

THE BANKING
ASSOCIATION
SOUTH AFRICA

TRANSFORMATION REPORT 2020



About this report

This report is produced by Intellidex (Pty) Ltd

1st Floor, Building 3
Inanda Greens Office Park
54 Wierda Road West
Sandton
South Africa

Email: mail@intellidex.co.za

Web: www.intellidex.co.za

Tel: +27 (0)10 072 0472

Intellidex was commissioned by the Banking Association South Africa (BASA) to produce this report from data supplied from member banks.

The report reflects transformation in the banking industry and its progress towards achieving the targets set out in the Financial Sector Code.

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

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

Disclaimer

While Intellidex believes all information in this report to be accurate, Intellidex makes no representations or warranties regarding the completeness, accuracy or reliability of any information, facts, estimates, forecasts or opinions contained in this document. The information and opinions could change at any time without prior notice. Intellidex, its directors, officers, staff, agents or associates shall have no liability for any loss or damage of any nature arising from the use of this document.

Copyright

©2021. This document is copyrighted to the Banking Association South Africa. It may be distributed in this form without prior permission, but prior written permission must be obtained before using the content in another form.

Acknowledgements:

Project manager: Colin Anthony

Data & analysis: Letta Maponyane

Design & layout: Eleonora Del Grosso

Subeditor: Heidi Dietzsch



Contents

1.	Foreword: Banking key for economic empowerment	2
2.	Highlights	4
3.	Introduction: A rational approach will overcome obstacles	5
4.	Executive summary	7
5.	Methodology	8
6.	Data and analysis	9
	Ownership	9
	Management control: board	10
	Skills development	15
	Socioeconomic development	17
	Preferential procurement	17
	Enterprise and supplier development	18
	Consumer education	19
	Empowerment financing	19
	Financial inclusion	24
	Bank's broad-based black economic empowerment levels	26
7.	BASA Financial Inclusion Division: Helping to transform the banking industry	27

Banking key for economic empowerment

David Masondo, Deputy Finance Minister

Transformation and inclusive economic growth is a moral and business imperative for the financial sector.

Since the dawn of democracy in 1994, the South African economy has been characterised by many reforms that were necessary to reconstruct an economy in which all South Africans have equal and fair opportunities.

Inclusivity and diversity are critically important not only because of the country's past, but also for its future. Through inclusivity and diversity, society and the economy will become more prosperous, stable and resilient.

As one of the key sectors of the economy and its engine, the banking sector has made meaningful progress in transforming itself and contributing to the ongoing journey of transforming the country's economy. Since the introduction of the voluntary Financial Sector Charter in 2004, which in itself was truly revolutionary in South Africa, and the subsequent Financial Sector Code (FSC), significant strides continue to be made in lending to black small businesses and black farmers, and in improving funding for low-cost housing and transformation infrastructure, as shown in this report.

More low-income earners have basic transactional and bank savings accounts and the targets relating to physical access to banking services (with the

objective of providing points of transaction within walking distance to the vast majority of South Africans) have been reached.

However, everyone can agree that although progress has been made, much still needs to be done to achieve effective transformation consistent with the country's developmental needs. The ownership structure of the sector needs to be broad-based, with the governance and management structures of the sector representative of the country's demographics. We, therefore, need to see more historically disadvantaged people participating in the decision-making structures.

Everyone can agree that although progress has been made, much still needs to be done to achieve effective transformation consistent with the country's developmental needs.



The spate of corruption has also been used by some to discredit or discourage the need for transforming our economy and society. The transformation achieved so far should give us all hope and courage that genuine transformation is still achievable.

Impact and responsible investing have now become more important than ever before – globally and in South Africa.

Infrastructure financing must be directed to projects that create jobs and empowerment financing must lead to a meaningful impact on people's lives. More efforts need to be directed at the development of the black SME sector to ensure that the sector significantly contributes to job creation and economic growth. As technology redefines transactional banking, usage of electronic banking channels by low-income consumers should be encouraged. However, banks must be mindful of the fact that full utilisation of electronic banking channels can be a difficult journey for low-income earners and our senior citizens.

During the Parliamentary hearings on transformation of the financial sector held in 2017, there was a general view that for transformation in the financial sector to be accelerated, there is a need to strengthen the FSC, its enforcement and monitoring of compliance.

As government we support the review of the FSC that is under way and hope that once gazetted, it will further bring positive changes to

the transformation landscape of the financial sector. However, it is important to acknowledge that without compliance, the FSC is not worth the paper it is written on. It is for this reason that government intends to strengthen the role of the financial sector regulators to monitor compliance with the FSC.

The revised draft of the Conduct of Financial Institutions Bill published in September last year made promoting transformation of the financial sector an explicit mandate of the Financial Sector Conduct Authority (FSCA) in section 58 of the Financial Sector Regulation Act, through consequential amendment to that act. Financial institutions will be required to submit a transformation plan that is closely aligned to the achievement of tangible targets informed by the targets in the FSC. The bill also empowers the FSCA to issue directives in relation to transformation plans and to use its supervisory and enforcement powers to ensure that a financial institution's governance frameworks, including those in relation to transformation, are adequate and adhered to.

We encourage the banking sector and the financial sector as a whole not to wait for the pending legislative changes in terms of their approach to transformation. Instead, they should treat transformation as a societal and business imperative that should be embedded in their organisational

culture and business strategy. Furthermore, for transformation to be meaningful, it must also be genuine and not just focus on scoring points.

As government we are mindful of the fact that as we encourage the financial sector to transform and contribute to the transformation of the economy, this must be done in such a way that it does not jeopardise the stability of the financial sector and sustainable provisioning of appropriate financial products and services that meet the needs of customers. We believe that transformation must continue unfolding within an environment where the integrity of our regulatory system remains paramount and the sector remains sound and continues to deal with consumers in a fair, empowering, transparent and informative manner.

Further progression in the transformation of the financial sector will happen if the spirit of partnership between government and industry continues to be central to the sector's transformation efforts.

I would like to sincerely thank BASA for its continued commitment to advancing transformation in the banking sector and hope it will continue to work collectively with other constituencies in building an inclusive and equitably representative financial sector that benefits all South Africans, irrespective of race, gender or religion. ■

Highlights

For the first time, there are **more African middle managers** than white

Black board members grew

10% to **85%**



Black skills development spending climbed



▲ 11% to **R4.1bn**

Top black senior managers up from

34% to **34.9%**

Black representation increased in **percentage terms across all management levels**



Spending on consumer education grew

▲ 18% to **R212m**

Supplier development up

38% to **R1.1bn**





A rational approach will overcome obstacles

*Bongiwe Kunene
Managing Director, Banking Association South Africa*

The Transformation in Banking Report is an effort to provide a factual account to society of the progress the industry has made towards the targets set out in the Financial Sector Code (FSC) and its contribution to the development of the country.

This report covers 2019 and provides comparative data for the previous three years. The difficult business environment prevalent throughout this period has since deteriorated further – as evidenced by South Africa’s credit ratings being reduced to sub-investment grade by the three major investor services agencies. Despite this, according to data provided by BASA members, banks made significant progress in transforming their industry and facilitating empowerment across the economy.

It is only on the basis of evidence that sustainable transformation and economic empowerment policies can be developed and successfully implemented. The frustration that often mars the debate about transformation in South Africa is a result of some of the unmet expectations of our post-apartheid dispensation and the increasingly high levels of poverty, unemployment and inequality that continue to divide the country by race.

The dawn of democracy in South Africa brought with it the promise of a better life for all. But while government has been able to introduce some effective poverty relief programmes – like social

grants – poor service delivery has left the majority of South Africans, especially women and those in rural areas, in poverty and with no prospect of a better life for themselves or their children. These are some of the findings of the National Planning Commission in its diagnostic report in 2011. Ten years later, sadly, the situation has deteriorated even further.

Blame and finger-pointing for not meeting the reasonable expectations of black South Africans, is all around. Government claims business does not willingly embrace transformation. Business claims government is stalling the necessary economic reforms while labour makes unaffordable and unsustainable demands that increasingly serve only the interests of union members.

According to data provided by BASA members, banks made significant progress in transforming their industry and facilitating empowerment across the economy.

The environment has become such that having a rational discussion about transformation has become almost impossible, resulting in a stalemate on critical issues.

Negotiations at the National Economic Development and Labour Council (Nedlac) on the rules to govern the Black Business Growth Fund, which is to contribute to job creation as envisaged in the Job Summit Framework Agreement, have been difficult. Similarly, the review of the FSC, which was meant to take place in 2018, is yet to be concluded because of lack of agreement on key issues in the Financial Sector Transformation Council.

The legislative framework governing transformation has been subject to numerous attacks in and out of courts. Some of the court actions have been a result of different interpretation of the laws. There have also been instances of authorities making demands on regulated entities that go beyond what the law requires.

The spirit of co-creation and problem solving in the interests of all has given way to a hardening of attitudes and a loss of trust all around – such is the nature of the politics of transformation and empowerment in our country.

Patience among the majority of South Africans, meanwhile, is running out and the legitimacy of those who sit around negotiating tables is fast being eroded.

Actions we should take include:

- Stop pursuing unsustainable vanity projects under the guise of transformation, such as bailing out constantly failing state-owned enterprises, as this will ruin public finances and cause more harm than good.
- Implement urgent structural reforms, as set out in President Cyril Ramaphosa's South African Economic Reconstruction and Recovery Plan.
- Create an environment that encourages different parties to deploy their capacities to the maximum extent possible, which will in turn benefit the rest of society. Banks have a unique role in the economy: they hold the savings and earnings of South African workers, professionals and companies, which they then use to finance the investment necessary for social and economic development. Banks are intensively regulated to ensure

they do not place depositors' funds at undue risk and are able to repay their customer's on demand, with agreed interest.

Banks are well aware of the perception that, given the resources they can marshal, they should do more to boost transformation and empowerment. While some criticism of banks may be valid, this report shows – in hard numbers – that banks are committed to the recovery and reconstruction of the economy and the transformation of their industry. ■

The Covid-19 Loan Guarantee Scheme

Bongiwe Kunene

The impact of the Covid-19 pandemic and the economic restrictions it brought have seriously set back the growth and transformation of the South African economy. This hindered banks' transformation and empowerment efforts.

Low economic growth and recessionary business conditions reduce opportunities to employ and promote professionals while constraining the profits that determine and sustain contributions to social and economic development programmes. Such conditions also decrease the number of sustainable businesses in which banks can invest to support enterprise development and black economic empowerment (BEE). The true impact of this is likely to be seen in the 2022 Transformation in Banking Report – and beyond.

Banks did much to support the economy during the first year of the pandemic. Banks provided payment breaks of R33.61 billion to individuals and small, medium and commercial businesses for the six months from March 2020.

More than 83% of individuals and 95% of businesses who requested help with personal and home loans, vehicle finance, business mortgages and credit facilities received assistance. This cash flow relief for eligible individuals and businesses was critical to the preservation of livelihoods, quality of life, jobs and a functioning economy.

Separately, by end of January 2021, banks had approved R17,9 billion in loans to small businesses under the Covid-19 Loan Guarantee Scheme. The scheme is a partnership between participating commercial banks, National Treasury and the South African Reserve Bank. It provides loans for salaries and other operating and re-start costs to small businesses that are under financial stress because of the economic impact of the pandemic and restrictions imposed by the National State of Disaster. Of the loans approved by banks, 72% went to companies with a turnover of less than R20 million.

Demand for the scheme was significantly below the original expectations because owners were

reluctant to incur more debt in a challenging operating environment caused by inconsistent policy and regulation, uncertain business conditions – including load-shedding – and a weak economic outlook. Small businesses in financial distress prefer grant or equity funding, rather than credit, which they may struggle to repay. However, the Loan Guarantee Scheme is only a small part of the relief that banks offer their clients and customers who are in financial distress, in the normal course of business. Many of the challenges facing small businesses pre-date the Covid-19 pandemic.

BASA has called for the reduction of red tape and policy uncertainty, and for it to be made easier to do business, especially for small and medium enterprises. Facilitating entrepreneurship and small business development is among the surest and fastest ways to boost inclusive economic growth and job creation, without having to introduce new programmes and additional spending. ■



Executive summary

The period covered in this report, 2016–2019, was characterised by weak economic growth.

The period was marked by a deteriorating credit environment and low levels of consumer and business confidence, exacerbated by regular load-shedding due to Eskom’s inability to meet demand.

Material macro risks were also prevalent: fiscal challenges coupled with rising government indebtedness; political and policy uncertainty; increasing cost and scarcity of financial resources; ongoing introduction of new regulations and legislation; intensifying competition with new banks entering the market; and continued regulatory and macro risks in the rest of Africa.

In such a distressed environment, transformation becomes more difficult for all companies, not just banks. The immediate impact is felt in socioeconomic development spending and other black empowerment initiatives based on a company’s net profit after tax. In 2019, socioeconomic development spending by banks suffered its only

year-on-year decrease over the four-year period.

When profits are depressed, all responsible companies must control costs carefully, cutting where necessary. For banks, this has manifested most visibly through branch closures, with customers relying more on online interactions.

The macroeconomic situation also makes it difficult for banks to drive transformation, which depends on growth in lending to targeted sectors, while costs are enhanced for skills and supplier development. The economy’s distress also curbs banks’ profit growth, which reduces amounts allocated to socioeconomic development and other initiatives based on net profit after tax.

Banks’ focus on transformation, however, has remained steadfast – albeit more difficult to achieve because it depends largely on growth in lending to targeted sectors and increasing financial access to and inclusion of underprivileged areas. Other objectives like skills and supplier development are also more difficult in an environment of cost-cutting.

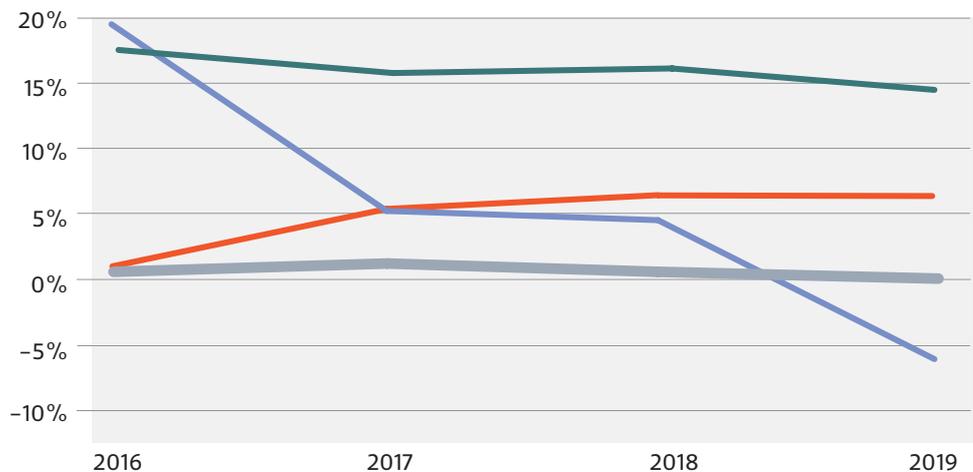
The progress made by banks in 2019 should be considered within that context. There were good gains particularly with the empowerment of black women but also in supplier development and spending on skills development. Spending on consumer education – particularly important to increase financial literacy – was up 18% in 2019, BEE transactional financing grew 3.5% and black agricultural financing jumped 52%.

In management, for the first time, there are now more African middle managers than white. Black representation increased in percentage terms across all management levels.

Black ownership figures reflect strong gains among black women. Black voting rights remained static in 2019 but black ownership improved across all other measures, and scores on each measure are ahead of target.

Over the past few years there has also been a wave of appointments of black men and women at the top level and three of the big commercial banks now have black CEOs. ■

Banking sector financial performance vs GDP (% change)



Source: Intellidex

■ Year-on-year real GDP growth ■ Year-on-year total assets growth ■ Year-on-year profit/(loss) growth ■ Return on equity (RoE)

Methodology

- Data supplied by the banks were based on the Financial Sector Code scorecard methodology.
- Ownership figures were weighted by banks' total assets to determine industry aggregates.
- We report on four years of data for each indicator. The relevant years are 2016 -2019 for all banks except for Capitec, African Bank and Investec.

Banks included in 2019:

1. Absa,
2. African Bank,
3. Albaraka,
4. Bidvest Bank,
5. Capitec,
6. Finbond,
7. FirstRand,
8. Grindrod,
9. Investec,
10. HSBC,
11. Nedbank,
12. Sasfin,
13. Standard Bank,
14. China Construction Bank Corporation,
15. Citi,
16. Tymebank and
17. HBZ Bank
18. uBank

Changes from base 2018 year:

- Previously held 2018 data was restated with updated 2018 data for banks that gave clear reasons for data changes (when changes were submitted with no reason adjustments were not made).



Changes that were made:

- Absa total assets for the 2018 were restated due to Edcon loan book having been disposed of.
- Tyme Bank provided data for the first time. This was only partial, covering areas it has begun measuring and for years it has data (ownership/preferential procurement for 2019 only, other subsectors provided data for 2017,18,19).
- HSBC also submitted for the first time with data for 2018 and 2019 only. Data on black board members was not available but other data were provided where relevant.
- Following the acquisition of Mercantile by Capitec, total figures for the combined businesses are included in 2019 figures. No changes were made to the base years which included both Capitec and Mercantile separately.
- Grobank did not submit data for this report and their information from previous years was removed to ensure comparability.
- Ubank did not submit supplier development data for 2019, so base years were excluded for consistency.

Glossary:

Emerging micro enterprise (EME): revenue below R10m

Qualifying small enterprise (QSE): revenue between R10m and R50m

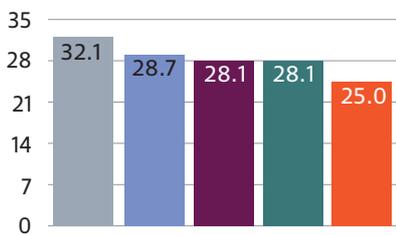


Data and Analysis

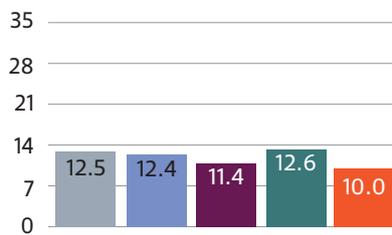
Ownership

- Black ownership measures have declined across the four years on most measures but on aggregate remain above the FSC targets, except for black economic interest.
- While black voting rights remained static in 2019 at 28%, it remains above the target of 25%.
- Scores on each measure are ahead of the target except for black economic interest (23.7% versus 25% target).
- The strongest gains were achieved in black women ownership measures, where voting rights increased to 12.6% from 11.4%, the highest level it's been since 2016. Economic interest for black women jumped to 11.3% from 10.2%.
- The percentages for black women voting rights and black women economic interest in 2019 are higher than 2016.
- In 2016, the “lock-in” period for shareholders under most large banks’ empowerment schemes that were established in 2005 had expired, leaving shareholders free to sell their stakes. Black shareholders have been realising value – a rational process to pursue investment diversification and lower the investment risk, for example. For most beneficiaries, the incentive to sell and realise value is strong because it was their only real asset.

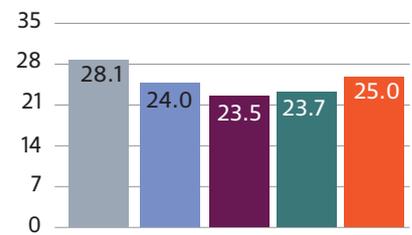
Black voting rights (%)



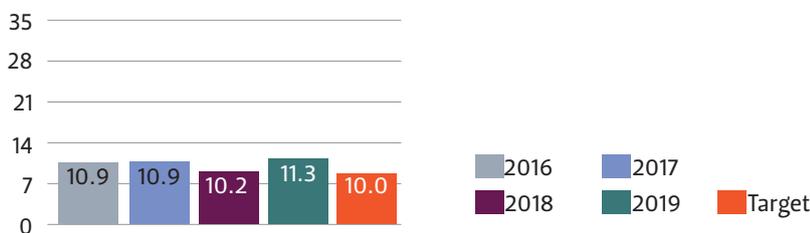
Black women voting rights (%)



Black economic interest (%)



Black women economic interest (%)



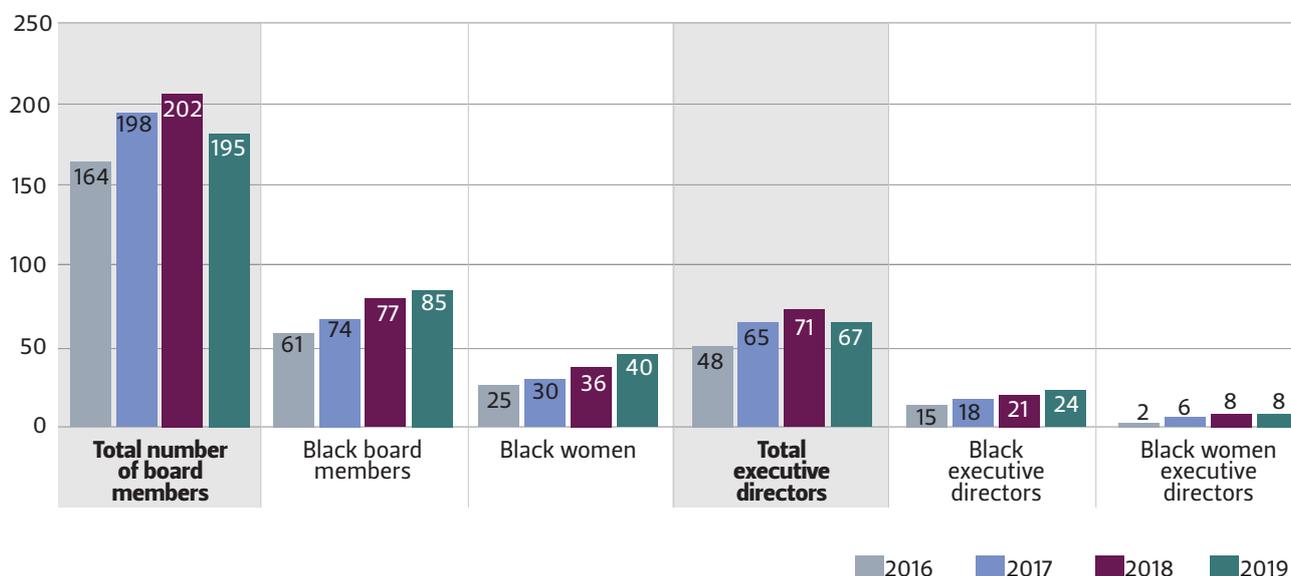
Economic interest of designated black groups (%)



Ubank data was not available for ownership graphs

Management control: board

Number of directors



Number of banks at or exceeding targets (out of 18)

	2016	2017	2018	2019
Banks with more than 50% black board members as a percentage of all directors	3	5	5	7
Banks with more than 25% black women	0	2	5	5
Banks with more than 50% black executive directors	3	2	3	7
Banks with more than 25% black women executive directors	1	1	2	3

The improvement in the number of black women directors continues in 2019, reaching 40 from 36 in the previous year and only 25 in 2016. Black executive directors increased to 24 in 2019 from 21 in 2018 and 15 in 2016.

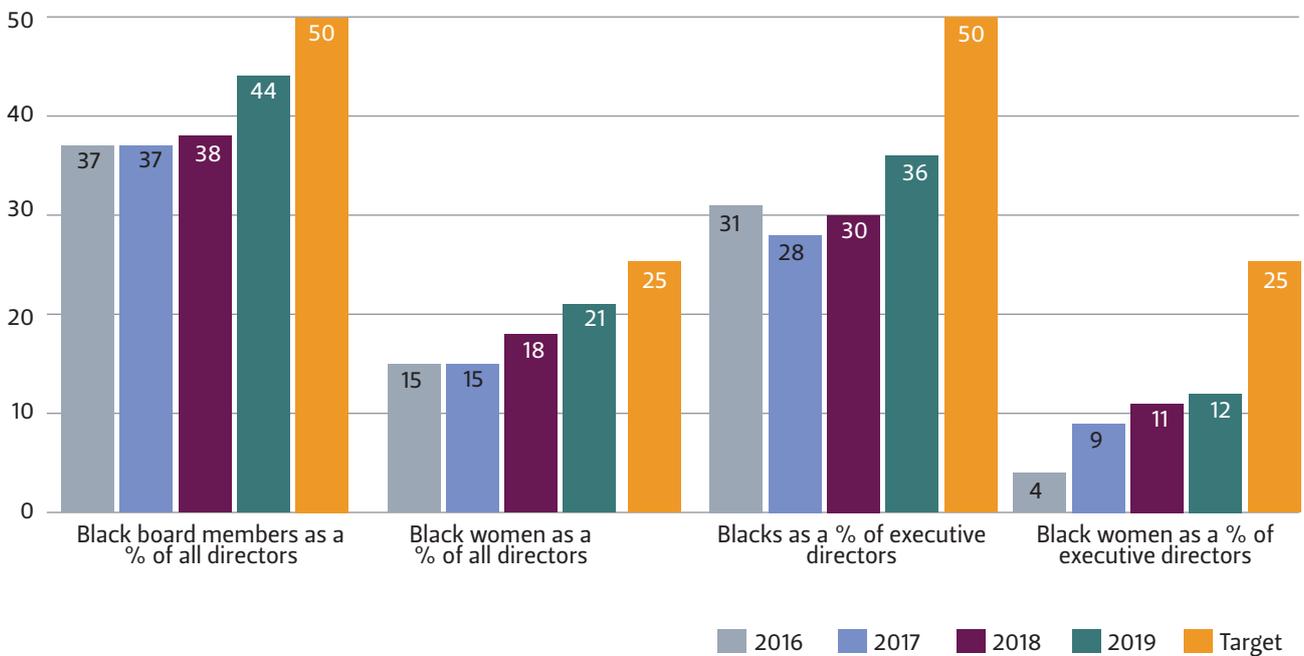
These gains occurred as the total number of board members across banks fell to 195 in 2019 from 202 in 2018. This implies a higher percentage of black directors (see next graphs).



Proportion of black directors

Improvements were recorded in 2019 in all segments. While they are still behind targets, the percentage of black board members out of the total of all directors climbed to 44% from 38% in 2018, closing in on the 50% target.

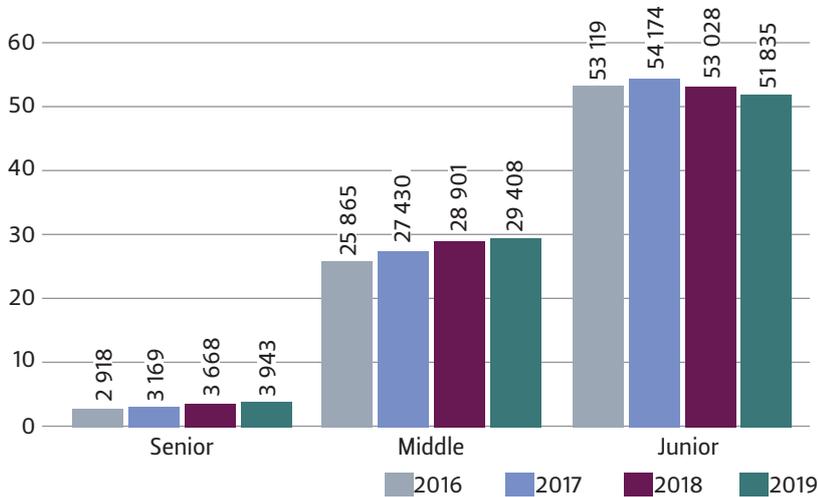
Percentage of black directors



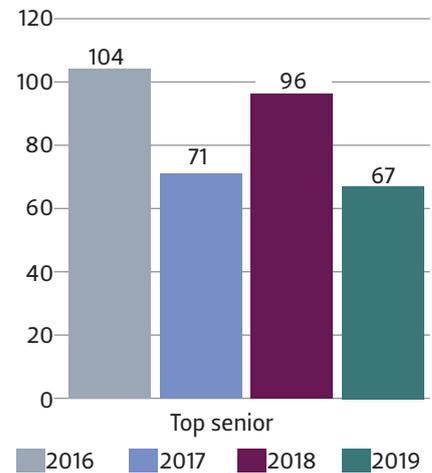
Management control: levels

- In 2019 there are 67 top senior managers who are black, 3 943 senior managers, 29 408 middle managers and 51 835 junior managers.

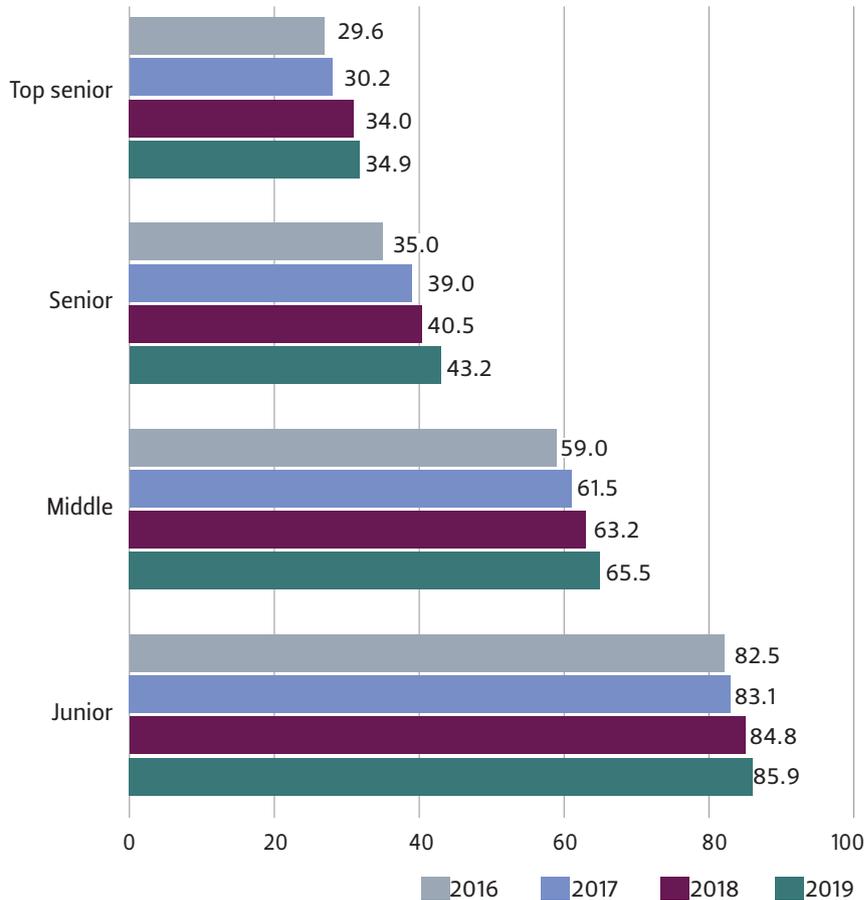
Black representation in management (total number)



Black representation in top senior management (total number)



Proportion of managers who are black (%)



- Black representation increased every year in percentage terms across all management levels.
- At each management level, the percentage of black people in 2019 is the highest on record.

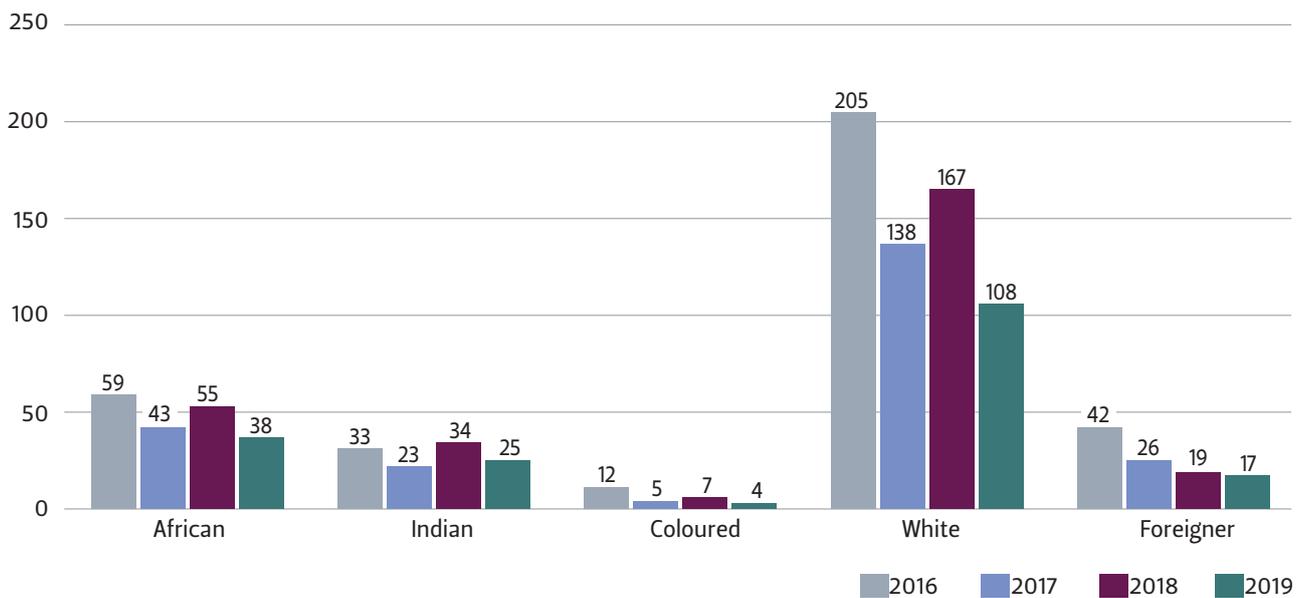


- There were fewer top senior managers across all race groups, with the most marked change being the fall in white top senior managers from 167 to 108.
- In senior management, however, the number of Africans jumped to 1,644 from 1,468, with Indian senior managers climbing to 1,726 from 1,619.

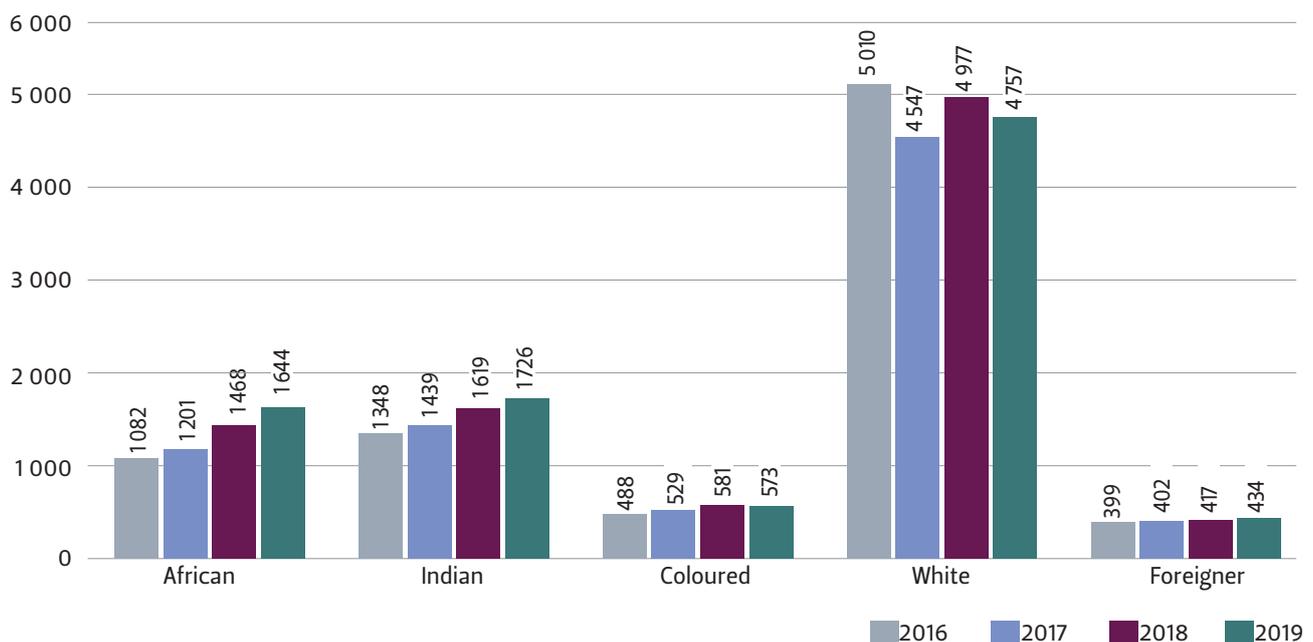
- The number of Africans in middle management continued its strong upward trend in 2019, reaching 15,774 from 15,071 in the previous year. Conversely, the number of whites in middle management has steadily decreased to 14,642.

- For the first time, there are now more African middle managers than white.
- There were small declines in 2019 in the number of junior managers across all race groups.

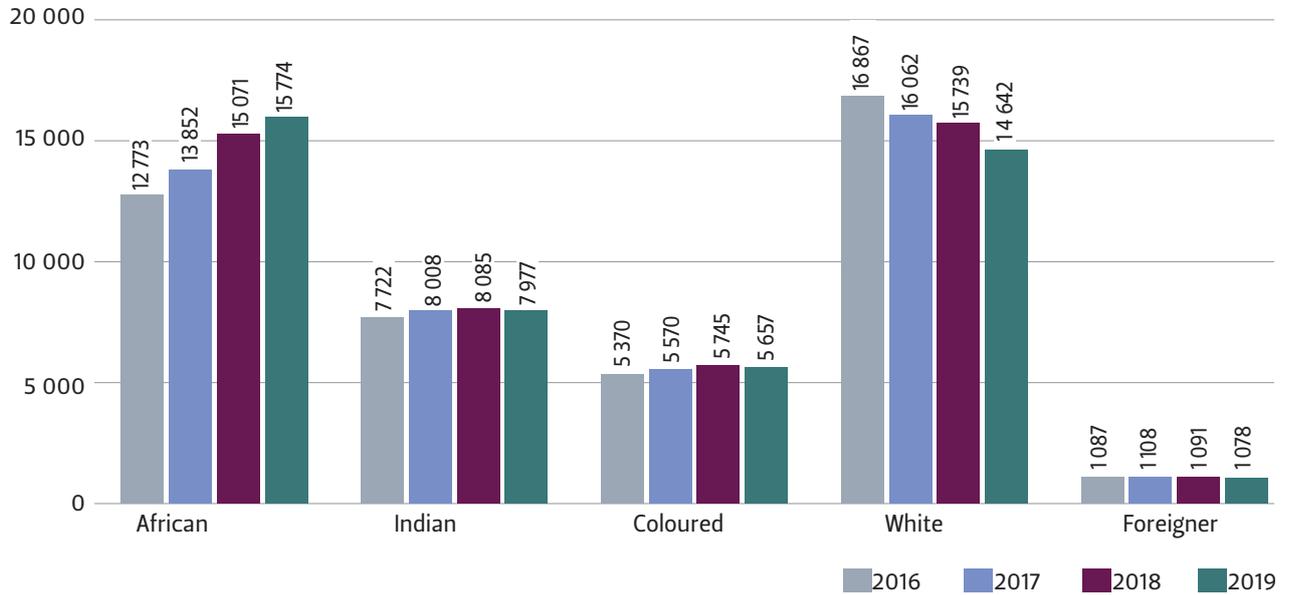
Top senior management



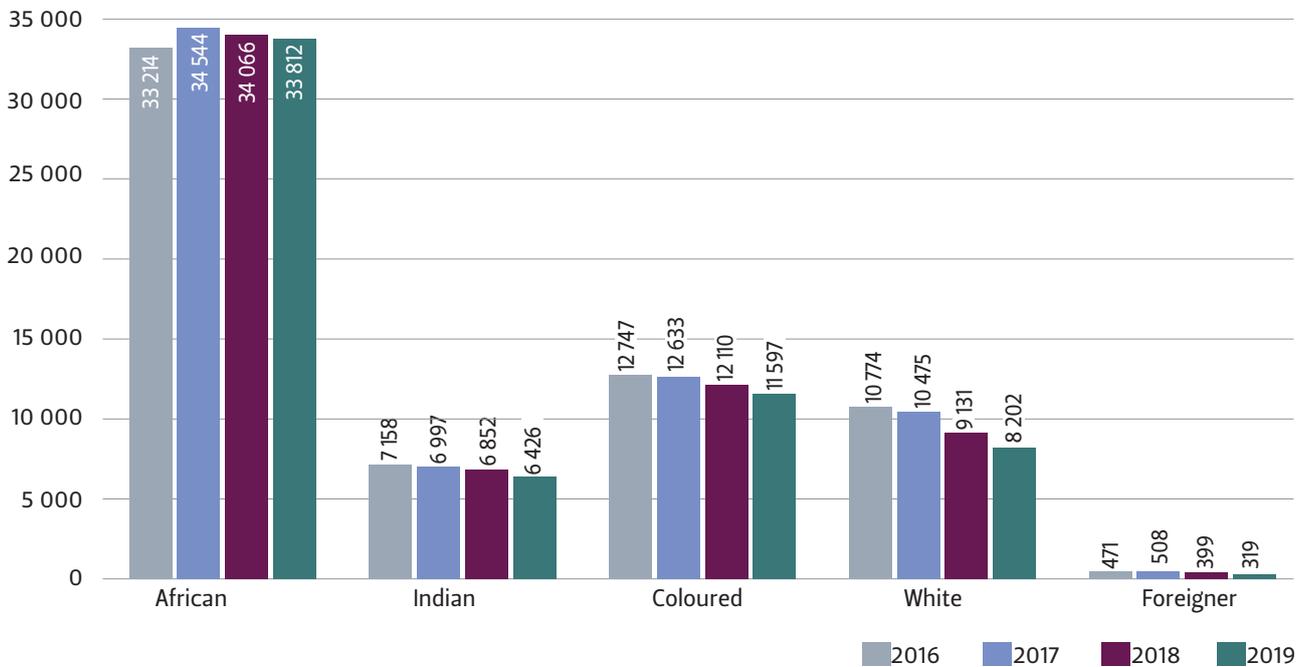
Senior management



Middle management



Junior management



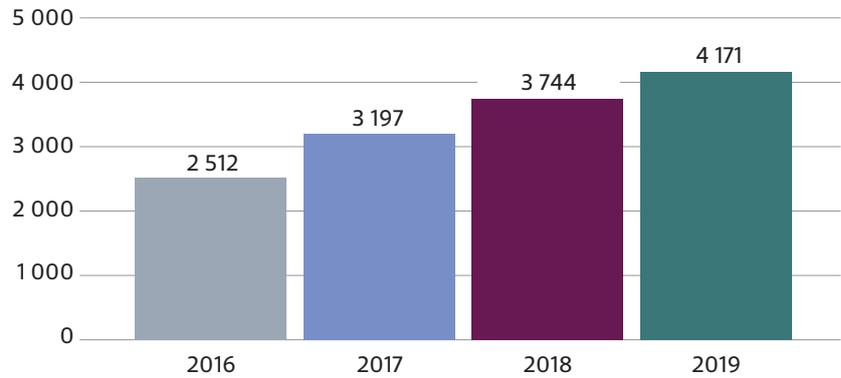


Skills development

(Target: 6% of payroll)

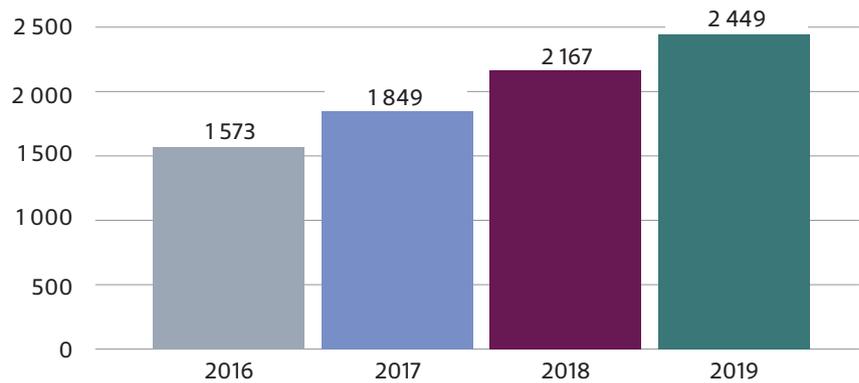
Since 2016 there has been a consistent year-on-year increase in banks' expenditure on black skills development.

Black spend (Rm)



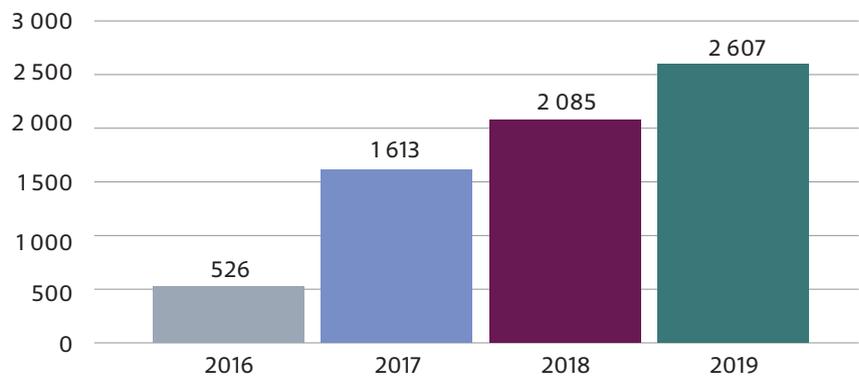
Banks' expenditure on black women's skills development has increased every year since 2016.

Black women spend (Rm)



In a similar vein as the previous two graphs, there has been a steady and substantial increase in banks' expenditure on African skills development since 2016.

African spend (Rm)



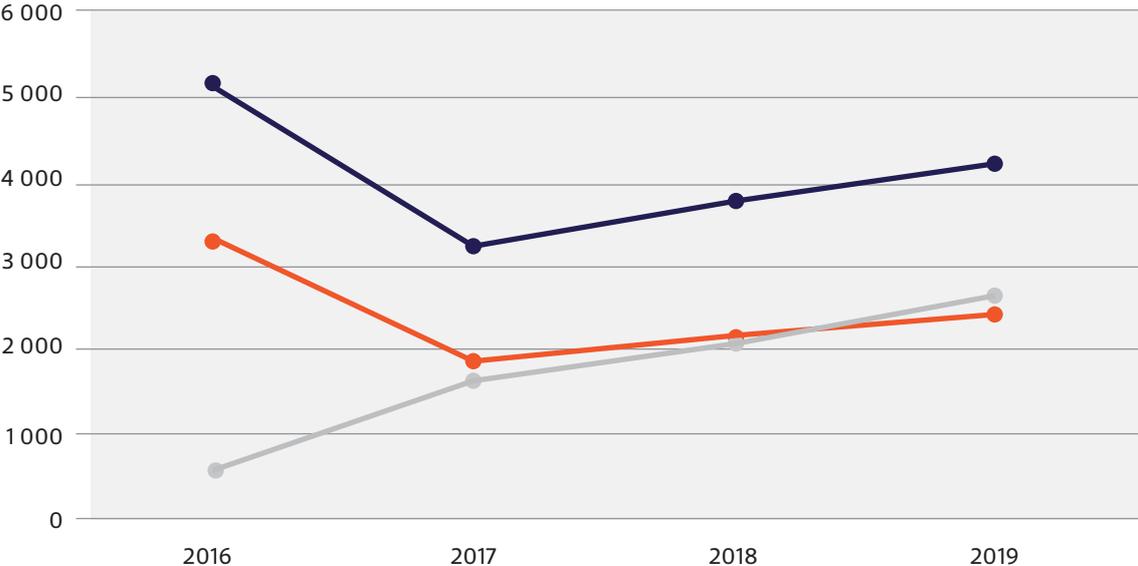


Expenditure on nonmanagement staff skills training increased in 2019, particularly on African staff, while there were spikes in expenditure on unemployed Africans and black women.

Banks spent about R4bn on black skills Development in 2019, 7% more than the previous year.

Notably, more than 60% of banks' spend on skills development of black employees over the past four years has been on black women employees.

Skills development (Rm)



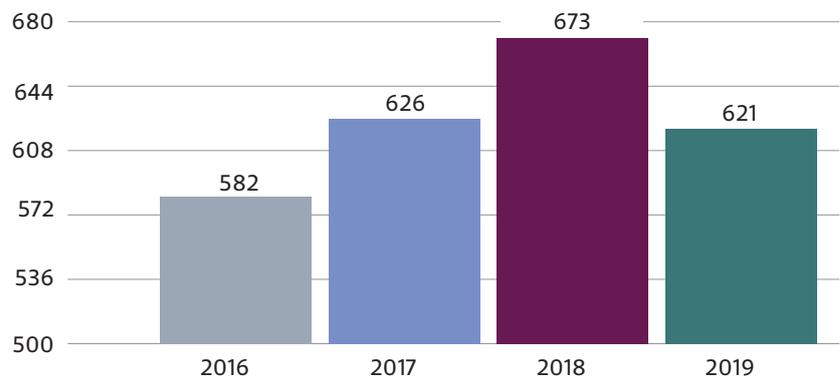
■ Black spend ■ Black women spend ■ African spend



Socioeconomic development

The banking industry's expenditure on socioeconomic development, which includes spending on organisations that predominantly benefit black people, saw a considerable year-on-year increase from 2016 to 2018. However, there was a substantial drop in 2019, largely due to allocation changes by a large bank and several small banks, which brought the expenditure amount below the 2017 level.

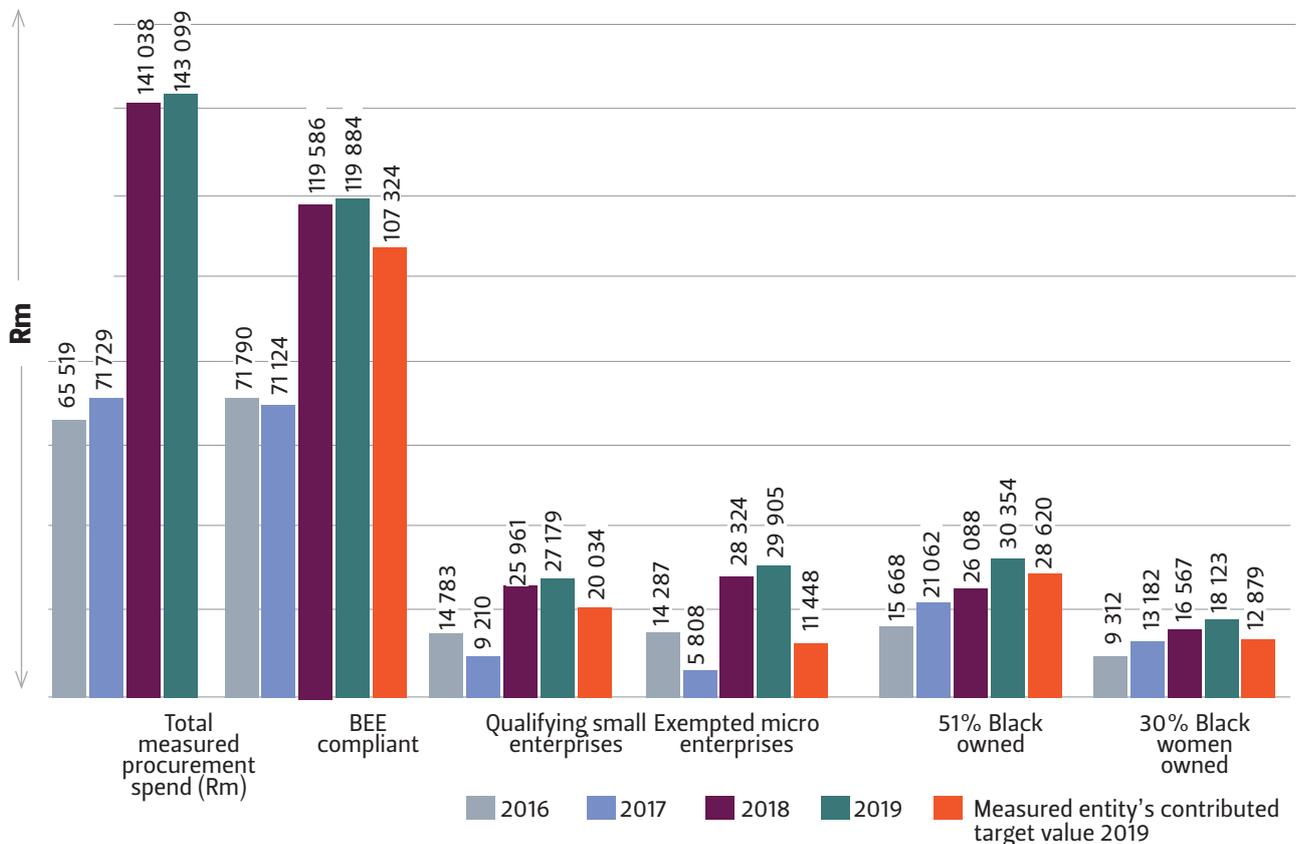
Socioeconomic development spend (Rm)



Preferential procurement

- Banks' total measured procurement spending was up 1.5% from 2018 to R143m.
- Apart from 51% black owned, the segments are well ahead of the targets.

Preferential procurement



Enterprise and supplier development

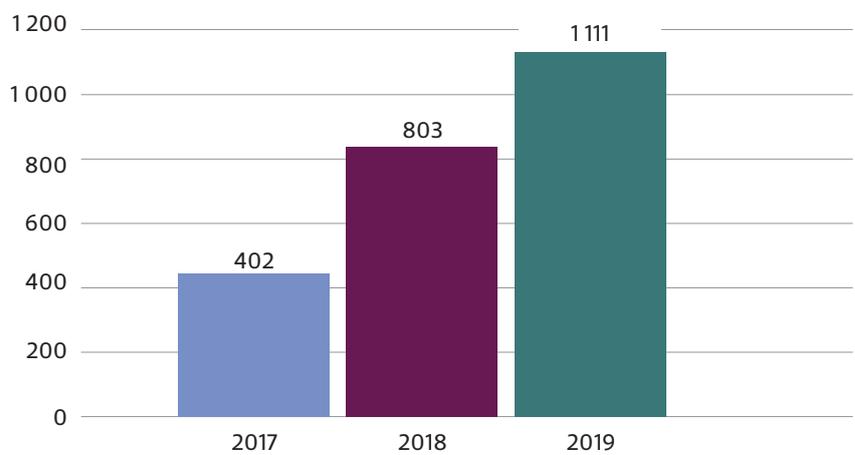
The targets for enterprise and supplier development (ESD) are based on each bank's annual net profit after tax.

The main difference between the two

is that supplier development benefits qualifying entities that are already part of the measured entity's supply chain, while enterprise development benefits entities that are not.

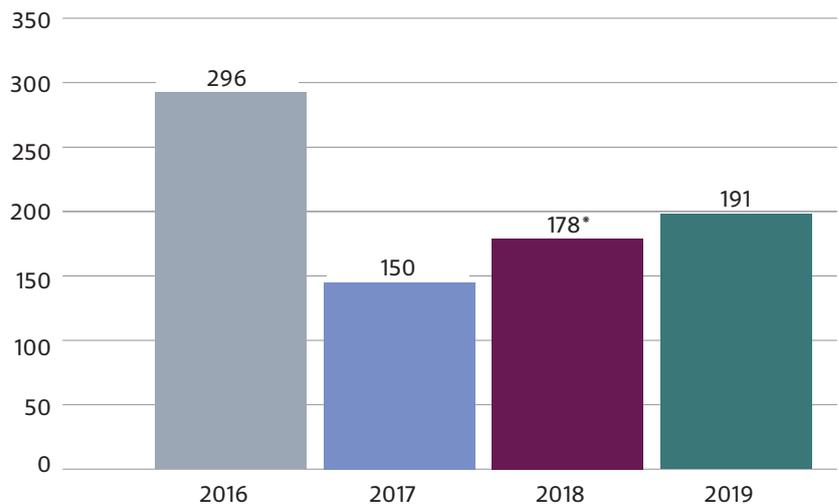
- Supplier development was introduced in 2017; prior to that, related spending was accounted for under enterprise development. Annual increases have been healthy each year, driven by the big commercial banks.
- Targets were 0.9% of NPAT in 2017; 1.35% in 2018; and 1.88% in 2019. Too few banks provided NPAT data for us to determine overall industry targets.
- On a like-for-like basis, contributions grew 39% in 2019 from 2018.

Supplier development (Rm)



Having dropped sharply in 2017 from 2016 with the introduction of supplier development, both major and minor banks have since steadily increased their enterprise development financing.

Enterprise development spend (Rm)



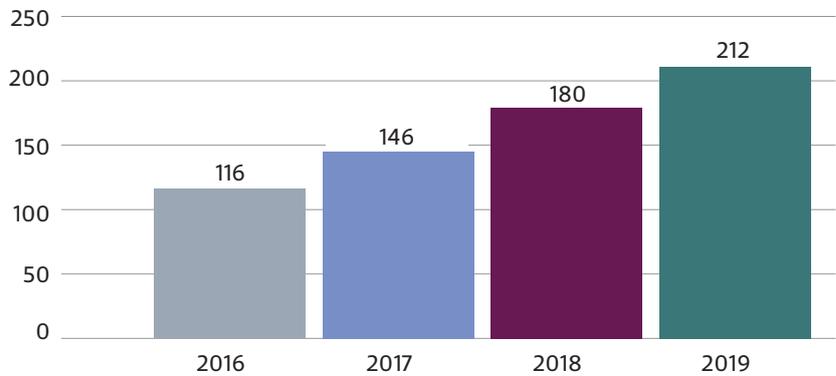
*2018 Figure up from R795m in last year's report due to inclusion of HSBC



Consumer education

Spending on black consumer education climbed 18% from 2018 on a like-for-like basis. This element has seen healthy increases each year, with 2019 expenditure of R212m up from R116m in 2016.

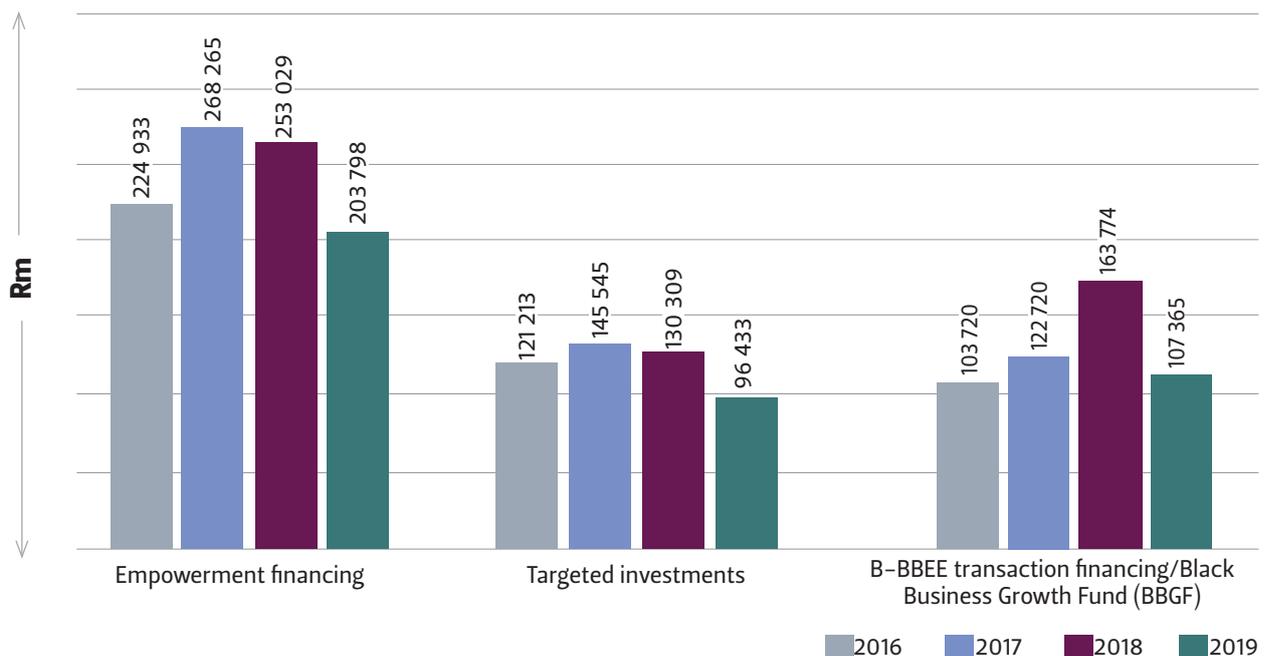
Consumer education spend (Rm)



Empowerment financing

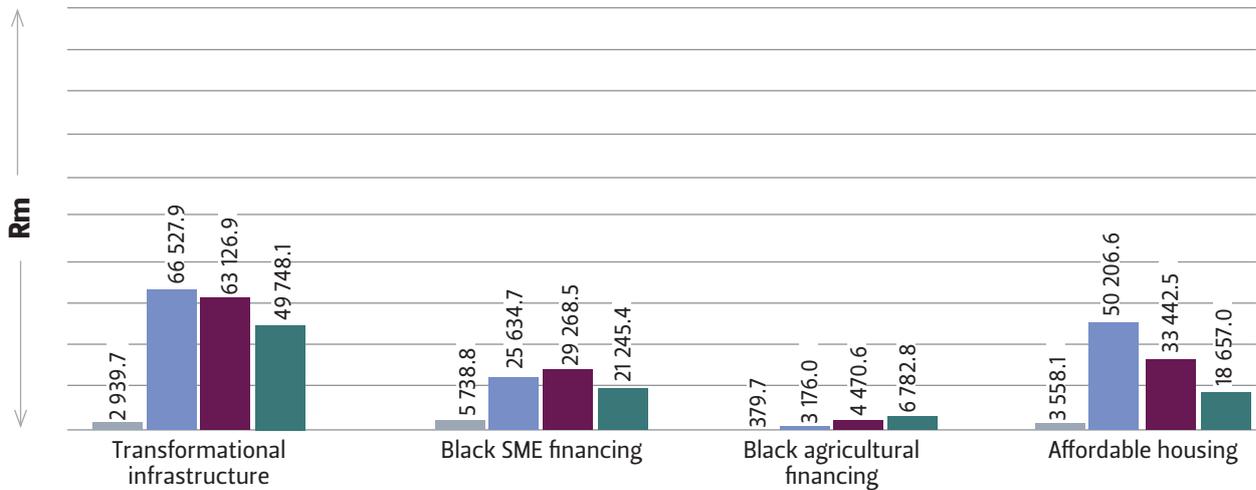
Empowerment financing is made up of cumulative targeted investments and B-BBEE transaction financing. The empowerment financing value is divided between BEE transactions and targeted investments on a 4:6 ratio, spread over a five year period.

Empowerment financing



- The main commercial banks' total balance sheet exposure to empowerment financing has fallen but remains well above target.

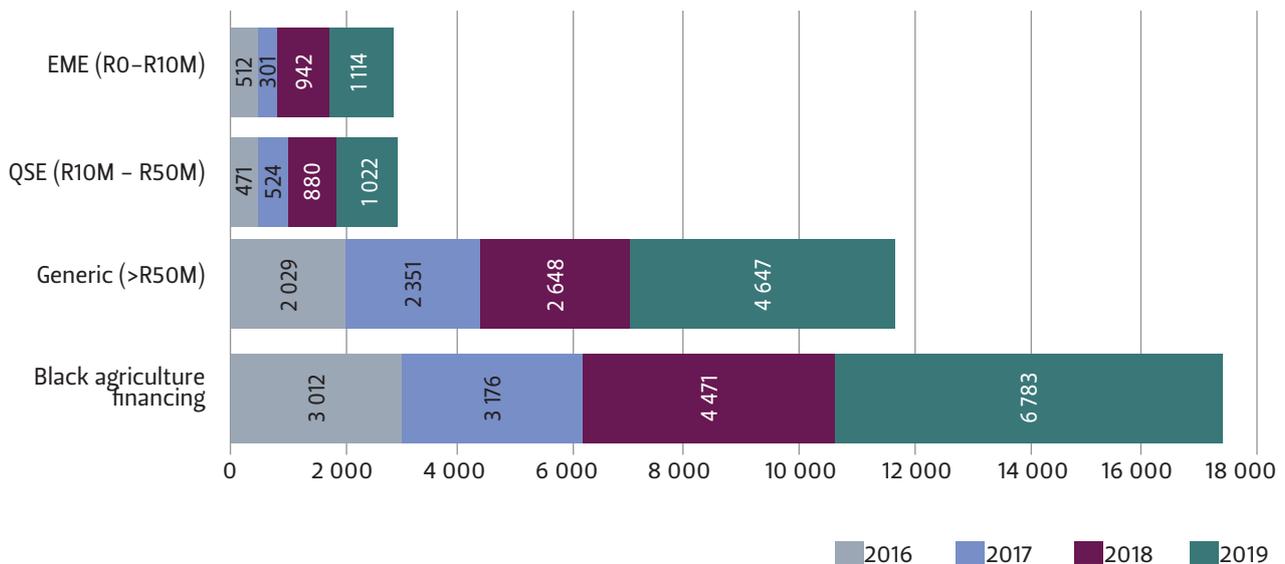
Targeted investments



- There were declines in the financing of all categories, except black agricultural financing.
- The biggest decline was in exposure to BEE deals, which at R107bn is 35% lower than in 2018.
- The black SME financing target is 4% of the overall empowerment financing target.

2016 2017 2018 2019

Black agricultural financing (Rm)



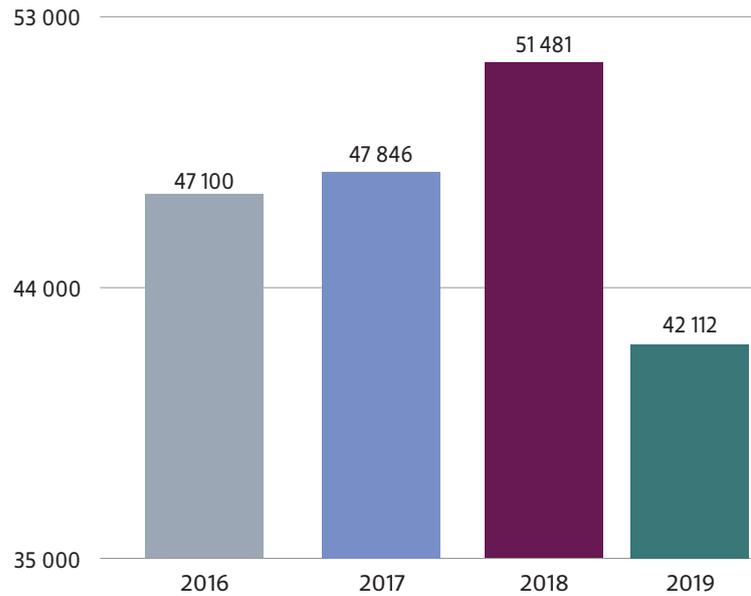
- The bulk of agricultural financing goes to large companies, but the allocations to smaller companies (QSEs and EMEs) jumped significantly in both 2018 and 2019.

2016 2017 2018 2019

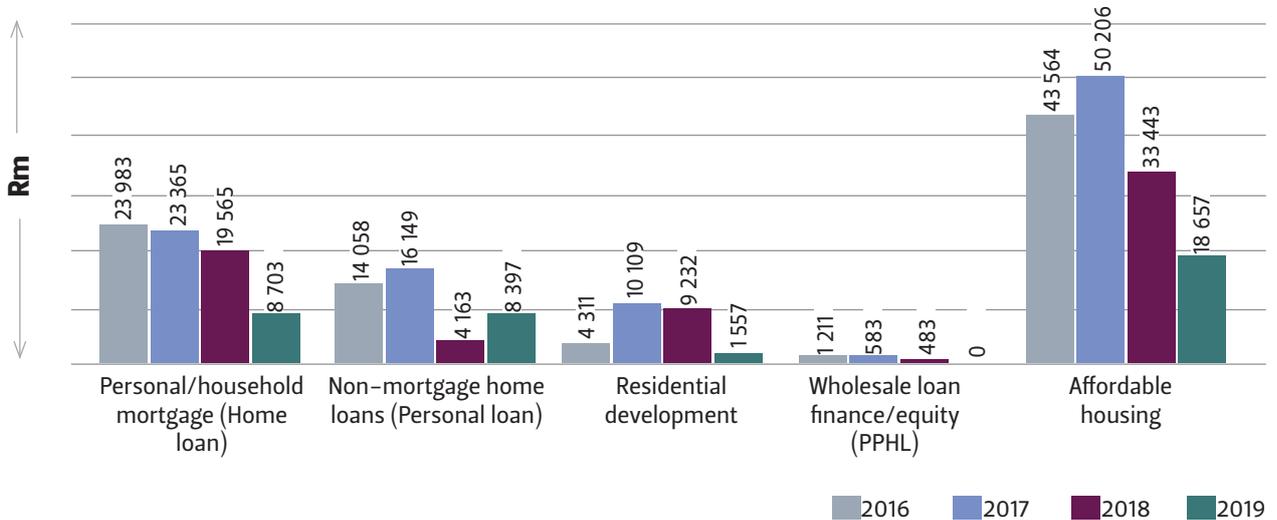


Targeted investments (Rm)

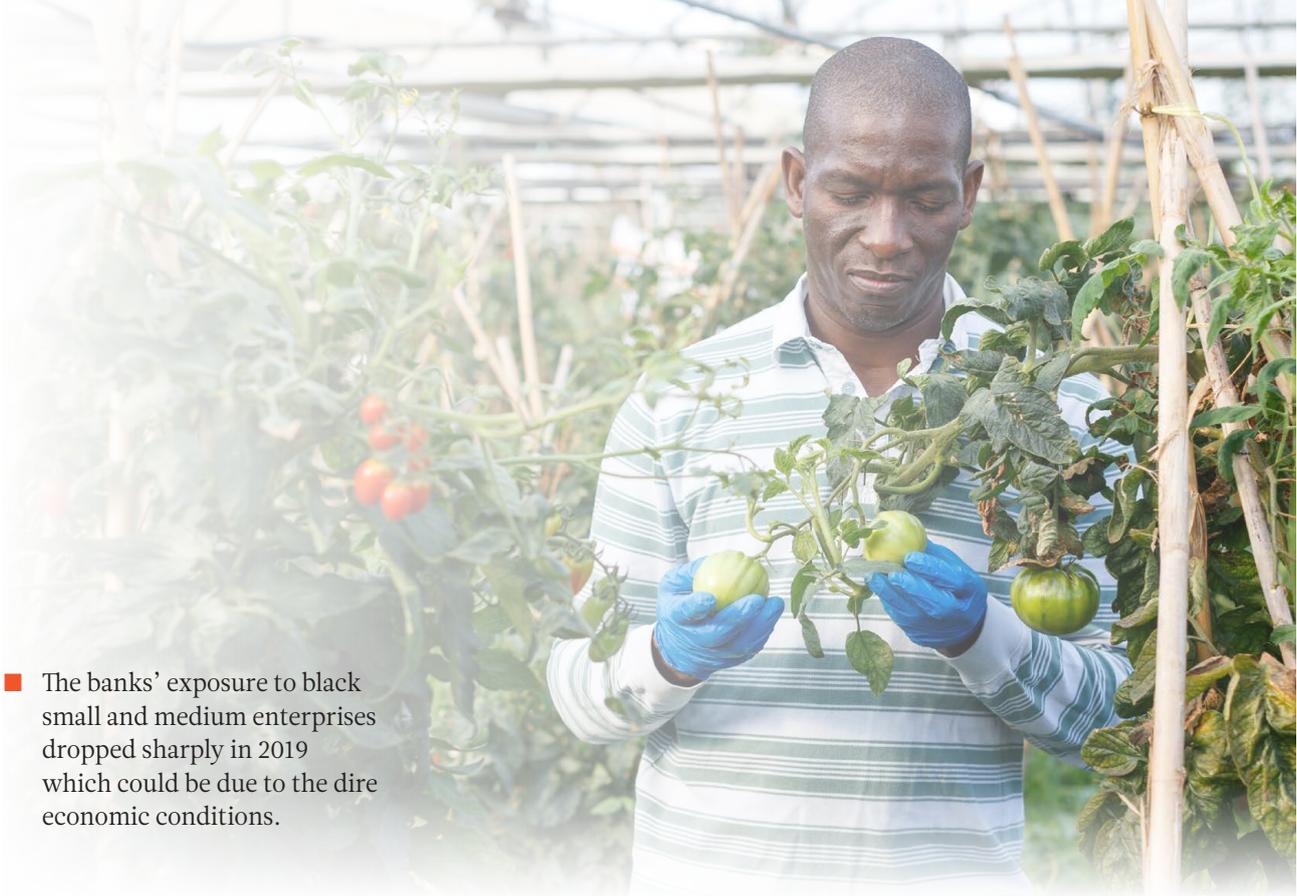
- Transformation infrastructure includes debt financing and other forms of equity investment in South African projects in areas where gaps or backlogs in economic development and job creation have not been adequately addressed by financial institutions.



Affordable housing financing

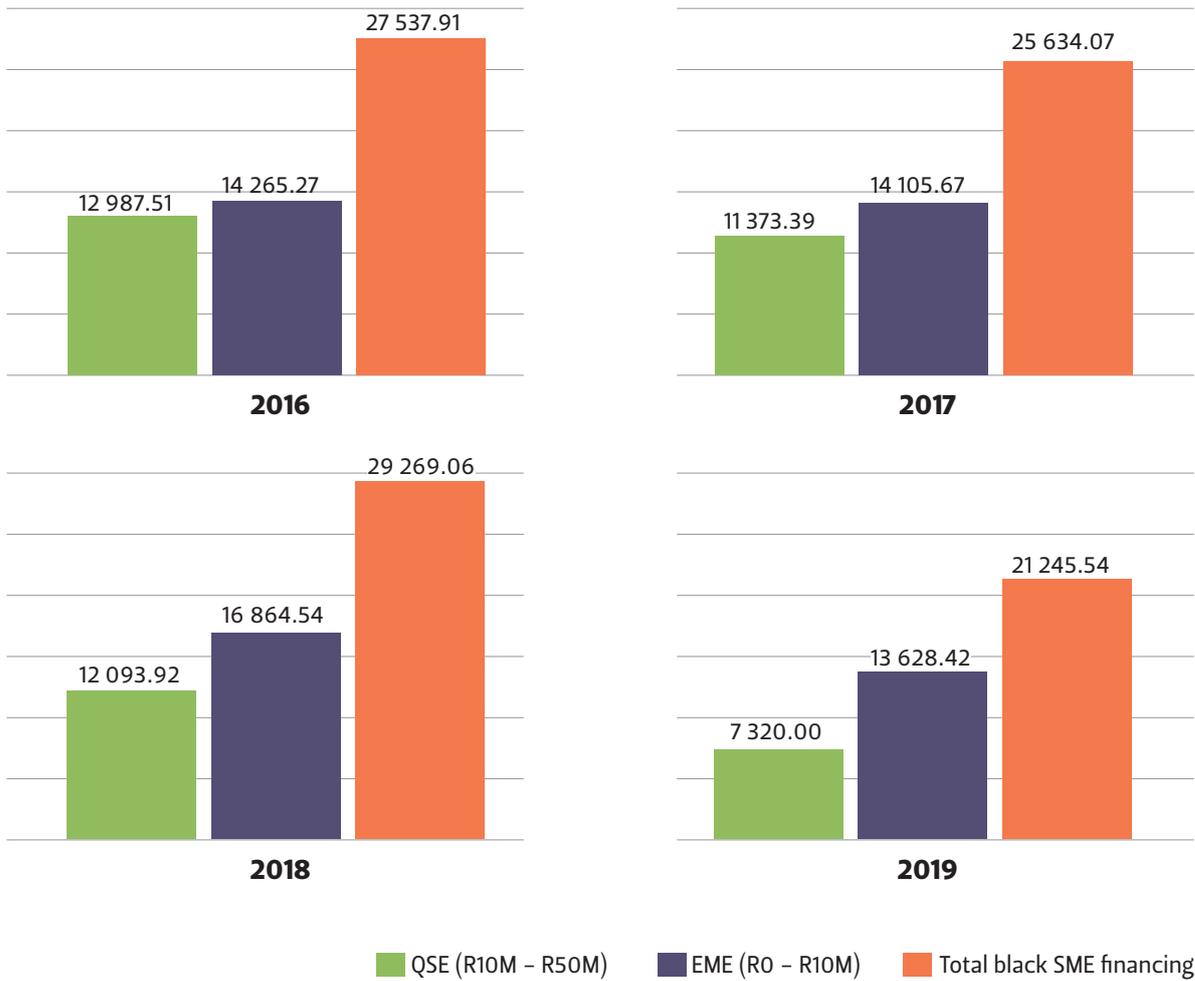


- In 2019 new empowerment financing targets were introduced, therefore only new transactions concluded on or after 1 January 2018 qualified for recognition. That means the big drop from 2018 was inevitable and comparison to the previous year is not possible.

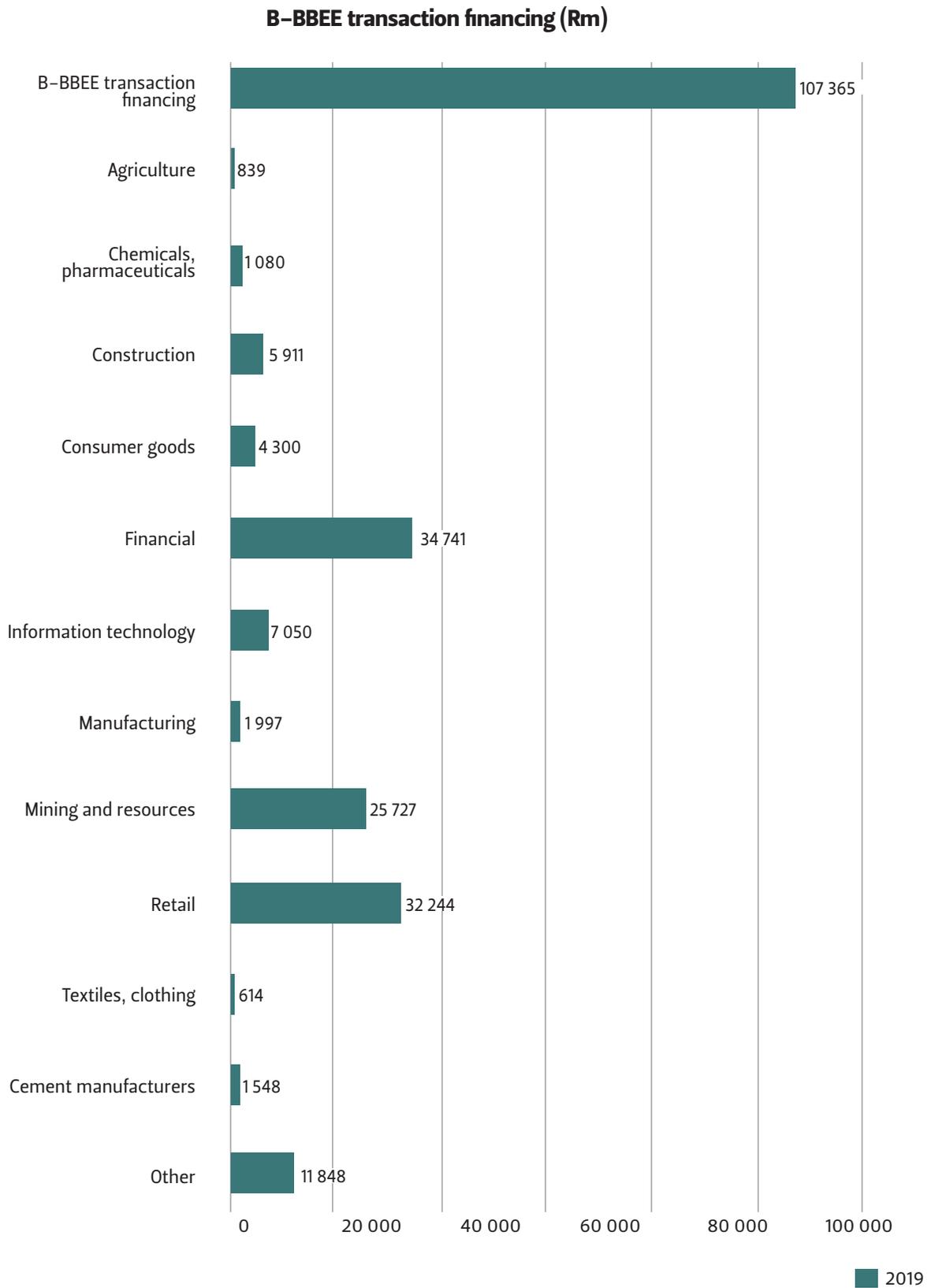


- The banks' exposure to black small and medium enterprises dropped sharply in 2019 which could be due to the dire economic conditions.

Black small and medium enterprises financing (Rm)



- Banks' balance sheet exposure to BEE deals stood at R164bn in 2019, 34% higher than 2018.
- The financial services sector is the largest recipient of BEE transaction followed by mining and resources and retail.



Financial inclusion

One of the long-lasting legacies of apartheid’s system of limiting the majority of the population from being able to participate in the economy is lack of access to financial products and services. In response, retail banks have committed to delivering certain products and services to the underbanked.

Despite challenges presented by legacy systems and the costs of running brick-and-mortar branches, banks have found ways to increase access, for example through entry-level products that carry no monthly fees, or where the fees are subsidised by giving customers monthly data, among other things.

Financial inclusion is measured on three factors: geographic reach, electronic access and product access. Since 2016, banks have come to view this aspect of transformation as an opportunity for growth rather than as a compliance issue and are exceeding targets in all three factors measured below.

Geographic access

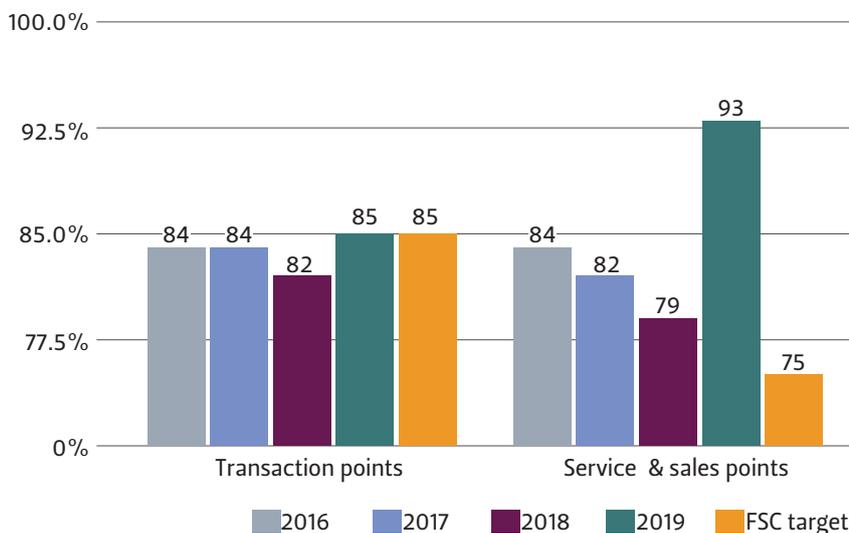
Geographic reach assesses penetration of banking infrastructure into low-income markets defined as those where 50% or more of households fall in the LSM 1-5 categories.

Progress on geographic access is measured on three points of

representation: transaction points, service points and sales points. Transaction points are points at which customers can take cash or make a purchase from their accounts. Service points are points where a customer can reset a pin, execute money transfers, get a statement or initiate account queries.

Sales points are points at which customers can replace a card, deposit cash into their accounts or acquire a transaction account, a funeral policy, a savings account or a loan.

However, in 2019, service points and sales points were merged in the FSC, therefore there is no separate data for sales points for 2019.



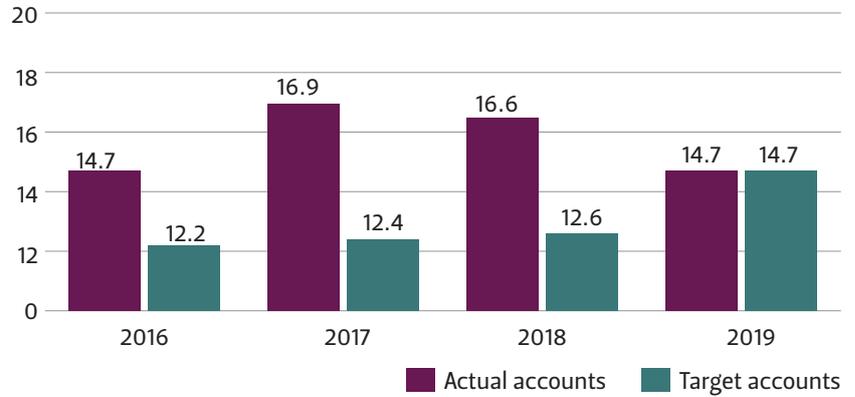
- The banking industry’s performance improved on all three factors in 2019 with a particularly big jump in service points to 93% from 79% in 2018.
- On targets, banks have met the 85% mark on transaction points for the first time while they comfortably exceed the targets for service and sales points.

Product access

This element is measured according to the number of accounts with activity within the last 180 days, based on the level of conformity allocated by the Financial Sector Transformation Council. The target is set annually by the FSC and excludes SASSA accounts.

- The number of active accounts fell in both 2018 and 2019

Number of active accounts for qualifying products (Rm)



Bank's broad-based black economic empowerment levels

Absa	2
African Bank	5
AlBaraka	8
Bidvest Bank	3
Capitec	4
China CBC JHB	NA
Citi	6
Finbond	5
FirstRand	1
Grindrod	2
GroBank	NA
HBZ	NA
HSBC	1
Investec	1
Nedbank	1
Sasfin	4
Standard Bank	1
TymeBank	NA
*Ubank	8

B-BBEE recognition levels		
B-BBEE Status	B-BBEE recognition levels	Qualification
Level 1	135%	≥ 100 points
Level 2	125%	≥ 95 but < 100 points
Level 3	110%	≥ 90 but < 95 points
Level 4	100%	≥ 80 but < 90 points
Level 5	80%	≥ 75 but < 80 points
Level 6	60%	≥ 70 but < 75 points
Level 7	50%	≥ 55 but < 70 points
Level 8	10%	≥ 40 but < 55 points



BASA Financial Inclusion Division: Helping to transform the banking industry

The Banking Association South Africa's (BASA) Financial Inclusion Division is responsible for engaging the industry on meaningful transformation and identifying how banks can significantly contribute towards the social and economic development of the country. BASA's financial inclusion programme focuses on consumer financial education, small and medium enterprise development, corporate social investment, inclusive banking and the transformation of the banking industry.

Draft financial inclusion policy

In October 2020, National Treasury published a much-awaited draft financial inclusion policy for public consultation. To date, the South African financial sector has taken its cue from international financial inclusion benchmarks, with domestic policy direction scattered in various government frameworks. The draft policy document broadly prioritises:

- Deepening financial inclusion for individuals;
- for small, medium and micro enterprises;
- Leveraging a more diversified provider and distribution base.

BASA is engaging with policymakers and other stakeholders as it responds to the draft.

Consumer Financial Education



The National Consumer Financial Education Committee (NCFEC), chaired by National Treasury, was established to encourage active involvement and collaboration in consumer financial education. One of its flagship projects is the Money Smart Week South Africa (MSWSA) campaign aimed at improving financial literacy and consumers' ability to make good financial decisions. BASA participates actively in both the NCFEC and the steering committee of MSWSA.

The MSWSA campaign was cancelled in 2020 due to the Covid-19 pandemic. Instead, the NCFEC coordinated information about Covid-19 relief and support measures offered by financial services providers. It launched a monthly Money Smart newsletter which educated consumers about banking, insurance, investment and consumer rights. Financial

education material was also distributed in collaboration with the Government Communication Information System (GCIS).

BASA also rolled-out a tailor-made financial education radio programme in collaboration with the South African Insurance Association, the Financial Advisory and Intermediary Services Ombud and the National Stokvel Association of South Africa. The initiatives explained Saswitch fees, Covid-19 social grants, payment holidays, credit insurance and consumers complaint processes. This programme reached over one-million listeners of community radio stations in North West, KwaZulu Natal, Gauteng and Mpumalanga.

Banking Association South Africa's Financial Inclusion Division is responsible for engaging the industry on meaningful transformation and identifying how banks can significantly contribute towards the social and economic development of the country.

StarSaver is BASA’s flagship financial education programme targeting school pupils. StarSaver rolled out a digital consumer financial education programme – www.Starsaver.co.za – covering topics such as using ATMs safely, entrepreneurship and savings and investment. The campaign reached more than 560,000 social media users and achieved 840,075 impressions, through Instagram, YouTube, Facebook and Twitter. Later in the year, the campaign was repeated in collaboration with Old Mutual and it reached 535,548 learners.

In collaboration with the South African Banking Risk Information Centre (SABRIC), BASA ran a “Banking Safe” radio and television campaign during the festive season. Topics covered included ATM and cash safety, deposit and refund scams and mobile banking. The total listenership of the community radio stations that participated in this campaign was 2,910,000. The SABC sessions were uploaded on its YouTube channel, which has over one-million subscribers.

In 2020, the Financial Sector Conduct Authority (FSCA) published a discussion document: “Ensuring Appropriate Financial Consumer Education Initiatives”, which is believed to be a precursor for a financial education conduct standard to be issued at a later stage. The discussion document, among other issues, covered: governance; financial education initiatives; monitoring and evaluation; and branding. BASA submitted initial comments and is open to continuous engagement on the discussion document.

Enterprise Development



The Covid-19 pandemic and lockdown has had a devastating impact on micro, small and medium enterprises (MSMEs). The lockdown turned a health crisis into an economic one. Banks launched several initiatives to alleviate the plight of their customers, more specifically MSMEs. This relief ranged from payment holidays to the state-backed Covid-19 Loan Guarantee Scheme. And of course, as part of their usual business, banks offer relief to their customers who are in financial distress, such as debt restructuring services.

BASA partnered with Finfind on the South African SMME Covid-19 Impact Report, which was launched in early December 2020. This is in addition to other ongoing work to better understand the key challenges that banks are facing when lending to small businesses during the pandemic.

There are also ongoing engagements with other stakeholders such as National Treasury, the Department of Small Business Development, provincial governments and other industry associations. The focus of these engagements has been on creating ways to support MSMEs, improving existing initiatives and identifying what assistance will be necessary in future. Among the many vexing questions is support for informal businesses – a substantial part of the MSME universe that cannot be overlooked but which is excluded from most of the available assistance from government and banks, as they are not formally registered.

Transformation



BASA is represented on the Financial Sector Transformation Council (FSTC), which is the custodian of the Financial Sector Code (FSC). There has been concern for some time



Among the many vexing questions is support for informal businesses.

about the FSTC's effectiveness in carrying out its mandate. Weaknesses include a lack of effective leadership, weak governance frameworks and a shortage of funding. BASA is participating in efforts to ensure that the FSTC becomes an effective, well-governed and adequately resourced institution, which includes reviewing its memorandum of incorporation.

Other challenges to successful and sustainable transformation on the BASA agenda include:

- The parliamentary report on transformation in the financial sector instructed that a review of the FSC, which should have taken place from December 2018, be urgently completed. However, the review of the FSC is progressing at a slow pace given the diverse positions of the constituencies. The interruptions due to Covid-19 also prevented some constituencies from participating in the review until August 2020.

- The Department of Trade Industry and Competition (DTIC) has concluded drafting a guidance note that outlines the processes, principles and standards for international banks to be able to use equity equivalents to contribute towards transformation, in lieu of black ownership. The guidance note was adopted by the FSTC and is published on its website. BASA continues to engage the DTIC to ensure that the approval processes are expedited, that member banks that have applied are not unduly affected and that the proposed investments reach their intended beneficiaries.

- Financial sector trade associations, including BASA, made a joint submission to the Department of Employment and Labour on the proposed sector targets in anticipation of the Employment Equity Bill being passed by parliament. A result of frustration with the slow pace of transformation, the Bill empowers the minister to set employment equity targets and determine sanctions for non-compliance. The essence of the BASA submission was that employment in the sector has been stagnant for the past four years, a situation which is likely to be worsened by the Covid-19 pandemic. Stagnant headcount limits the scope for accelerating employment equity.

The trade associations urged the department to take this, among other factors, into account in determining the sector targets and setting the timeframes within which to comply.

Economic Development



One of the Jobs Summit outcomes binds the financial sector to contribute R100 billion, through the FSC, towards the preservation and creation of jobs. However, stakeholders at Nedlac have yet to reach agreement on the principles to guide the distribution of the funds. BASA is engaging its social partners at Nedlac with a view to removing stumbling blocks to implementing this Jobs Summit commitment.

For BASA financial inclusion submissions and reports, please go to www.banking.org.za. ■



Banking Association South Africa
3rd Floor Building D
Sunnyside Office Park
32 Princess of Wales Terrace
Parktown
2193

www.banking.org.za