on the Quantification of Model Risk Capital
- One-year Effective Maturity Floor Amendments for Trade and Export Finance
- Credit Ratings Services Act, 2012, with reference to Chapter 4 of the Act, Endorsement of External Credit Ratings
- Comments on the proposed changes to the Insolvency Act
- Presentation to Parliament Financial Matters Amendment Bill

Prudential submissions can be found on www.banking.org.za
MARKET CONDUCT

South Africa embarked upon the treatment of a Customers Fairly (TCF) regime, with a natural emphasis on protecting retail and vulnerable consumers.

After some nine years in which to adopt and absorb the principles of TCF, financial services providers, and banks in particular will be called upon to provide evidence that they are treating their customers fairly—or face the consequences.

TCF will be reflected in the proposed Conduct of Financial Institutions (CoFI) Act. Dr Andy Schmulow is a senior lecturer in law at the University of Wollongong, Australia, and a Senior Advisor to DBA, a joint South African – Australian consultancy. His research specialises in Twin Peaks and he served on the Independent Panel of Experts convened by National Treasury to advise on the drafting of the CoFI Bill. At a seminar hosted by BASA, he pointed out that there is substantial overlap between the requirements of TCF and the Financial Advisory and Intermediary Services (FAIS) Act, which the CoFI Bill will replace. It is nonetheless of note that FAIS is more prescriptive and rules-based while TCF is more principles and outcomes-based TCF also focuses more on cultural and governance issues than does FAIS. It is significant that, until now, financial service institutions monitored TCF by way of self-assessment and were not subject to direct sanctions. The changes under the CoFI Bill. No longer will TCF be a self-assessment and self-diagnostic tool; it will henceforth have the force of law. This will facilitate penalties including, for the first time, disgorgement damages. There will be a focus on ‘outcomes’, because:

- Past experiences have demonstrated that prescriptive, rules-based approaches are inadequate to the task of regulating the financial industry.
- The financial industry innovates too quickly for errant practices to be prohibited by a rules-based approach.

- Purely principles-based approaches are susceptible to creative compliance and can fail to create retail financial markets in which consumers benefit from desirable outcomes. This is especially important in a developing country with a large number of financially illiterate and vulnerable consumers.

- Fairness, it has been argued by some, is nebulous and facile, whereas it is easier to understand and find evidence of poor outcomes.

Good outcomes are arguably the least and most sensible benchmark. This enables the evaluation of the performance of an industry whose proper purpose ought to be the service of the community in which it operates. It acknowledges the social contract under which banks operate in times of financial crisis, bank failures are undertaken by taxpayers. So, it is appropriate for banks to fulfil social policy goals, which seek to harness the potential of the banking industry to facilitate the creation of wealth and – through the mechanism of financial inclusion – distribute it more fairly and equitably.

CoFI extends TCF outcomes to nine core principles. These include licensing, culture and governance, product suitability and design, detailed expectations for financial services, marketing, and disclosure, post-sale barriers and reporting. Crucially, CoFI also includes provisions in respect of distribution – including by agents not directly employed by a financial services provider – and remediation. There is a senior manager’s regime which will apportion accountability to “key persons”, including where errant behaviour is committed by someone under their authority. Oversight will have a more intrusive approach – one that will investigate a bank’s business operations and business model.

There is much in which South African banks can take comfort. They are, generally well-aligned – with the right values and motivations of TCF. They have a high degree of familiarity with TCF principles already and that – by and large – will serve them well under CoFI.

They are advantaged by an effective ombud, to keep them on the straight and narrow; and by regulators that are created according to the optimal regulatory architecture of Twin Peaks. They can have confidence in their association to reinforce what is best for the industry including at the expense of individual members who present a reputational risk to their peers.

Data from the Ombudsman for Banking Services (OBS) and the National Credit Regulator (NCR) indicate where South African banks fall short in their self-assessment and self-diagnostic tool; it will henceforth have the force of law. This will facilitate penalties including, for the first time, disgorgement damages. There will be a focus on ‘outcomes’, because:

- Past experiences have demonstrated that prescriptive, rules-based approaches are inadequate to the task of regulating the financial industry.
- The financial industry innovates too quickly for errant practices to be prohibited by a rules-based approach.

- Purely principles-based approaches are susceptible to creative compliance and can fail to create retail financial markets in which consumers benefit from desirable outcomes. This is especially important in a developing country with a large number of financially illiterate and vulnerable consumers.

There is a senior manager’s regime which will apportion accountability to “key persons”, including where errant behaviour is committed by someone under their authority. Oversight will have a more intrusive approach – one that will investigate a bank’s business operations and business model.

Overall, however, South African banks standards of conduct are a significant asset for the industry. Good conduct not only guarantees more loyal customers, thereby generating greater long-term sustainability, it also assures South African banks of a more secure place in society. However, none of this should be an inducement for complacency.

Under the CoFI regime, banks should be vigilant to the danger of a product-flogging culture, even where those practices are masked behind seemingly well-aligned processes, or high customer satisfaction scores. Customer satisfaction is a poor and deceptive proxy for achieving good outcomes.

- Good conduct is a significant asset for the industry.
- Under the CoFI regime, banks should be vigilant to the danger of a product-flogging culture, even where those practices are masked behind seemingly well-aligned processes, or high customer satisfaction scores.
- Customer satisfaction is a poor and deceptive proxy for achieving good outcomes.

There is a need for a renewed focus on function over form and on a critical appraisal not of the ‘how’, but the ‘why’ each bank does what it does. This must come with an understanding of the risks presented by groupthink ensuring that the firm not only professes an adherence to rigorous self-examination, but genuinely fosters a critical and questioning culture. As a salutary lesson, the 2018 Australian Prudential Regulation Authority review of the collapse of corporate governance in Australia’s largest bank, Commonwealth, and the manner in which it was facilitated by groupthink and an aversion to critical self-appraisal, is sobering. It was Commonwealth’s failures that did more than any other factor to bring about a reckoning for Australia’s banks. A reckoning which has barely begun.

South African banks should embrace a culture of recursive reviews of their conduct, which are independent and critical. While these may at times be uncomfortable, they will provide the best assurance to the industry that it continues to comport itself well by international standards. That in turn will bolster the resilience of individual banks and make a demonstrable contribution to a financial system that is fair, transparent, equitable, inclusive, and produces consistently good outcomes.
**PRINCIPLES FOR RESPONSIBLE BANKING**

BASA recently endorsed the Principles for Responsible Banking, which sets out the role of the banking industry in supporting the United Nations Sustainable Development Goals (SDGs). The Principles have been developed as a partnership between banks world-wide and the United Nations Environmental Programme Finance Initiative.

The 17 global SDGs include a focus on eradicating poverty, promoting equality, infrastructure development, broadening financial inclusion and the implementation of the Paris Climate Agreements to curb the climate crises. The Principles for Responsible Banking seek to align business strategies with the SDGs, continuously working to improve the net positive impact of banking and consulting stakeholders to achieve societal goals, among others.

BASA has embarked on an ambitious Positive Impact Finance project, which prioritises the SDGs and explores funding opportunities and the interventions needed for banks to align their business strategy with society’s goals. The project will provide a framework for a sustainable banking system and help the industry to demonstrate how it makes a positive contribution to society.

Banks are committed to a just transition to an environmentally and socially sustainable economy, which balances the interests of their customers, shareholders and workers. This will require meaningful partnerships that acknowledge and address the material concerns of all stakeholders in a reasonable and practical manner.

**CLIMATE CHANGE**

The World Economic Forum ranks climate change as the dominant global risk to humanity. South Africa is rated as the 10th most vulnerable country to climate change.

In 2019, BASA established a Climate Risk Forum, made up of participants in the financial sector including state regulatory and oversight authorities. The Principles for Responsible Banking seek to align business strategies with the SDGs, continuously working to improve the net positive impact of banking and consulting stakeholders to achieve societal goals, among others.

BASA has called on government to implement a ‘road map’ for an orderly and least disruptive transition to a low-emissions economy, which will comply with the country’s international greenhouse gas emission reduction commitments.

**SECTION 25**

BASA acknowledges that the current patterns of land ownership and food production in South Africa is not sustainable and have their origins in colonialism and apartheid. BASA is committed to supporting sustainable land reform that will enhance inclusive economic growth and food security.

BASA has indicated that Section 25 of the Constitution need not be amended to give effect to just and equitable expropriation, which could be nil under specific circumstances. However, we recognise that the Constitution Eighteenth Amendment Bill – the outcome of the democratic and legislative process – is an effort to make explicit what is implicit in Section 25 of the Constitution (the property right section), which is that the ‘expropriation of land without compensation is a legitimate option for land reform.’ The amendments proposed:

- ‘A court may, where land and any improvement thereon are expropriated for the purposes of land reform, determine that the amount of compensation is nil.’
- ‘National legislation must set out specific circumstances where a court may determine that the amount of compensation is nil.’

**MARKET CONDUCT**

**THE BANKING ASSOCIATION SOUTH AFRICA**

**ANNUAL REPORT 2019**
Expropriation at below market value or without compensation must be done in such a way as to not harm economic growth and food security, as articulated by President Cyril Ramaphosa. BASA recommended that an independent socio-economic impact assessment be done to ensure this. Banks are very mindful of the need to protect the interests of their customers, both depositors and borrowers alike, some of whom could benefit from land reform. BASA’s concerns include:

- Property owners with mortgages and other bonds on property that may be expropriated at below market value or without compensation face severe liabilities. Initial legal opinion indicates that borrowers will still be liable for the full debt on a property even if the underlying asset has been expropriated at below market value or without compensation. This is because loan agreements with banks are secured by mortgages over the property. These loan agreements remain valid and binding irrespective of the value realized for the property. Banks have extended R1.6 trillion in residential, commercial and agricultural mortgages to borrowers. Many other forms of credit are premised on a customer’s financial standing, which in the majority of cases is supported by the equity in their property. Currently, the market value of land-based property in South Africa is estimated at R7 trillion, representing the homes and savings of ordinary people. Any legislation that threatens the repayment of loans owing to banks will undermine a critical sector of the economy and put depositor’s funds at risk. Banking crises often start with a decline in the value of land-based property as the impact has on market confidence as was evident in the global financial crisis of 2008. A sound banking and financial system is essential for inclusive economic growth.

- ‘Just and equitable’ compensation for expropriated land may be below market value. This will inhibit the ability of banks to provide credit where property serves as security for a loan. To mitigate this, government should automatically guarantee the difference between ‘just and equitable’ compensation and market value. The difference should be paid to affected property owners. Banks have extended R1.6 trillion in residential, commercial and agricultural mortgages to borrowers. Many other forms of credit are premised on a customer’s financial standing, which in the majority of cases is supported by the equity in their property. Currently, the market value of land-based property in South Africa is estimated at R7 trillion, representing the homes and savings of ordinary people. Any legislation that threatens the repayment of loans owing to banks will undermine a critical sector of the economy and put depositor’s funds at risk. Banking crises often start with a decline in the value of land-based property as the impact has on market confidence as was evident in the global financial crisis of 2008. A sound banking and financial system is essential for inclusive economic growth.

- ‘Just and equitable’ compensation for expropriated land may be below market value. This will inhibit the ability of banks to provide credit where property serves as security for a loan. To mitigate this, government should automatically guarantee the difference between ‘just and equitable’ compensation and market value. The difference should be paid to affected property owners. Banks have extended R1.6 trillion in residential, commercial and agricultural mortgages to borrowers. Many other forms of credit are premised on a customer’s financial standing, which in the majority of cases is supported by the equity in their property. Currently, the market value of land-based property in South Africa is estimated at R7 trillion, representing the homes and savings of ordinary people. Any legislation that threatens the repayment of loans owing to banks will undermine a critical sector of the economy and put depositor’s funds at risk. Banking crises often start with a decline in the value of land-based property as the impact has on market confidence as was evident in the global financial crisis of 2008. A sound banking and financial system is essential for inclusive economic growth.

- The possibility of expropriation at below market value or without compensation has already started discouraging investment by farmers and others into their property – increasing food insecurity – as well as investment into the general economy. It must be made clear as soon as possible what land may be subject to expropriation, and which will be excluded.

- The South-African Banks Act and the global Basel regulatory framework for the financial sector require that banks have sufficient capital and liquidity to return deposits and investors funds – with interest – on demand. If the value of land is reduced by expropriation at nil compensation or at below market value, banks will have reduced capital against which to extend credit for entrepreneurs and personal development. They will have to adopt more conservative loan policies, which will affect all credit extension, not just property.

Despite these concerns, BASA is convinced land reform, which is critical for South Africa to succeed, can be undertaken in a legal, constitutional, inclusive and sustainable manner and which does not dilute property rights. It is essential that land reform is implemented faster and more effectively, especially in urban areas, where about 1.2 million families live in informal settlements. These families also need access to title deeds so they can leverage their properties and build generational wealth.

The FinScope Survey 2018 showed that 80% of adult South Africans had transactional bank accounts. South Africans also have access to savings, credit and insurance products, although the use of these products is lower compared to transactional banking accounts.

Banks have played a major role in achieving this. Innovations by financial technology (fintech) companies working alone or with traditional institutions have also contributed immensely to bringing services closer to customers.

Another contribution to financial inclusion comes from government income transfer schemes, which require beneficiaries to have bank accounts in order to receive benefits. These include various social grants, stipends for Expanded Public Works Programme (EPWP) and Community Work Programme (CWP) participants, recipients of the National Student Financial Aid Scheme (NSFAS) support and learnership programmes among others. This shows that governments can play a significant role in driving financial inclusion.

**SMALL BUSINESS**

The International Finance Corporation (IFC) estimates that in 2017, there were 5.7 million small, micro and medium enterprises (SMMEs) in South Africa. Of these, 2.9 million were survivalist businesses and two million – although informal – had significant turnover. The remaining 817 000 businesses were mostly formal enterprises. Globally, these enterprises play a significant role in economic activity and the provision of jobs. This is the same in South Africa. Small and medium enterprises (SMEs) contribute approximately 34% of South Africa’s gross domestic product, make up an estimated 90% of formalised businesses, and provide employment to over half of the country’s workforce, says the IFC report.

However, these enterprises present a challenge for banks. Only 14% of SMEs are considered formal businesses in South Africa. As a result, one of the biggest challenges is the lack of access to finance, especially from banks. The finance gap is estimated between R86 billion and R346 billion, spread across 2.7 million enterprises. This gap is largely caused by things such as the lack of business transactional information that can be leveraged for loans.

**MONITORING**

BASA appointed Genesis Analytics to undertake a scoping study to establish a baseline from which the annual funding of SMEs by financial institutions can be monitored. Insights from the report include:

- The level of bank financing for SMEs has grown – from R44.5 billion in 2014 to R57.4 billion in 2017, despite large financial institutions scaling back their credit extension due to South Africa entering a technical recession.

- The average loan size almost doubled during this period, even as there was a massive drop in the volume of loans because of widespread business liquidations. According to the South Africa Revenue Services, the number of registered companies decreased from 3.7 million in 2016 to 3.1 million in 2017.
In addition, BASA and its members are in the process of adopting a Strategy to Accelerate Transformation in the industry. Through procurement, enterprise and supplier development (PSED) banks aim to grow black businesses and contribute to job creation by helping them access markets, among other forms of support. In 2017, banks spent R1.4 billion with small businesses.

### CORPORATE SOCIAL INVESTMENT INITIATIVES

In 2018 banks spent R666 million on various social development programmes. These include:

- **Action for the Blind and Disabled**
- **The Akha Foundation for Non-Speaking Autistics**
- **Chartwell Entrepreneur & Leadership School**
- **The Imbumba Foundation Caring4Girls Initiative**
- **Orionbepo Tiro Secondary School**
- **The Learning Organisation**
- **The Key School**

BASA also contributed funds towards the training of labour and community representatives in the Financial Sector Transformation Council (FSTC) to help ensure their effective participation. BASA represents the banking industry on the board and council of the FSTC.

### TRANSFORMATION

The Transformation in Banking Report demonstrates with hard numbers that, despite challenging economic conditions, banks have continued to make progress in their efforts to transform their industry. The report shows that in 2018:

- **51%** of the banks has increased board members by 43%.
- **36%** of the top black senior managers have increased from 32%.
- **R3.3 billion** of the total funding increased by 23%.
- **R28.8 billion** of the SME loans increased by 13%.

### CONSUMER FINANCIAL EDUCATION

**Startaver** is the flagship financial education programme of the banking industry. Through this programme, banks and other financial institutions collaborate to bring financial education to learners in grades seven to nine. The programme is rolled-out nationally using the network of bank branches to reach all corners of the country.

In 2019, the programme reached 13,826 learners in 257 schools across all nine provinces. This number is lower than in previous years, but member banks now visit each school more than once to improve knowledge transfer and retention. Other partners in the Startaver programme are the departments of basic education, human settlements and health, as well as the Safer South Africa Foundation.

In 2018, the programme reached 53,826 learners in 257 schools across all nine provinces. This number is lower than in previous years, but member banks now visit each school more than once to improve knowledge transfer and retention.

**Startaver** is the flagship financial education programme of the banking industry. Through this programme, banks and other financial institutions collaborate to bring financial education to learners in grades seven to nine. The programme is rolled-out nationally using the network of bank branches to reach all corners of the country.

In 2019, the programme reached 13,826 learners in 257 schools across all nine provinces. This number is lower than in previous years, but member banks now visit each school more than once to improve knowledge transfer and retention. Other partners in the Startaver programme are the departments of basic education, human settlements and health, as well as the Safer South Africa Foundation.

**Startaver** is the flagship financial education programme of the banking industry. Through this programme, banks and other financial institutions collaborate to bring financial education to learners in grades seven to nine. The programme is rolled-out nationally using the network of bank branches to reach all corners of the country.

In 2019, the programme reached 13,826 learners in 257 schools across all nine provinces. This number is lower than in previous years, but member banks now visit each school more than once to improve knowledge transfer and retention. Other partners in the Startaver programme are the departments of basic education, human settlements and health, as well as the Safer South Africa Foundation.

**Startaver** is the flagship financial education programme of the banking industry. Through this programme, banks and other financial institutions collaborate to bring financial education to learners in grades seven to nine. The programme is rolled-out nationally using the network of bank branches to reach all corners of the country.

In 2019, the programme reached 13,826 learners in 257 schools across all nine provinces. This number is lower than in previous years, but member banks now visit each school more than once to improve knowledge transfer and retention. Other partners in the Startaver programme are the departments of basic education, human settlements and health, as well as the Safer South Africa Foundation.
CHILD AND YOUTH FINANCE SUMMIT

BASA worked with the Financial Sector Conduct Authority, the National Treasury, the Department of Basic Education and FinMark Trust to co-host the Child and Youth Finance International (CYFI) Summit, in Africa for the first time. The summit, which was attended by senior representatives from governments, civil society and the development community, financial institutions and other private sector stakeholders, as well as youth from 154 organisations from 48 countries, was held in Johannesburg.

The Managing Director of BASA, Cas Coovadia, gave the keynote address. The theme of the summit was Economic Citizenship and Employment: A Future for All, which highlighted the importance of Economic Citizenship Education and financial inclusion for young people. The summit deliberated on how innovation could be used to address youth unemployment and enable them to become economic citizens. Summit activities included:

• A financial education workshop conducted by personal finance journalist and author, Maya Fisher-French. This workshop took place a day before the summit and was attended by about 40 youth from Gauteng-based non-governmental organisations.
• A session on the journey of the Child & Youth Finance International Movement and the progress made in placing issues facing young people on the agenda of policymakers and practitioners.
• Experiences from around the globe were shared on how best to develop programmes and financial products focusing on young people.
• The Global Inclusion Awards (GIA) recognised and honoured the efforts of organisations and individuals that have achieved extraordinary results and sustainability in financial inclusion, economic citizenship education and entrepreneurial support for children and youth.
• After the summit, the CYFI team held a workshop with representatives of South African banks to share global best practice on the development of products specifically for young people.

FINANCIAL INCLUSION

PAYMENTS

Payment systems are critical as they connect banks, companies and people together in the financial system. They are complex adaptive systems, which must be trusted by all those who use it. There can be no doubt as to the accuracy of payments as this uncertainty would impair trade and commerce. As a result, payment systems are held to a higher rate of success than is typical of other critical networks, such as water or electricity. Most electronic payment systems have success rates in the region of 99.99999%, which is far higher than the 3.4 errors per million typically acceptable. This is achieved by ensuring a robust operational risk management framework, close operational collaboration, clear and distinct standards and rules, and an understanding by participants of the risks they bring into the system. There are strict rules on access to the system, because shocks can carry from one participant to another.

The South African NPS has often been heralded as world-class. South Africa developed one of the first true interbank real-time clearing systems in the world, allowing customers to send money from one participating bank to another in under 60 seconds. South Africa is also included in a small group of countries that participate in Continuous Linked Settlement, a global multi-currency cash settlement system.

There is no doubt the NPS has served South Africa well. However, more must be done as the NPS is key to unlocking the benefits associated with a more digital information society. It is crucial that the NPS is improved, in a manner

In its second year, the Payments Division continued to play a leading role in developing the banking industry’s payments strategy and the creation of a National Payment System (NPS) that will serve the current and future needs of South Africa.

These initiatives were in addition to the individual consumer financial education programmes undertaken by member banks. In 2018, bank spending on consumer education increased by 24% to R180 million.
In 2020 the first steps towards finding the answers and building a new stable banking and payments ecosystem, banks are a major catalyst for greater opportunities and challenges in the country, and a commitment to meaningful change, which can only be achieved by ensuring the most vulnerable citizens and businesses are not left behind. The key questions facing policymakers have an important task ahead in laying the foundation for the future of the NPS, so that it meets the requirements of the Twin Peaks regulatory regime, while providing crucial infrastructure and network support for the Fourth Industrial Revolution (4IR) in South Africa. At the same time, the stability of the financial system must be maintained, and healthy competition ensured.

The banking industry, and indeed the entire financial economy depends on a healthy relevant NPS. So while they are acutely aware of the need for a stable banking and payments ecosystem, banks are a major catalyst for greater understanding of supply and demand, and careful coordination and trust between its stakeholders. The industry has set out to redefine the entire ecosystem, to reduce risk, and obtain better data and insights, which can help reduce the dependence cash – all while ensuring there would be no disruptions in its supply and availability. The work on cash continues and will benefit all South Africans.

The NPS includes:

- What should the payment system of the future look like?
- How can payments integrate more simply and seamlessly into the lives of South Africans?
- Will machines be able to make payments?
- Most importantly, how can we ensure equal and fair access to the NPS for all South Africans?

In 2020 the first steps towards finding the answers and building a new foundation for the NPS will begin.

**PAYMENTS**

**Debicheck**
In 2019 the banking industry succeeded in building the complex Debicheck system, also called Authenticated Collections. Debicheck will, together with other measures, prevent abuse of the debit order system. Debicheck ensures a digital mandate is explicitly authenticated by the customer and stored at their bank. Thereafter, whenever a collection is performed, the system will first check against that mandate. If there is a violation of the mandated instruction the debit order will not go through. In 2020 the industry will focus on driving customers and businesses to make use of Debicheck.

**Cash**
Cash is not typically seen as a strategic payment product. However most transactions in South Africa are cash and its use has, in fact, been growing steadily. This may be because cash remains the ultimate fallback for storing and transmitting value for every South African citizen and business. Even while the banking industry pursues the reduction of demand for cash and seeks to increase the use of digital alternatives, it appreciates its role, particularly in the informal economy. Cash remains relevant and must be managed strategically.

There are many practical difficulties with managing a physical commodity such as cash. In 2019 the industry undertook to fulfil the requirement of its regulations to significantly reduce risk in the cash ecosystem. Unlike electronic payments, cash is grounded in the physical world, requires an in-depth understanding of supply and demand, and careful coordination and trust between its stakeholders. The industry has set out to redefine the entire ecosystem, to reduce risk, and obtain better data and insights, which can help reduce the dependence cash – all while ensuring there would be no disruptions in its supply and availability. The work on cash continues and will benefit all South Africans.

**Strategy and Communications**

**CASH**

- Cash is not typically seen as a strategic payment product. However most transactions in South Africa are cash and its use has, in fact, been growing steadily.
- This may be because cash remains the ultimate fallback for storing and transmitting value for every South African citizen and business.
- The industry has set out to redefine the entire ecosystem, to reduce risk, and obtain better data and insights, which can help reduce the dependence cash – all while ensuring there would be no disruptions in its supply and availability.

**Bankers’ Africa, the local operator alone processes**

- **R110 trillion per annum – or 30 times GDP** is settled through the various payment clearing houses and operators.
- **R895 billion monthly in more than 100 million individual transactions** at an average of **R20 million a minute.**

In the year to March 2019, banks reported:

- **175 580 suspicous transactions** to the Financial Intelligence Centre

The South African Constitution guarantees banks and other institutions the right to participate in the making of the country’s laws and regulations that determine the operating environment for their businesses.

The Strategy and Communications Division, along with member banks, engages stakeholders on social, economic and political challenges in the banking environment. BASA is committed to transparency, ethical behaviour and integrity when advocating for its members interests. Key issues highlighted in 2019 include:

- The National Treasury discussion document – Economic transformation, inclusive growth and competitiveness: Towards an Economic Strategy for South Africa – which was released in August 2019. In its submission to Treasury, BASA pointed out that economic policy affects the quality of life of all South Africans and cannot be the sole preserve of the governing party and its allies, especially given the years of state capture, recession and corruption and maladministration.
- The association supported the proposed strategy as it proposed growth enhancing measures, which had already been adopted by government and could be quickly implemented. Due to the limited time available to respond to the document, BASA did not engage in detail on all the proposals.
- Some of the association’s responses to the proposals were dealt with in other submissions, thus those dealing with land reform and small business development.
- BASA is of the unequivocal view that the cancer of corruption in almost every corner of the state has seen South Africa’s prospects for economic growth diminish and large amounts of vital resources to uplift the majority of South Africans stolen. Businesses and individuals in the private sector and other spheres of civil society have also been drawn into this vortex.
- The commissions of inquiry that are detailing these sorry stories must be followed up with criminal investigations, prosecutions and imprisonment of all the guilty. This is the only way to reduce corruption and restore good governance in society.

The Strategy and Communications Division, along with member banks, engages stakeholders on social, economic and political challenges in the banking environment. BASA is committed to transparency, ethical behaviour and integrity when advocating for its members interests. Key issues highlighted in 2019 include:

- The National Treasury discussion document – Economic transformation, inclusive growth and competitiveness: Towards an Economic Strategy for South Africa – which was released in August 2019. In its submission to Treasury, BASA pointed out that economic policy affects the quality of life of all South Africans and cannot be the sole preserve of the governing party and its allies, especially given the years of state capture, recession and corruption and maladministration.
- The association supported the proposed strategy as it proposed growth enhancing measures, which had already been adopted by government and could be quickly implemented. Due to the limited time available to respond to the document, BASA did not engage in detail on all the proposals.
- Some of the association’s responses to the proposals were dealt with in other submissions, thus those dealing with land reform and small business development.
- BASA is of the unequivocal view that the cancer of corruption in almost every corner of the state has seen South Africa’s prospects for economic growth diminish and large amounts of vital resources to uplift the majority of South Africans stolen. Businesses and individuals in the private sector and other spheres of civil society have also been drawn into this vortex.
- The commissions of inquiry that are detailing these sorry stories must be followed up with criminal investigations, prosecutions and imprisonment of all the guilty. This is the only way to reduce corruption and restore good governance in society.

The Strategy and Communications Division, along with member banks, engages stakeholders on social, economic and political challenges in the banking environment. BASA is committed to transparency, ethical behaviour and integrity when advocating for its members interests. Key issues highlighted in 2019 include:

- The National Treasury discussion document – Economic transformation, inclusive growth and competitiveness: Towards an Economic Strategy for South Africa – which was released in August 2019. In its submission to Treasury, BASA pointed out that economic policy affects the quality of life of all South Africans and cannot be the sole preserve of the governing party and its allies, especially given the years of state capture, recession and corruption and maladministration.
- The association supported the proposed strategy as it proposed growth enhancing measures, which had already been adopted by government and could be quickly implemented. Due to the limited time available to respond to the document, BASA did not engage in detail on all the proposals.
- Some of the association’s responses to the proposals were dealt with in other submissions, thus those dealing with land reform and small business development.
- BASA is of the unequivocal view that the cancer of corruption in almost every corner of the state has seen South Africa’s prospects for economic growth diminish and large amounts of vital resources to uplift the majority of South Africans stolen. Businesses and individuals in the private sector and other spheres of civil society have also been drawn into this vortex.
- The commissions of inquiry that are detailing these sorry stories must be followed up with criminal investigations, prosecutions and imprisonment of all the guilty. This is the only way to reduce corruption and restore good governance in society.
The banking association South Africa

25

STRATEGY AND COMMUNICATIONS

• Allegations of racial profiling in the extension of home loans and other products by banks. BASA reaffirmed that the industry does not practice racial profiling. The complaint brought against a BASA member was dismissed by the Equality Court.

• Protest action against job losses by the finance union, Sedico. BASA reaffirmed that members were committed to reducing job losses and providing training and new opportunities for staff. Protest action will not help to address the difficult realities affecting our industry and will further burden the economy and deter investment. However, banks are willing to work with labour and government to minimise job losses in the industry.

• The South African Reserve Bank Amendment Act seeks to end public shareholding in the SARB. BASA believes that with public shareholding there is greater transparency and accountability to all shareholders. As shareholders in the SARB, South African banks are under no illusion that they have the power to influence monetary or any other aspect of reserve bank policy. The board and other structures of the SARB are appointed directly by the president or the minister of finance. Banks also do not support the view that as shareholders in the SARB, they own the reserves of the country.

The Banks Amendment Bill seeks to amend the Banks Act to make it possible for state-owned enterprises to be licensed to conduct the business of a bank. BASA supports the diversification of the industry through the licensing of mutual and other new banks. We believe increased competition that provides consumers with greater choice, is healthy for the industry. However, state-owned banks must be subject to the same regulatory supervision by the South African Reserve Bank, as any other. This will ensure a level playing field for all banks operating in South Africa and mitigate the potential risk of losses to the taxpayer.

• Banks will only repossess homes or other assets as a last resort, as neither the customer nor the banks benefit. A customer is responsible for the repayment of their mortgage loan. If they experience problems they must communicate with their bank. Typically, a bank will try to minimise the loss to a customer by rescheduling repayments, restructuring the credit agreement, or assisting in the sale of assets, before resorting to repossession.

• Banks have a regulatory and fiduciary responsibility to recover their losses. If banks do not recover their loans, they will not be able to extend credit at a reasonable price, damaging the financial system and the economy. Higher cost of credit will increase financial exclusion, by making home loans and other forms of credit less affordable.

• BAGA members have been part of the Credit Ombud Association, to ensure that customers can approach an impartial body to resolve credit disputes with the banks. However, customers are required to approach the Ombudman for Banking Services for all other banking-related disputes. Over time, BASA members have found that their customers are often confused and inconvenienced by having both the Credit Ombud Association and the Ombudman for Banking Services to consider when seeking assistance. Parliament has also expressed a view that a rationalisation of the Ombud System within the financial services industry may be beneficial to customers.

• BAGA members are of the view that the interests of banking customers would be better served if all disputes which concern banks are referred to the Ombudman for Banking Services. BASA members have resigned from the Credit Ombud Council, as of September 2019.

• The Strategy and Communications division facilitated significant commentary and public engagement on these issues in the media. It also hosted a series of “First Friday” discussions where there were engagements with government officials, researchers, academics and community leaders, to better understand the material concerns of stakeholders in the banking operating environment.

What is essential is the continued independence of the Reserve Bank, as it strives to achieve its mandate – as set out in the constitution – to protect the value of the currency of the Republic of South Africa in the interest of balanced and sustainable economic growth. An internationally recognised, effective regulator is essential to protect the savings of South Africans and to ensure that our banks have cost-effective access to the international financial markets. BASA will continue to advocate for the independence of the SARB.

The presentation also provided a banking perspective on a number of issues of popular concern, ranging from efforts to manage debt order abuse, to the use of banking infrastructure for the distribution of social grants, among others.

The Honourable Gijimani Skosana responded to the presentation on behalf of the chair of SCOF. Some of the concerns he highlighted included:

The decrease in black ownership of banks and a need to increase the pace of transformation in the banking industry.

Debit order scams and the reversal fees charged by banks.

Retrenchments in the banking industry.

The closure of bank accounts linked to money laundering and the proceeds of crime.

The roundtable concluded that there is a need for ongoing robust and responsive engagement between the legislature and the industry to complement Parliamentary hearings on legislation that affects the banking industry. The South African Constitution guarantees banks and other institutions the right to participate in the making of the country’s laws and regulations that determine the operating environment for their businesses. BASA is committed to transparency, ethical behaviour and integrity when advocating for its members’ interests.

BASA hosted a roundtable with representatives from Parliament in Cape Town on 27 November 2019. The aim of the meeting was to introduce BASA to the Standing Committee on Finance (SCOF) and the Portfolio Committee on Trade and Industry which were reconstituted with new members after the 2019 general election and to identify points of mutual interest and concern that may not be on the legislative agenda. Members of the Parliamentary Budget Office – which provide Parliament with independent advice on money bills – also attended the meeting.

The Managing Director of BASA, Cas Coovadia, opened the meeting with an overview of BASA and a summary of the function of banks in the economy. The presentation emphasised that:

• Banks hold in trust the savings of South African workers, professionals and companies and must be able to repay their deposits on demand.

• Banks extend credit to consumers and companies for consumption and investment, which is necessary for inclusive economic growth, but loans must be repaid so that depositors can redeem their savings and banks can continue to lend.

• Banks have a regulatory and fiduciary responsibility to recover deposits. If they do not recover their loans, they will not be able to extend credit at a reasonable price, damaging the financial system and the economy. Higher cost of credit will increase financial exclusion, by making home loans and other forms of credit less affordable.

• The decrease in black ownership of banks and a need to increase the pace of transformation in the banking industry.

The decrease in black ownership of banks and a need to increase the pace of transformation in the banking industry.

The decrease in black ownership of banks and a need to increase the pace of transformation in the banking industry.

The decrease in black ownership of banks and a need to increase the pace of transformation in the banking industry.

The decrease in black ownership of banks and a need to increase the pace of transformation in the banking industry.

The decrease in black ownership of banks and a need to increase the pace of transformation in the banking industry.

The decrease in black ownership of banks and a need to increase the pace of transformation in the banking industry.
South African and global banks are evolving in response to economic pressures, technological innovation and — most importantly — the changing way their customers use financial services.

Fintech and big data – huge data sets that can be analyzed to reveal patterns in human behaviour – is fundamentally changing the business of banking in South Africa. They have helped create low-cost financial services and products to the unbanked and under-banked. Mokgolo, Financial Sector Specialist at the World Bank Group, said: ‘Fintech and wealth and savings of its workers, professionals and companies. Ayanda

REGULATION

Banking is no longer the sole preserve of banks, making it necessary for regulators to find new ways to protect the financial stability of the country and wealth and savings of its workers, professions and companies. Ayanda

FINANCIAL INCLUSION

Fintech can be used to provide access to a range of affordable financial services and products to the unbanked and under-banked. The opportunities and challenges for the country are perhaps best set out in the report by the Centre of Excellence in Financial Services: ‘The impact of the 4th industrial revolution on the South African financial services market’.

The report says: ‘Technological innovation is taking place at unprecedented speed. Applying this technology in financial services has the potential to reduce costs and improve efficiency, allow customers to transact seamlessly and in real time, and improve providers’ understanding of customer behaviour and needs, allowing for the personalisation of financial services’.

With fintech, banks can extend microloans to informal traders or facilitate salary advances so that low-income workers do not turn to exploitative payday lenders. The development of smartphone payments in South Africa through digital wallets and mobile banking apps are allowing customers to transact using their smartphones.

Most South African banks have invested significant resources to modernise their channels and have embraced partnerships – as often as competing – with new arrivals.

The Chief of BASA, Mike Brown, pointed out that: ‘While digital adoption is growing strongly, there is still a high dependence on cash as a payment instrument. And, although there is a rising adoption of smartphones, the use of more sophisticated financial services is constrained by the state of South Africa’s digital infrastructure.’

The shift towards automation creates vast opportunities for improving efficiency but also changes the skills financial institutions require. South African banks are painfully aware of the unsustainable rates of unemployment in the country. As operators and businesses are restructured to manage increasing competition and the introduction of more efficient banking channels, BASA members will do whatever is possible to minimise job losses and provide training and new opportunities for affected employees. It is worth noting that the big six banks employed 148 000 people in 2019. As the financial ecosystem expands — as fintech facilitates the growth of the financial services industry and smaller banks — opportunities for employment will be created.

The Reserve Bank made it clear that they plan to licence more banks, to reduce concentration in the industry and to keep big banks from becoming complacent. BASA has repeatedly made it clear that it welcomes increased competition which will benefit customers with faster cheaper more efficient products and services.

CYBER SECURITY

South Africa is a growing digital economy. As internet usage grows — and given the fact that cybercriminal activity is advancing globally — more businesses in South Africa are vulnerable to security threats. And where there is an opportunity there are cybercriminals.

The digital developments in banking and fintech must be supported by next generation security measures which protect customers and increases confidence in digital channels. Ongoing vigilance is required to ensure that trust in banks — established over time through sound governance, transparency and sound conduct — is protected.

The intergovernmental fintech working group has said: ‘Improving overall social welfare may be one of fintech’s greatest promises. Novel solutions resulting from exploring emerging technologies can potentially reduce frictional costs, lower information asymmetries for users and providers, and decrease [fraud risks]. Banks are willing to partner with government and labour to make this a reality.’

GENDER-BASED VIOLENCE

In his opening remarks to the 2019 Banking Summit, the chair of the association, Mike Brown said: ‘BASA supports the campaign against gender-based violence and xenophobia. We are intolerant of all forms of discrimination, be it by gender or race.’

BASA Managing Director, Cas Cowdroy, pointed out that violence against women and children, showed an angry society with a very very weak social fabric. ‘A lot of this anger is due to grinding poverty, economic marginalisation and widespread unemployment that creates a sense of emasculation and alienation from the political process.’

EMPLOYMENT

The job for industry and the country is to get the wheel of digitalisation running without being lost, is replaced by the jobs being created.’

Caroline da Silva, Financial Services Conduct Authority.

‘The only thing you can predict with any certainty, is that the real winners will be customers, who will get access to better, easier to use and cheaper banking products and services’.

Mike Brown, BASA Chair.

‘We are most probably going to replace low value-adding jobs, with higher value adding jobs that get paid more. The job for industry and the country is to get the wheel to turn faster and quicker, so that the impact of the jobs being lost, is replaced by the jobs being created.’

Caroline da Silva, Financial Services Conduct Authority.

‘The Indian governance framework targets the smartphone. It recognises that you need biometrics to bypass things like literacy and bring people into the financial sector. We shouldn’t copy and paste from any one country, we should look at South Africa and where we need to take it.’

Kumaran Selvarajalu, BASA Senior General Manager: Payments.

‘But we must be clear that no amount of rationalisation or analysis detracts from the fact that gender-based violence is a criminal act and the justice system must take action. There is no excuse for femicide and violence against children and we should all be hanging our heads in shame.’

Barry Hone, Chief Executive, Discovery Bank.

‘The Indian governance framework targets the smartphone. It recognises that you need biometrics to bypass things like literacy and bring people into the financial sector. We shouldn’t copy and paste from any one country, we should look at South Africa and where we need to take it.’

Kumaran Selvarajalu, BASA Senior General Manager: Payments.
As an association that represents the banking industry, BASA employees are expected to adhere to the highest ethical and professional standards. The core values of the association are integrity; humility; being resolute in your beliefs and principles, professionalism and responsibility and accountability.

There is a trade-off between easing regulation in financial services and financial stability. We are constantly asking what we can do better. We need to make it easier for challenger banks to enter the market. We need to make sure that regulations are not unnecessary. At the same time, banks need to be safe and prudentially sound at all times.

We need to make sure the tsunami of regulation has the right effect. For the first time, the Financial Sector Regulation Act, which we all know better as Twin Peaks, imposes a requirement on the regulators to do a comprehensive economic impact study on the effects of their regulations. When considering whether to implement regulations, we expect the regulator to clearly define the benefits versus the costs.

FINANCE MINISTER, TITO MBOWENI: THE 2019 BANKING SUMMIT.
THE BANKING ASSOCIATION SOUTH AFRICA

ANNUAL REPORT 2019

SECRETARY’S REPORT

BOARD MEMBERSHIP AND CHANGES

BASA is governed by a competent board which consists of representatives from ten member banks:

- The Managing Director of BASA
- The Chief Executive Officers (CEOs) of the following South African banks: Nedbank, ABSA, First National Bank, Standard Bank and Investec
- Two CEOs representing other South African banks.
- Two CEOs to represent international banks operating in the country.
- The Managing Director of BASA

During 2019, there was one change in the board membership because of a change in the CEO of a bank. Rene van Wyk of ABSA Bank replaced the former CEO of ABSA, Maria Ramos.

MEMORANDUM OF INCORPORATION

BASA’s Memorandum of Incorporation was updated to align with the new Companies Act. The new memorandum clarifies the relationship between BASA and its stakeholders and the Act. It was adopted by members and lodged with the Companies and Intellectual Properties Commission (CIPC) in August 2019.

BOARD COMMITTEES

The board currently has three committees to assist it in executing its fiduciary responsibilities and to take such actions as may be required of the board.

- The Bank Executive Committee comprises of:
  - The Managing Director of BASA
  - Two senior executives representing international banks.
  - Two senior executives representing other South African banks.
  - The General Manager of Finance

- The Audit and Risk Committee comprises of:
  - Three banks currently represented on the board: First Rand Bank, HSBC, and Capitec.
  - The BASA General Manager of Finance as an ex-officio member.

- The Remuneration and Ethics Committee comprises of:
  - The Managing Director of BASA as an ex-officio member.
  - Five senior executives representing the following banks: Investec, Standard Bank, Capitec, Mercantile Bank and BNP Paribas.

A new board committee, the Audit and Risk Committee was formally constituted with effect from March 2019. The committee comprises of:

- Four banks currently represented on the board: Investec, Standard Bank, Mercantile Bank and BNP Paribas.
- The Managing Director of BASA as an ex-officio member.
- The BASA General Manager of Finance as an ex-officio member.

This committee met twice during 2019 to execute its mandate, including:

- Considering the appointment of an external auditor and assessing their independence.
- Ensuring that the appointment of the auditor has been approved by the board.
- Reviewing the external auditor’s management letter and audit report.
- Recommending the audit fee to the board.
- Advising on any matters referred to the committee by the board.

Another board committee, the Remuneration and Ethics Committee, was formally constituted with effect from March 2019. The committee comprises of:

- Three banks currently represented on the board: First Rand Bank, HSBC, and Capitec.
- The Managing Director of BASA, as an ex-officio member.
- BASA’s Senior General Manager Shared Services.

This committee met twice during 2019 to execute its board mandate.

TERMS OF REFERENCE

The delegation of duties and responsibilities of board committees are recorded by means of a formal Terms of Reference for each board committee, which is subject to annual review and approval and review by the board, or from time to time, as may be required.

On 30 April 2019, the board approved, for adoption, the terms of reference for both the Audit and Risk Committee and the Remuneration and Ethics Committee, respectively.

ADMINISTRATIVE SUPPORT

The Company Secretary continues to provide practical support to the Chairman of the board, the Managing Director, and the chairs of board committees to ensure that meetings are managed effectively. The BASA Board met three times during 2019 and held the BASA Annual General Meeting on 30 April 2019.

In addition, this office is responsible for:

- Carrying out the instructions of the board and Board Executive Committee, and give effect to their decisions.
- Ensuring corporate accountability by communicating with relevant BASA stakeholders and reporting any governance or compliance failures.
- Lodging relevant forms and supporting documents with the CIPC and within ten business days of the appointment of directors.

CONCLUSION

The board is satisfied that it has adequately discharged its remit in the year ending 31 December 2019.

The Board of Directors of BASA in 2019

Allan Pullinger FirstRand
Richard Wainwright Investec Bank (Deputy Chair)
Mike Brown Nedbank (Chair)
Vikas Kandelwal BNP Paribas
Sam Shibhalala Standard Bank
René van Wyk Absa
Mark Steadler HSBC
Karl Kambier Mercantile
Gerie Fourie Capitec
Cas Covadia BASA Managing Director
Nonhlanhla Buthelezi BASA Company Secretary

The Board Charter requires that the Chair be rotated every two years. Mike Brown replaced Maria Ramos as the Board Chair from 1 June 2018. Richard Wainwright took up the position of Board Deputy Chair.

The Company Secretary continues to provide practical support to the Chairman of the board, the Managing Director, and the chairs of board committees to ensure that meetings are managed effectively. The BASA Board met three times during 2019 and held the BASA Annual General Meeting on 30 April 2019.

In addition, this office is responsible for:

- Carrying out the instructions of the board and Board Executive Committee, and give effect to their decisions.
- Ensuring corporate accountability by communicating with relevant BASA stakeholders and reporting any governance or compliance failures.
- Lodging relevant forms and supporting documents with the CIPC and within ten business days of the appointment of directors.

CONCLUSION

The board is satisfied that it has adequately discharged its remit in the year ending 31 December 2019.

The Board of Directors of BASA in 2019

Allan Pullinger FirstRand
Richard Wainwright Investec Bank (Deputy Chair)
Mike Brown Nedbank (Chair)
Vikas Kandelwal BNP Paribas
Sam Shibhalala Standard Bank
René van Wyk Absa
Mark Steadler HSBC
Karl Kambier Mercantile
Gerie Fourie Capitec
Cas Covadia BASA Managing Director
Nonhlanhla Buthelezi BASA Company Secretary

The Board Charter requires that the Chair be rotated every two years. Mike Brown replaced Maria Ramos as the Board Chair from 1 June 2018. Richard Wainwright took up the position of Board Deputy Chair.

The Board of Directors of BASA in 2019

Allan Pullinger FirstRand
Richard Wainwright Investec Bank (Deputy Chair)
Mike Brown Nedbank (Chair)
Vikas Kandelwal BNP Paribas
Sam Shibhalala Standard Bank
René van Wyk Absa
Mark Steadler HSBC
Karl Kambier Mercantile
Gerie Fourie Capitec
Cas Covadia BASA Managing Director
Nonhlanhla Buthelezi BASA Company Secretary

The Board Charter requires that the Chair be rotated every two years. Mike Brown replaced Maria Ramos as the Board Chair from 1 June 2018. Richard Wainwright took up the position of Board Deputy Chair.
INDEPENDENT AUDITORS’ REPORT

We have audited the annual financial statements of BASA (NPC), which comprise the statement of financial position as at 31 December 2019, and the statement of comprehensive income.

IN OUR OPINION

The annual financial statements present fairly, in all material respects, the financial position of The Banking Association South Africa (NPC) as at 31 December 2019, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Companies Act of South Africa.

The directors are responsible for the other information. The other information comprises the information included in the document titled ‘The Banking Association South Africa (NPC) annual financial statements for the year ended 25 June 2020’ (together the IRBA Codes) and other independence requirements applicable to performing audits of annual financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants and the International Ethics Standards Board for Accountants’ International Code of Ethics for Professional Accountants (including International Independence Standards) respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the document titled ‘The Banking Association South Africa (NPC) annual financial statements for the year ended 31 December 2019’, which includes the Directors’ Report as required by the Companies Act of South Africa. Other information does not include the annual financial statements and our auditor’s report thereon.

Our opinion on the annual financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the annual financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

The directors are responsible for the preparation and fair presentation of the annual financial statements in accordance with International Financial Reporting Standard for Small- and Medium-sized Entities and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the directors are responsible for assessing the company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

DIRECTORS’ RESPONSIBILITIES

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

• Identify and assess the risks of material misstatement of the annual financial statements, whether due to fraud or error design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

• Obtain an understanding of internal control relevant to the audit in order to design audit procedures appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company’s internal control.

• Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

• Conclude on the appropriateness of the directors’ use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the financial statements or if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the company to cease to continue as a going concern.

• Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
BASA was established with the primary objective of promoting proactively the interests of the banking industry amongst its various stakeholders. The company is registered as a non-profit company in accordance with item (1) of chapter 1 of the Companies Act of South Africa of 2008, as amended.

There have been no material changes to the nature of the company’s business from the prior year.

FINANCIAL RESULTS

The annual financial statements have been prepared in accordance with International Financial Reporting Standard for Small- and Medium-sized Entities and the requirements of the Companies Act of South Africa. The accounting policies have been applied consistently compared to the prior year.

Full details of the financial position, results of operations and cash flows of the company are set out in these annual financial statements.

DIRECTORS

The directors in office at the date of this report are as follows:

<table>
<thead>
<tr>
<th>Directors</th>
<th>Nationality</th>
<th>Changes</th>
</tr>
</thead>
<tbody>
<tr>
<td>MWT Brown – Chairman</td>
<td>South African</td>
<td></td>
</tr>
<tr>
<td>PB Kunene – Managing Director</td>
<td>South African</td>
<td>Appointed 1 March 2020</td>
</tr>
<tr>
<td>C Coovadia</td>
<td>South African</td>
<td>Resigned 31 March 2020</td>
</tr>
<tr>
<td>GM Fourie</td>
<td>South African</td>
<td></td>
</tr>
<tr>
<td>L Fuzile</td>
<td>South African</td>
<td>Appointed 1 February 2020</td>
</tr>
<tr>
<td>VSK Khandelwal</td>
<td>Indian</td>
<td></td>
</tr>
<tr>
<td>KR Kumbler</td>
<td>South African</td>
<td>Resigned 30 January 2020</td>
</tr>
<tr>
<td>AD Msoze</td>
<td>South African</td>
<td>Appointed 16 January 2020</td>
</tr>
<tr>
<td>AP Pullinger</td>
<td>South African</td>
<td></td>
</tr>
<tr>
<td>M Ramos</td>
<td>South African</td>
<td>Resigned 28 February 2019</td>
</tr>
<tr>
<td>M Sassoon</td>
<td>South African</td>
<td>Appointed 1 March 2020</td>
</tr>
<tr>
<td>MR Steadler</td>
<td>British</td>
<td></td>
</tr>
<tr>
<td>SK Tshabalala</td>
<td>South African</td>
<td>Resigned 31 January 2020</td>
</tr>
<tr>
<td>R van Wyk</td>
<td>South African</td>
<td>Resigned 15 January 2020</td>
</tr>
<tr>
<td>RJ Wainwright</td>
<td>South African</td>
<td></td>
</tr>
</tbody>
</table>

The directors have pleasure in submitting their report on the annual financial statements of BASA (NPC) for the year ended 31 December 2019.

EVENTS AFTER THE REPORTING PERIOD

Since 31 December 2019, the spread of Covid-19 has severely impacted many local economies around the globe, and South Africa’s economy wasn’t spared. In many countries, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Governments and central banks have responded with monetary and fiscal interventions to stabilise economic conditions.

The directors have determined that this event is a non-adjusting subsequent event. Accordingly, the financial position and results of operations as of and for the year ended 31 December 2019 have not been adjusted to reflect its impact. The duration and impact of the Covid-19 pandemic, as well as the effectiveness of government and central bank responses, remain unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of BASA for future periods, but due to the nature of its business, the directors are confident that the association will not be materially impacted.

The directors are not aware of any other material event which occurred after the reporting date and up to the date of this report.

GOING CONCERN

The directors believe that the company has adequate financial resources to continue in operation for the foreseeable future and accordingly the annual financial statements have been prepared on a going concern basis. The directors have satisfied themselves that the company is in a sound financial position and that it has access to sufficient borrowing facilities to meet its foreseeable cash requirements. The directors are not aware of any new material changes that may adversely impact the company. The directors are also not aware of any material non-compliance with statutory or regulatory requirements or of any pending changes to legislation which may affect the company.

Since 31 December 2019, the directors have also reviewed the impact of the consequences of the Covid-19 outbreak on the ability of the company to keep on operating as a going concern, and have come to the conclusion that the business has not been materially and adversely affected in such a way that it won’t be able to keep on operating for the foreseeable future.

SECRETARY

The company secretary is N Buthelezi

POSTAL ADDRESS

PO Box 61674
Marshalltown
2107

BUSINESS ADDRESS

3rd Floor, Building D
Sunnyside Office Park
32 Princess of Wales Terrace
Parktown
2193
### STATEMENT OF FINANCIAL POSITION

**AS AT 31 DECEMBER 2019**

<table>
<thead>
<tr>
<th></th>
<th>(Rand)</th>
<th>2019</th>
<th>Restated*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-Current Assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assets Property, plant and equipment</td>
<td>1,428,070</td>
<td>1,497,361</td>
<td></td>
</tr>
<tr>
<td>Current Assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other financial assets</td>
<td>22,875</td>
<td>71,671</td>
<td></td>
</tr>
<tr>
<td>Prepayments</td>
<td>3,902,175</td>
<td>2,155,208</td>
<td></td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>1,062,945</td>
<td>1,566,932</td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>24,538,787</td>
<td>21,866,986</td>
<td></td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>30,954,852</td>
<td>27,178,158</td>
<td></td>
</tr>
<tr>
<td><strong>Equity and Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reserves</td>
<td>669,260</td>
<td>374,863</td>
<td></td>
</tr>
<tr>
<td>Accumulated surplus</td>
<td>2,314,319</td>
<td>1,072,230</td>
<td></td>
</tr>
<tr>
<td><strong>Total Equity</strong></td>
<td>2,983,579</td>
<td>1,447,093</td>
<td></td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-Current Liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retirement benefit liability</td>
<td>11,023,515</td>
<td>10,077,184</td>
<td></td>
</tr>
<tr>
<td>Current Liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred income</td>
<td>8,808,681</td>
<td>6,007,465</td>
<td></td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>8,139,077</td>
<td>9,556,436</td>
<td></td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>16,947,758</td>
<td>15,653,681</td>
<td></td>
</tr>
<tr>
<td><strong>Total Equity and Liabilities</strong></td>
<td>30,954,852</td>
<td>27,178,158</td>
<td></td>
</tr>
</tbody>
</table>

* The company's annual financial statements have been published in full on www.banking.org

### STATEMENT OF COMPREHENSIVE INCOME

<table>
<thead>
<tr>
<th></th>
<th>(Rand)</th>
<th>2019</th>
<th>Restated*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other income</td>
<td>88,902,394</td>
<td>72,903,537</td>
<td></td>
</tr>
<tr>
<td>Operating expenses</td>
<td>16,016,952</td>
<td>14,188,984</td>
<td></td>
</tr>
<tr>
<td>Operating surplus/(deficit)</td>
<td>(104,953,947)</td>
<td>(96,862,624)</td>
<td></td>
</tr>
<tr>
<td><strong>Investment revenue</strong></td>
<td>(34,401)</td>
<td>(9,773,103)</td>
<td></td>
</tr>
<tr>
<td><strong>Finance costs</strong></td>
<td>2,330,272</td>
<td>2,352,156</td>
<td></td>
</tr>
<tr>
<td>Surplus/(deficit) for the year</td>
<td>(1,242,089)</td>
<td>(8,374,379)</td>
<td></td>
</tr>
<tr>
<td><strong>Other comprehensive income:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Items that will not be reclassified to surplus or deficit</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Actuarial gains/(losses) on defined benefit plans</td>
<td>294,397</td>
<td>374,863</td>
<td></td>
</tr>
<tr>
<td><strong>Other comprehensive income for the year</strong></td>
<td>294,397</td>
<td>374,863</td>
<td></td>
</tr>
<tr>
<td><strong>Total comprehensive surplus/(deficit) for the year</strong></td>
<td>1,536,486</td>
<td>(7,999,516)</td>
<td></td>
</tr>
</tbody>
</table>

* The company's annual financial statements have been published in full on www.banking.org