**THE BANKING ASSOCIATION SOUTH AFRICA SUBMISSION ON TRANSFORMATION IN THE FINANCIAL SECTOR**

**14 MARCH 2017**

*Oral Submission by Mr. Cas Coovadia - Managing Director*

Chairperson of the Trade and Industry Portfolio Committee, Ms Joan Fubbs;

Chairperson of the Standing Committee on Finance, Mr Yunus Carrim;

Honourable Members of Parliament, representatives of government departments and regulatory institutions, representatives of banks and other private institutions and those of civil society.

My name is Cas Coovadia, Managing Director. The BASA delegation is comprised of:

* Yacoob Abba Omar, the head of Strategy and Communications;
* Khulekani Mathe, the Head of Financial Inclusion;
* Thabo Tlaba-Mokoena, who represents BASA on the Financial Sector Charter Council.
* Beverly Reyneke, who heads Shared Services in BASA

Some of our member banks are present, represented by their CEO's, who will also present later today. I will be presenting a summary of the written submission and then concluding with what we at BASA believe are the key questions which need to be addressed by the process we are embarking on. The member banks will be presenting on issues they would like to highlight as well.

1. **INTRODUCTION**

BASA has addressed both your committees on numerous occasions and we take your oversight role very seriously. We believe we are at a critical juncture in our country where we face challenges that are perhaps as complex as those we faced during the struggle against apartheid and in the negotiating process.

BASA and its member banks believe that the conversation our country is going through today is as crucial as the process which led to the ushering in of a democratic order based on one of the finest constitutions in the world. The reality of low GDP growth and the prospect of this continuing for some time, high unemployment, growing levels of poverty and increasing inequality in the context of an uncertain global environment require the same level of robust debate and commitment to the national interest as our founding mothers and fathers, brothers and sisters showed in the early 1990s.

*Joint Chairpersons,*

As the banking industry, our starting point is that much progress has been made across sectors and as a country we must celebrate our successes without burying our collective heads in the sand about the remaining challenges. In our submission, we have argued that any suggestion that the banking industry is the least transformed industry or refuses to transform is incorrect, and the data we present bears that out. That does not mean that we are satisfied with the current situation – far from it. However, it would be tempting to address only the little cogs in the wheel of Charters and Codes, when we do not address the actual wheel, the transformation of the economy.

You will find, members of the committees, that we are very keen on engaging with that dialogue so that we improve the performance and size of our economy in an inclusive manner.

1. **WHO IS THE BANKING SECTOR**

Let us begin by answering the question: who are the ‘banks’? We represent an industry that:

* Is made up of 36 banks licensed by the South African Reserve Bank, with 34 being members of BASA
* Manages 4.8 trillion Rands in assets
* Enables customers to make 446 million ATM transactions pa. This requires substantial amounts of cash to be loaded into ATM's and, given the security situation in our country, we spend in excess of R1 billion per year to protect the cash on behalf of the nation,
* Enables and processes 195 million debit card transactions (2015 figures) and nearly 900 million EFT transactions per year
* Lends R530 billion to government in bonds and Treasury bills
* Invested R58 billion (64% of locally sourced debt finance) in the Renewable Energy Independent Power Producer Programme, which means we enabled the creation of a new industry that did not exist in our country before 2011
* Employs 153 846 people; and contributes upwards of R20 billion in corporate income tax since 2005;
* Has invested in R993 billion in 1.2 million property transactions since 2007
* Has generated R57 billion in value accruing to BEE shareholders

Let us also be mindful of certain myths: The banking sector displays similar patterns to the ownership patterns in the JSE: the largest share – 49% - of the top six South African banks is owned by foreigners, 34% is owned by Institutions like pension funds, including the PIC and the remaining 17% is owned by all other categories of investors, including individuals. The figures also show that in 2016, for the first time, black ownership on the JSE at 23% surpassed white ownership at 22%. ***I trust these figures will go a long way towards dispelling the “white monopoly capital “myth.***

We must acknowledge that government’s regulatory efforts, and the sound business practices of banks, has helped ensure the overall improvement in the World Economic Forum ranking of our country’s financial sector to being the 2nd most sound sector in the world. Further, we have also improved our ranking in terms of meeting the needs of business, access to loans, while affordability of our financial services ranked at number 27 out of 138 countries.

**3. THE REGULATORY ENVIRONMENT**

A key point we all need to appreciate is how highly regulated the banking sector is, limiting the areas in which they can compete. Despite this, individual banks will tell you they compete rigorously on product offerings, branding and other services. One of the key functions of the SARB Bank Supervision Department is to protect the depositor, who entrusts his/her/their funds to banks. SARB checks everything banks do, including the approval of directors on their boards and the type of products offered to the consumer. Banks have to submit daily, weekly, monthly reports on everything they do. The SARB conducts on-site supervision, has regular engagements with boards and senior managers and control the amount of capital and liquidity banks have to hold.

**4. TRANSFORMATION OF THE FINANCE SECTOR**

As in various sectors of the economy, there remains much to be done in transforming the banking sector, but we must acknowledge the journey that we have been through thus far. In the written submission we trace the journey of transformation since 2003, when the sector voluntarily signed a transformation charter before the transformation codes were promulgated, all the way through to the 2008 review of the Financial Sector Charter Council

***What we would like to emphasise here is that the banking industry is not resistant to transformation and a careful analysis will show that compared to other sectors, the banking industry has performed very well.***

The written submission then goes into details of the transformation journey from 2012 to 2015/6. Much of this has been gleaned through member submissions to BASA. We are going to highlight just 4 major areas of concern:

* *Management and control:*

***Our written submission shows that black people constitute the majority of all managers in the banking industry***. Most of the gains have occurred at the junior to middle management levels. The top management level remains a challenge, despite the effort put into addressing this aspect. Also, Black board members and executives is the area where progress has been slow. Furthermore black women make up 8.4% of the total women in senior management positions in the banking industry, which is below the target of 10%. Employment equity remains a critical area despite the many initiatives undertaken by various banks. As indicated earlier, it is an area in which many other sectors are struggling, which indicates a need for government, business and labour to engage in dialogue with a view to finding a solution.

* *Preferential procurement and empowerment financing:*

In terms of preferential procurement, the banking industry outperformed the current target with a combined amount of R200 billion spend on black-owned and black women-owned enterprises. Procurement spend on all measured categories has been on the rise in the period from 2012 to 2015, with Total Measured Procurement spend rising from R38 billion in 2012 to R60 billion in 2015.

Between 2012 and 2015, banks spent R69 billion on transformational infrastructure; R41 billion on Black SME financing; R7 billion on black agriculture financing; and R94 billion on affordable housing. Our written submission provides details that demonstrate the significant role played by banks in the residential property market, especially at the lower end, below R600 000.

A critical challenge for our country is the development of SME's, which then contributes to job creation. The banking sector' s financing of Black SMEs rose from R5 billion in 2012 to a high of R15 billion in 2014, but had fallen back to R9 billion by 2016, which reflects the current tough business environment. It is also important to note the sector provided R 14 billion financing to Black SMEs with a turnover below R1 million. This financing enables ordinary entrepreneurs to feed families and educate their children.

* *Home Loans:*

On the other hand, the value of home loans, including mortgages, has been on the rise for the past 3 years. In our written submission we provide a detailed breakdown of the property market. We go into detail on this aspect in our written submission especially because the impact this has on the most vulnerable sections of our society.

A broad spectrum of people have accessed home loans, including mortgages, from households earning below R600 000 to properties below R 300 000. This spectrum includes people who seek finance for government subsidized properties. We are also working extensively with the Department of Human Settlements to address the "gap market".

* *Access to financial services:*

The latest FinScope Survey (2016) shows that 77% of adult South Africans over the age of 18 have bank accounts, compared with 46% in 2004. In 2014, only 26% of adults in Sub-Saharan Africa owned accounts with formal financial institutions. This makes South Africa one of the best performers on this measure of financial inclusion compared to other emerging markets. We need to work together to increase the usage of accounts opened, so that account holders are able to transact. This is essentially a symptom of low economic growth and very little disposable income. Other challenges remain in relation to the usage of financial services. What this means is that it is not enough merely to have a bank account, using the bank account to access other financial services such as saving, credit, insurance, etc. is the next frontier. It talks to the need for collaboration between various players in the financial sector, similar to the one that led to the creation of the Mzansi account. This, we would argue, is best facilitated by the Financial Sector Charter Council, with the approval of competition authorities.

**5. REVISED FINANCIAL SECTOR CODE**

As I have stated before, there must be no doubt about the banking industry’s commitment to growing the economy and transforming this sector – we recognise this as a national and business imperative. As an active member of the Financial Sector Charter Council we have actively participated in the development of a revised Financial Sector Code (FSC) that is largely aligned to the Department of Trade and Industry’s (dti) generic codes on principles and definitions. There are, however, some deviations.

As in the generic codes, ownership, skills development and enterprise supplier development (ESD) are the priority elements. Banks and life offices have proposed their ESD funding targets under the Empowerment Financing pillar as their third priority element. This is mainly because banks and life offices contribute to the broad-based empowerment process through activities, as opposed to downstream beneficiation. ***It is noteworthy that respondents to a KPMG survey in 2013 highlighted the ownership pillar as the most costly to comply with and the employment equity as the most difficult to achieve. This indicates that an economy-wide conversation about the issues that impact on these difficult pillars is necessary, with particular reference to the financial sector as well.***

We detail the progress made in agreeing alignment to the revised Codes in our detailed submission. I note the commentary on the Financial Sector Code in some quarters. It is our view the Financial Sector Code, after revision for alignment to the Generic Code, stretches the sector to make significant inroads into transformation. It must be noted that all constituencies, which include the sector, black interests in the sector, labour, community groups, DTI, NT and the Presidency, have agreed the aligned Code at the Financial Sector Charter Council. It is an objective reality that the financial sector has important particularities, as compared to other sectors, that must inform its Code. These include regulations, its role in the economy, its global connectedness, its ownership structure because of its particular role and the way in which institutions have to raise capital on a regular basis. We would thus appeal to the Minister of Trade and Industry to gazette the Code without further delay!

***We welcome the endorsement by the Minister of Finance of initiatives at Nedlac to convene a Financial Sector Summit sometime this year. We believe this will provide a platform for deep reflection on what has been achieved, and what remains to be done and agree on a way forward*.**

**6. OVERALL COMMENT ON PERFORMANCE**

*Joint Chairpersons,*

The period between 2012 and 2015 has been challenging on many fronts. The South African economy recorded one of its worst performances with both business and consumer confidence taking a huge knock. Credit impairments have remained stable but credit extension has been muted due to the myriad of regulatory changes, the collapse of African Bank and the poor socio-economic conditions. Transformation is difficult under the best of conditions, and becomes even harder when there is a general underperformance in the economy.

*Honourable Chairpersons,*

This conversation you have initiated must keep in mind where we want our economy to be in ten years. Transformation must not be a catch all for all ills of society. In achieving transformation we must not see that as a trade off with the effective functioning of this very competitive and critical sector, in which confidence must be maintained. We must, together, discuss how we shape the global regulatory mechanisms in such a way that meets the needs of the developing world, where compliance must be in the interests of all of society.

In conclusion we must reiterate that having sound financial and banking systems is important for the well-being of the economy, particularly its most vulnerable. We have detailed, in our written submission, the role banks play in the economy and the transactional activities of ordinary people the sector's infrastructure enables. We have detailed the number of transactions banks process on a daily basis, the use of bank infrastructure for trade and transfer of funds, the role banks play in payment of social grants, the contribution of banks to social development and the progress we have made in transformation. We must, as a country, recognize that banks are businesses that must be profitable, and relevant to the majority of people in our country. We have shown the severe impact on an economy, and thus on the poorest in such economy, when banks fail. We have also talked to the reality of regulations that govern banks. We have thus attempted to explain the centrality of the banking sector in socioeconomic growth and development and progress in transformation.

***All of this must be an integral part of the dialogue we must have on transformation, not just of the financial sector, but also of our economy, values and actions. There need not be a trade-off between transformation and the soundness of the banking sector.***

Our banking industry is the second most safe and sound banking system in the world because we are regulated according to global best practice, and the primary consideration is how to conduct our business so as to protect depositors' funds. So, legislators, regulators and the sector must cooperate to ensure we maintain, and consistently improve, our soundness and transform to ensure the sector is relevant to the majority of our people. The two priorities are complimentary!

We look forward to substantive engagement with the two committees on these issues and thank you for your attention.