

**TRANSFORMATION OF THE FINANCIAL SECTOR**

**SUMMARY OF ISSUES RAISED DURING THE PUBLIC HEARINGS ON TRANSFORMATION OF THE FINANCIAL SECTOR**

**(HEARINGS HELD ON: 14 MARCH 201; 22 MARCH 2017; 3 MAY 2017)**

**DRAFT FOR DISCUSSION PURPOSES ONLY**

1. This document summarises issues that were raised by stakeholders (including individuals) during the public hearings on transformation of the financial sector. The input reflects the views of the respective presenter and not necessarily those of National Treasury or Government.
2. The document contains two sections:
3. Section A outlines the major issues that were raised during the process, and National Treasury’s preliminary response.
4. Section B sets out in table form a summary of all submissions/presentations. National Treasury’s response to each presentation will follow shortly.
5. It should be noted that several submissions have not been included in this summary, as they were not available at the time of writing. Every effort will be made to include all submissions in the follow up document in which National Treasury will respond. These include the submissions by Black First Land First, CASISA, 27four Investment Managers and the policy proposals put forward by the EFF during the session held on the 24th of May.

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# SECTION A: SUBSTANTIVE ISSUES RAISED

1. This section sets out issues raised by more than one stakeholder. These issues include:
	1. Financial Sector Codes
	2. Lack of coherent data
	3. Industry performing poorly against FSC targets
	4. Enterprise development
	5. Conduct of financial institutions and financial exclusion

## *Financial Sector Codes (FSC)*

1. Stakeholders indicated that the sector is performing poorly against commitments made and agreements reached at the 2002 financial sector summit which gave rise to the financial sector codes, then financial sector charter. The sector has either not implemented the principles agreed/committed to, or where implemented, what has been implemented has rendered sub-minimal change.
2. The FSC was criticised as it is seen to undermine the generic B-BBEE codes especially with regard to:
3. ownership targets especially where the “once-empowered always empowered” principle is applicable
4. targets set for the sector codes are lower than generic targets
5. the “voluntary” nature of the codes as, especially as no action is taken against those that fall short of the targets
6. National Treasury’s response is as follows:
* Another Financial Sector Summit should be held to refocus transformation policy and approach (as agreed in NEDLAC)
* The FSC must be reformed if it is to remain the primary instrument to effect transformation this will be done by:
	1. Set **higher and enforceable targets** focusing especially on **ownership, management control, procurement and financial inclusion** (which should be about take-up & usage, not just access).
	2. Get the **CEOs back into decision-making process** within the FSC Council to ensure sector buy - in.
	3. **Financial sector regulators should act against those in the sector who do not comply** with the sector codes. This to be enabled by National Treasury together with the dti/B-BBEE Commission and financial sector regulators (i.e. allow for incremental achievement, and if no improvement is observed then there should be credible consequences)

## *Lack of coherent data*

1. It is observed that unsatisfactory reporting by the sector means that the sector lacks consistent and coherent data to measure transformation. This then impacts the monitoring of the sector in relation to transformation and inter-alia affects policy decision-making and the ability of the B-BBEE Commissioner to effectively oversee observance of targets.
2. National Treasury’s response is as follows:
* It is proposed that a **consistent approach be adopted with regard to FSC targets definitions, measurement and reporting**.
* There is a need for a more objective process and common framework to determine **ownership data**
* Going forward National Treasury will **publish an annual ownership monitor** to track ownership levels in the sector and also effect policies to aid transformation

## *Need higher targets, industry performing poorly against current FSC targets*

1. Transformation targets are not showing sufficient improvements, especially in relation to the following elements:
* Ownership in financial institutions has shown a decline over the years and remains below the 25% target as per the FSC
* The composition of boards and executives within the financial sector is not representative of the South African demographics
* Procurement spend by the sector does not flow to SMEs as a result of policies in the industry (e.g. the “Preferred Insurance Service Provider System and Motor Manufacture Factory Approved System”, which limits access to procurement opportunities for small and medium size body shops)
1. National Treasury’s response is as follows:
* Industry needs **higher and enforceable targets for ownership, board membership, management and procurement**
* **Ownership in banks and insurers is a priority,** and new targets must take into account the challenges associated with the principle of once empowered always empowered, the regulatory requirement for unencumbered capital and measurement (e.g. should take into account the % foreign ownership and local free-float.
* **Targets must be set for asset managers and asset consulatants.**
* **National Treasury should work with the insurance and panel beating/tow-truck sector** to address procurementissues here.

## *Enterprise Development*

1. The sector is perceived to not do enough to support enterprise development, with regard to the development of SMEs and industrialists. The challenges observes include, but are not limited to:
* **High barriers to entry** including regulation and capital costs
* **Cumbersome regulation** imposed on those wishing to enter the sector, licenses may be refused without adequate detail explanation
* Insufficient access to capital for new/growing businesses
* Insufficient access to markets that are related to the financial sector. This is because of a concentrated & vertically integrated market structure and “old-boys” club e.g. black asset managers constrained by asset consultants/other decision makers, procurement spend in the short-term insurance sector kept away from black panel beaters
* Existing developmental agencies like CBDA are not working effectively
1. National Treasury’s response is as follows:

It is imperative that we **promote black industrialists and black owned SMEs through an explicit developmental framework** for the sector. This framework will be a coordinated effort between dti/NT/regulators, **in support of black industrialists, SMMEs and cooperatives** in the Fin Sector, with a focus on establishing and sustaining them through the following:

* **Better access to affordable funding**:
	+ - Further **develop FSC empowerment financing targets** relating to black agriculture, low-cost housing and infrastructure development; **develop empowerment-financing plan** with industry buy-in to give effect to targets.
		- For **industrialists specifically** this means exploring more flexibility in the FSC to accommodate **improved funding structures of B-BBEE deals** e.g. spin-off and regulatory concessions e.g. w.r.t. upfront capital.
		- For **SMEs this means taking steps to extend the capital markets reach** to this segment e.g. *JSE township exchange*, improving the effectiveness of DFIs in this area & improving PCG schemes on offer
* **Improved access to markets**: FSC targets should be reviewed for opportunities to support market access, for example procurement of panel beaters in the short-term insurance sector and asset managers selected by insurers, banks, suppliers of savings vehicles and asset consultants.
* **Regulation should be tailored** to take account of an explicit developmental framework for the financial sector,
	+ - **Support for new entrants** should include: **incubator programmes**, white labeling into insurers, supporting black brokers e.g. more suitable exams
		- Undertake to **examine the role of the CBDA, to extend support to all emerging financial institutions** like funeral parlours wanting to offer insurance
		- Legislative changes to **allow for tiered entry in licensed industries;** allow for and support **progressive growth from informal entity like stokvel through to small player to larger competitor**
		- **Deposit insurance** will promote confidence in smaller banks including CFIs – *draft policy due for release by the SARB June 2017*

## *Conduct of financial institutions and financial inclusion*

1. Poor market conduct practices and financial exclusion is still prevalent in the sector and this compromises the transformative effectsof the sector by benefiting relatively few South Africans. The following issues were highlighted:
* South Africans borrow too heavily for consumption at the expense of borrowing for asset and wealth accumulation
* Too many South Africans remain financially excluded, especially in rural areas; individuals have poor access to insurance and savings products in particular.
* Financial services are too expensive
* Foreclosure/repossession practices that put consumers in a worse off position than before the foreclosure/repossession
* STI sector cancelling policies when policyholder is retrenched/can’t pay and thus the consumer forfeit all premiums paid to date
* Banks abuse of court system, chronic corruption within courts in debt collection practices, and related the outdated Insolvency Act hurting the indebted.
1. National Treasury’s response is as follows:
* **Housing /asset finance initiatives** will be proposed and fed into **dedicated financial inclusion and transformation strategy**
* **Market conduct abuses must be confronted and solutions put forward**: can be considered through CoFI Bill and industry workgroups, informed by NEDLAC recommendations on market conduct e.g. repossession practices.
* **Ombud system reforms underway as part of twin peaks**, to be monitored for effectiveness. Detailed diagnostic of South Africa’s ombud system planned for 2017

# SECTION B: SUMMARY OF SUBMISSIONS

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| **Institution/ Presenter** | **Summary of presentation** |
| **Government, government agencies and regulators** |
| **Department of Trade and Industry - dti** | **Intro**:Intention of submission is to provide a clear empowerment framework in SA and show how Government has intervened to improve empowerment generally and in particular in the financial services sector. **Overview of sector:**The financial sector (FS) in South Africa includes banks as well as non-banking financial institutions such as state-owned developmental finance institutions, short- and long-term insurance companies and smaller financial intermediaries. The FS contributes 21.6% of SA’s GDP annually and over 15% of corporate income tax. It is one of the fastest growing employers in SA, with more than 250 000 employees in the sector.**FSC:**The B-BBEE Sector Codes are a means to address sector specific issues and peculiarities especially those that hinder transformation within a specific sector. The FSC emanated from the 2002 NEDLAC FS summit where stakeholders volunteered to a sector charter with the aim to transform the FS. The FSC was then gazetted on 26 November 2012 in terms of Section 9(1)(e) of the B-BBEE Amendment Act. The FSC as it stands is going through a review process to ensure greater access to capital for previously disadvantaged people and more rapid economic transformation. The FSC proposes three different scorecards for different types of FS entities i.e.* Banks and Life Insurance Offices have over and above the Generic Code elements, two additional sector specific elements; Empowerment Financing and Access to Financial Services
* Short-term insurers have over and above the Generic Code elements one additional element; Access to Financial services
* All other financial institutions have the same elements as the Generic Code

**Difference between FSC and Generic codes:**Scorecards allow for each sector to be unique based on the peculiarities in that sector. * Ownership element: of the scorecard the target is 25% in the Generic Code. However the element is different for banks due to the regulations in the banking sector;
* Enterprise Supplier Development element: aimed at promoting access to finance should be broadened to include direct supplier development and also create opportunities to support black industrialists;
* The proposed element Empowerment Financing includes:
	+ Transformational Infrastructure Financing - funding of previously neglected areas such as townships and rural areas,
	+ Black Agriculture Funding to assist with the land reform process,
	+ Low cost housing funding and
	+ Black business (including SME) growth funding / BEE transaction funding.

**Transformation data:**The B-BBEE policy unit of DTI does not feel that it has adequate data and information that could be used to measure transformation. **B-BBEE Commission:**The B-BBEE Commission was set up in 2016 to primarily evaluate the level of transformation in SA. **Current assessment of transformation:*** Current data (2013/2014) indicates that there’s a regression in transformation in the financial services sector especially in ownership, management control and skills development levels.
* Access to financial services has improved significantly but a lot still needs to be done.

**Challenges/concerns identified:**The challenges facing transformation include: * Low level of transformation
* Lack of establishment or development of Black industrialists as the next phase of empowerment
* Lack of access to affordable and reliable financial services and insurance products
* Lack of establishment of enterprises per sub-sector to properly measure B-BBEE compliance
* Industry does not report to the FSC Council
 |
| **B-BBEE Commission** | **Intro:**The B-BBEE commissioners mandate is to:* Monitor, supervise and promote adherence to the B-BBEE Act
* Strengthen private/public sector collaboration
* Receive complaints or initiate investigations
* Promote advocacy, access to opportunities & educational programmes
* Maintain register of major B-BBEE transactions
* Receive and analyse prescribed reports
* Promote good corporate governance and accountability
* Increase knowledge and public awareness

**Challenges/concerns identified:*** Once Empowered, Always Empowered principle creates regression of transformation and must not be allowed in any of the sector codes
* Sector Codes that are not finalised create confusion in the markets
* Access to funding continues to be a challenge for black people creating a fertile ground for fronting
* Lack of implementation by Government and its entities affects pace of transformation
* Abuse of B-BBEE Arrangements and Concepts in the implementation
* Lack of integrity in the verification process and conduct of professionals
* Recognition process mired with flaws resulting in invalid certificates
* Poor reporting within the sector will affect the ability to monitor, and compromises achievement of targets
* Market characterized by complex monopoly with high barriers to entry and capital costs
* Development finance not increasing in line with the need to grow the economy more credit for consumption
* Public entities and organs of state not integrating the B-BBEE requirements as required in 10 of the B-BBEE Act
* Financial Sector Code is too lenient given that it is a sector code, in its current form it does not advance radical economic transformation, but rather regresses it.

**Recommendations contained in submission:**Concerns raised must be addressed before the sector code can be approved for gazetting, failing which generic codes must apply  |
| **South African Reserve Bank** | **Intro:**The SARB’s role:* Protect the value of the currency in the interest of balanced and sustainable economic growth
* Regulate and supervise banks in SA
* Responsible for management, administration, operation, regulation and supervision of the payment, clearing and settlement systems
* Contribute towards the achievement and maintenance of financial stability

**Overview of the sector:*** 2000s – Global trend towards consolidation of banking institutions
* 2002 – Mini banking crisis in SA which led to consolidation of the banking sector
* 2002-2003: approx. 22 small and medium-sized banks exited banking system
* 2003: Market share of “big 4 banks” increased to 82%
* Dominance of 4 banks, but new entrants gaining market share

**Key licensing conditions:*** Capital requirement– greater of (unencumbered) R250m or 8% of RWA.
* Fit & proper requirements on directors and executive officers
* Prudent & sustainable business model
* Compliance with international regulatory regimes – e.g. Basel III, AML/CFT (FATF), FSB resolution framework, etc.
* Public interest- considerations include transformation

**Policy considerations:*** Support the licensing of new entrants to improve competition outcomes – providing similar or superior products at lower costs
* Multiple objective - Financial inclusion and access, competition, financial stability and transformation
* Opportunities – second tier banks, mutual banks, cooperative banks, payments system developments
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| **National Credit Regulator** | **Intro:**The purpose of the NCA is to promote the social and economic welfare of South Africans, promote a fair and accessible credit market and industry, and to protect consumers, by:* Promoting the development of a credit market that is accessible to all South Africans, and in particular to those who have historically been unable to access credit, under sustainable market conditions.

**Recommendations contained in submission:*** Credit Providers should introduce a new range of products for asset building targeting new customer segments previously excluded e.g. low-income families; micro businesses operating in villages such as: Home loan product for rural areas
* Credit providers, especially banks and retailers to continue to improve the livelihoods of communities they operate in.- E.g. Funding of schools and clinics in villages
* Credit providers to provide more funding towards consumer education
* Support for establishment of Co-op banks
* Support for the Portfolio Committee’s work to investigate measures to address over-indebtedness
 |
| **National Empowerment Fund** | **Current assessment of transformation:*** A sample analysis of the top 17 financial services companies by market capitalisation as listed on the JSE shows underperformance against the set 2012 FSC target of 10%. The findings of the analysis indicate that the black ownership achieved is 6.0%
* Claims by the majority of the financial institutions indicate that they have complied with the empowerment financing element. However, the claims cannot be validated due to poor reporting and the absence of effective monitoring.
* There are four (4) sub-elements to empowerment financing being (transformational infrastructure; black SME financing; black agricultural financing; and affordable housing) however, financial institutions have enjoyed the liberty of cherry picking their preferred sub-element of empowerment financing to the detriment of others as most financial institutions are more likely to utilize Government-backed securities and financial instruments in fulfillment of empowerment financing.
* The 2012 FSC set a specific target of R47 billion regarding BEE Transaction Financing. However, this amount is also based on the 2002 baseline and doesn’t provide for inflationary increases as well as population and economic growth. Furthermore, the amount has not been adjusted to cater for the growth in assets held by the respective participants.
* The FSC code allows for equity enhancements including investments made by institutional investors using public funds (mandated investments), exclusion of foreign operations, modified flow through adjustments, etc. These enhancements lead to the recognition of higher black ownership than what is actual equity held by a measured entity.
* FSC has been ineffective in transforming the financial services sector in order to bring about the meaningful and sustainable economic empowerment of black people in South Africa.

**Challenges/concerns identified:*** When comparing the Revised 2016 FSC against the Codes as well as the 2012 FSC, it is evident that the Revised 2016 FSC codes undermine both the Codes and the 2012 FSC
* The banking and long term insurers’ commitment to targeted investments of R48 billion and R27 billion –under the empowerment financing indicator - is too low in an industry that had assets of R4.8 trillion in September 2016.
* A matter of grave concern is that the sector is poorly monitored and evaluated. As the 2013 Review Report of the FSC Council states, only 70 out of 1423 financial institutions to whom the FSC Code is applicable responded to the call to submit annual results to the councils, resulting in a mere 4.92% response rate.
* The greatest challenge facing black entrepreneurs in South Africa is access to markets.

**Recommendations contained in submission:*** Empowerment financing combined target of R75 billion (in the banking and long-term insurance sector) should be split out amongst the different sub-pillars and allocate a higher target for Black SME Financing and black agricultural financing, for example 60% of the target.
* It is difficult to conclusively quantify the proportion of funding raised by the financial institutions towards each of the four (4) empowerment financing sub-pillars and a full research study would need to be conducted to provide this granular level of data.
* Black people, supported by Government, should lead in the establishment of an alternative offering by establishing a directly black-owned bank. (Require initial capital of approximately R306 million for the acquisition of a banking license, IT infrastructure and systems, reserve requirements, a branch network and working capital, among priorities). This will be a fully- fledged bank with licenses to receive cash reserve deposits, make loans and offer products and services to municipalities, Government departments, SOCs, the private sector, organized labour, NGOs and CBOs and the general public.
* Segregate and improve thresholds for the four (4) elements for targeted investments (i.e. the 12 points under targeted investment should be allocated evenly between the four elements being - Transformational Infrastructure, Black SME Financing, Black agricultural financing, Affordable housing)
* Improve target for access to financial services
* The sector should invest and partner with DFIs and other government institutions in the implementation of ESD programmes and/or co-investment in businesses supported by such public sector entities, on concessionary terms.
* The NEF believes that Government must use procurement as a catalyst for transformation by making it mandatory for private and public sector entities to fulfill the national transformation objectives through the implementation of the preferential procurement requirements of the amended codes.
* BEE Transaction Financing and risk capital to support economic growth through the support of the Black Industrialist Programme
* Improved Monitoring and Evaluation is necessary
* Transformative competition should be made a priority.
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| **Bodies for constituency negotiation and agreement** |
| **Financial Sector Charter Council** | **Current assessment of transformation:**Current data (2014/2015) on the level of transformation in South Africa’s FS indicates that most companies in the FS have started implementing the B-BBEE Code and there’s also some improvement in reporting although the rate of reporting was not up to desired levels. The report indicated the following:* Levels of Black Shareholding reduced from 26% to 23% and Black Women Shareholding levels reduced from 10% to 8%
* The Management Control levels remained relatively constant although the number of female Board members moved up slightly from 11% to 13%.
* Employment Equity increased slightly and hence positively impacted Black Senior Management and Black Women Senior Management levels
* A reduction was observed in average scores for Skills Development
* The figures for average expenditure on Preferential Procurement with B-BBEE Suppliers showed an upward trend which surpassed the targets set
* The Socio-Economic Development, Access to Financial Services and Consumer Education Scores showed a slight upward trend
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| **NEDLAC**  | **Financial Sector Summit**The first FS Summit was held in 2002 with the aim to agree on commitments by the FS to transform the sector. NEDLAC has since taken a decision constitute another summit in the 3rd/ 4th quarter of 2017 to review the Financial Sector Summit Agreements (FSSA) and how far they have gone in transforming the sector. The 2017 Financial Sector NEDLAC Summit will ensure that there are:* Measurable deliverables
* Clear time frames
* Regular meetings to track progress on deliverables
* Consequences for non-delivery.

**Current assessment of the 2002 agreements:**Based on the 13 areas agreed upon it is found that:* Service charges for basic financial services are still high
* Rural areas still seem to be neglected in accessing basic financial services
* The Dedicated Banks Bill for second tier financial institution was never promulgated
* Co-operative banks market in SA is not well understood
* Most financial institutions still discriminate despite having explicit codes of conduct on this issue
* Special products are fashioned for poorer people
* Financial institutions / infrastructure is still less available in historic townships or rural areas
* Poorer people more likely to be unfairly treated by financial institutions;
* Although the situation around HIV/AIDS is completely different now than in 2002 because insurance products (including life insurance and credit life insurance on outstanding credit ) are now available to persons with HIV however stringent criteria are set out for insurance products and premiums are higher than normal with the general negative stigma within communities still high;
* Developmental investment was initially seen as only government driven and the private sector needed incentives to commit to developmental investment but there is no single database from government showing all developmental projects/investment opportunities;

**Challenges/concerns identified:*** There have been changes in the environment in which the 2002 agreements were signed such as promulgation of new financial regulations and Acts which have tightened up how financial support and aid is provided.
* Although more people have access to financial products and more cooperation exists between the public and private sectors on financial matters, there is difficulty in measuring some of the 13 agreements.
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| **Political parties, or bodies with political association** |
| **Financial Sector Campaign Coalition** | **Intro:**Transformation means change in form, appearance, nature and character. There has been very minimal change in form; the nature of the sector remains largely unchanged; while the character of the sector is not in alignment with the needs of majority of the country. **Challenges/concerns identified:*** The FS Charter considered that the financial sector plays a role in the growth, development, empowerment, and the Charter spelt out a list of changes informed by agreements from the FSS which are not implemented.
* The two most crippling factors in the sector were the ‘once empowered, always empowered’ principle and the inadvertent omission of government development financial institutions (DFIs) at the Summit which could have assisted in transformation.
* There has been significant Corporate Social Investment done in the FS that was not reported and the consequences of such non-reporting affected growth in the FS.
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| **COSATU** | **Intro:*** The Financial Sector Regulation Bill is strongly supported. Similarly, tightening the Financial Intelligence Centre Amendment Bill to find an amicable solution to crime and money laundering is supported.
* COSATU understands that government is preparing a Bill to better regulate charges set by the financial sector. This needs to be biased towards the needs of ordinary consumers and empower government to deal with banks who consistently overcharge consumers.
* COSATU supports the proposed Debt Relief Bill

**Challenges/concerns identified:*** monopoly capital,
* lack of transformation (deracialisation),
* wage gap,
* outsourcing and rising casualisation of employees
* loan sharks and role of the National Credit Regulator

**Recommendations contained in submission:*** save and create jobs
* nationalise the SARB
* support for lower income workers savings
* the auctioning off of small business farms, houses and assets,
 |
| **SACP** | **Intro:** * The challenges of transformation could be traced back to non-adherence to the agreements of the 2002 NEDLAC Summit.
* The SACP supported the licensing of the Postbank.

**Challenges/concerns identified:*** the FS Charter was a failed promise that needed to be reviewed and judging from the comments from FS Charter Council the performance of the sector is unsatisfactory.
* The commitments of banks on management control have not been met.
* Trade-off transactions were not always opened up to the public and banks in SA took advantage of the closed nature of these transactions.
* The payments system prevents new entry/competition

**Recommendations contained in submission:*** Legislation on insurance policies needs to be altered so that insurance paid out would help people retain their houses even if they lost their jobs.
* the over 200 FSregulations should be streamlined,
* The SACP supports the 2017 FSS and suggests that SCOF monitors implementation of agreements that arise from the summit it to ensure that transformation is achieved in the FS
* Access to empowerment financing for black shareholders was low hence the trade-off transactions and access to empowerment financing for black shareholders must be addressed.
* More focus and funding needs to be given to the co-op banks development agency
 |
| **Industry and industry representative bodies: sector-wide (excludes banking and insurance/asset management)** |
| **Black Business Council (BBC)** | **Intro:**BBC’s aim is to be a successful voice and make sure problems unique to black business and professionals are addressed in a meaningful sense. Radical socio-economic transformation, means fundamental change in the structure, systems, institutions and patterns of ownership, management and control of the economy in favor of all South Africans, especially the poor and the majority of whom are African and female.**Recommendations contained in submission:*** Government Procurement - 51% should be set aside for black businesses. The Preferential Procurement Policy Framework Act (PPPFA) should be repealed, and the current procurement regulations reviewed.
* Introduce a Black Industrialist Development Programme (BIDP) - the transversal contract should be ring-fenced to facilitate BIDP. A minimum of R30bn should be made available to fund BIDP and private sector funding should match government funding.
* All new insurance licence holders must have a minimum black ownership of 51%.
* 30 day payment of suppliers should be non negotiable. Non-payment should be punishable as part of performance agreement for accounting officers and this should be enforced by the National Treasury.
* ‘Once empowered, always empowered’ principle needs to be dealt with.
* An exemption should be made for BEE transactions since there is reliance on dividends to repay the debt or funding.
* At least a minimum of R50bn for black SMMEs should be funded by the sector.
* There must be set-asides of up to 35% for black entrepreneurs and that should be a condition for licencing new insurance licence holders.
* At least a minimum of 30% of financial services companies should be allocated to black asset managers to manage as part of black enterprise development.
* A Financial Sector Commission should be set up to monitor performance and progress of the sector.
* There should be skills development and progression of black professionals to deracialise the sector.
* BEE ownership must be a JSE listing requirement.
* The BEE rating agencies and audit firms for insurance should be totally reviewed.
 |
| **Actuaries Lekgotla** | **Intro:** Actuaries Lekgotla was formed in 2016 and is made up of actuarial professionals working in South Africa. Black actuaries are very frustrated with the slow pace of deracialisation and transformation in the financial services sector as well as salary differentials between black and white actuaries. **Challenges/concerns identified:*** There is a lack of a deliberate attempts to transform across the board. Senior leadership in companies and the Actuarial Society of SA (ASSA) are mostly white.
* There are unequal opportunities or exposure across race and gender.
* There is a lack of effective mentorship for black actuaries.

**Recommendations contained in submission:*** The AL suggests a targeted, formal and effective mentorship programme for black and female professionals to bridge the gap.
* The FS Charter should be promoted to create awareness, push for compliance, fine and name and shame those who do not comply reporting requirements.
* The use of the salary band to categorise staff as management is open to fronting. A better definition must be sought which links with the influence the individuals have on decisions and resourcing.
* Research has shown that SMEs are a great contributor to job creation and economic growth. Therefore, those that are run by black people should be promoted.
* The AL believes legislation is the only effective way to enforce change because without regulations, organisations have refused to change.
* Audit rotation for actuarial consultants to help smaller consulting firms to grow should be enforced.
 |
| **Black Management Forum (BMF)**  | **Introduction:**The Black Management Forum (BMF) is a non-racial, thought leadership organisation with the main purpose of influencing socio-economic transformation of our country, in pursuit of socio-economic justice, fairness and equity.The submission is confined to broad policy principles against which the BMF’s grievanceswith the Sector are expressed.**Challenges/concerns identified:*** Product and Credit Pricing - additional premium spreads are added when pricing products for and extending credit to black people
* The right product are not marketed to the right target market for the right purpose
* Purposeful under-servicing of rural and township areas by not allocating services channel infrastructure and/or promoting affordable technologies for the poor to access financial services
* The sector killed the affordable Mzansi account solution and there is no serious and sustained marketing campaign in the sector to promote the government backed Fundisa/Masifunde Fund.

**Recommendations contained in submission:*** If the FSC is to remain, it must be amended to meet or exceed the minimum requirements set by the B-BBEE Generic Codes.
* Empowerment Financing should be removed altogether as a points contributor
* Direct Ownership must be 25% across the board within the Financial Sector
* Once Empowered, Always Empowered principle should explicitly be outlawed in the B-BBEE Act
* Should criminalisation of conduct related to market concentration and collusion be applicable in terms of the recent introduction of section 73A of the Competition Act, the Commission and the National Prosecuting Authority should seek that sanctions are imposed.
* A phased approach of the Twin Peaks should be adopted for the second tier financial institutions (small players)
* Competition Commission should institute sector inquiries whilst the SCOF should also institute a Sector Wide Judicial Commission of Inquiry on the alleged market conduct practices highlighted above
* The upcoming Financial Sector Summit should be focused on key principles and concrete agreements should be undertaken to transform the sector once and for all
 |
| **Johannesburg Stock Exchange (JSE)** | **Intro:**Markets need to operate in a manner that responds constructively to our country's socio-economic pressures, we therefore need to use our core business strengths to influence and to contribute positively to the inclusive growth of our economy and to its transformation.**Overview:** The JSE, a Level 2 BBBEE contributor company, is a cost effective, efficient, well regulated, transparent and trusted exchange for financial transactions which helps South Africa to: * Raise finance for companies and government from both domestic and international pools of capital
* to fund infrastructure and enable growth
* Manage risk
* Create sustainable wealth

**Current assessment of transformation:**On the mainboard there are 325 listed entities, 11 of which are black-owned On the AltX (13 years), there are 56 listed on the Township exchange which was established as a separate market for SMEs to provide easier access to capital for very small entrepreneurs**Initiatives to support transformation:*** Publish gender representivity policy at Board level and provide annual disclosure of progress against policy
* Publish BEE policy from 2018 and provide annual disclosure of progress against policy
* Publish BEE scorecard annually
* Established the Black Stockbroker Development Programme which supports the sustainable development of our black stockbroking firms;
* provides financial assistance through credits to be used in developing their firms (Currently supporting 14 black stockbrokers out of a total of 62 equity trading members)
 |
| **Industry and industry representative bodies: Banking**  |
| **BASA** | **Intro:**The realities of low GDP growth and the prospects of this continuing for some time, high unemployment, growing levels of poverty and increasing inequality in the context of an uncertain global environment were highlighted to the house. **Highlights of thebanking sector:*** Banks manage R4.8 trillion in assets;
* Enable customers to make 446 million ATM transactions per annum;
* Employed 153 846 people;
* Contributed R23 billion in tax in 2014, and since 2005, they have contributedover R102 billion,
* Invested R993 billion in 1.2 million property transactions since 2007 and generated R57 billion in value accruing to BEE shareholders.

**Current assessment of transformation:*** The FS in South Africa has made much progress across sectors and any suggestion of non-transformation is incorrect.
* The banking industry is not resistant to transformation; a careful analysis will show that compared to other sectors it has performed very well.
* The sector voluntarily signed a transformation charter in 2003 before the transformation was promulgated in black economic empowerment legislation.
* BASA is not necessarily satisfied with the current situation and is very keen on engaging in dialogues on FS transformation to improve the performance and size of our economy in an inclusive manner.
* Caution against “certain monopoly myths”. The 2016 figures for the JSE showed that black ownership on the JSE (23%) surpassed white ownership (22%) which dismissed the ‘white monopoly capital myth’ and the banking sector displays patterns similar to ownership patterns of the Johannesburg Stock Exchange (JSE).
* Ownership patterns of banks listed on the JSE: the largest share (49%) of the top six South African banks was owned by foreigners, 34% by institutions such as pension funds, and the remaining 17% by other categories of investors, including individuals.
* Black people constituted the majority of all managers in the banking industry although most of the gains have occurred at the junior to middle management levels. However positions for black people at the top management level remained a challenge but training programs are being used to fast track junior managers to top managers.
* Progress has been slow on black board members and black women make up 8% 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.
* The FSS outperformed the current target on preferential procurement with a combined R200 billion expenditure on black-owned and black women-owned enterprises.
* Although the development of SMEs is a critical challenge for SA because it contributes to job creation, the banking sector financing of Black SMEs rose from R5 billion in 2012 to a high of R15 billion in 2014, but fell to R9 billion by 2016, due to the current tough business environment.
 |
| **Barclays Africa Group Ltd (Absa)** | **Intro:**Barclays Africa is a multinational financial services group (with Barclays PLC as its majority shareholder) that trades as ABSA in SA, spanning all 9 provinces with a diversified portfolio of businesses that includes retail, business, corporate and investment and wealth, investment management and insurance banking. It contributes to the economy in the form of direct and indirect employment, taxes, provides access to financial services to millions of people and contributes to inclusive growth and development.**Highlights in 2016:**Total lending in SA comprised of R387bn to retail clients, all contributing growth and development* R124bn for mortgages,
* R71bn to SMEs and
* R192bn to corporate and investment banking

**Current assessment of transformation:*** ABSA chose three focus areas to achieve transformation because it believed that these three pillars were critical to sustainable growth and inclusive development, these are namely:
* Education and skills development (R1.4bn committed in 2016),
* Enterprise and supplier development (ABSA believed that establishing successful and sustainable SMEs required both financial and non-financial support. ABSA implemented this through preferential procurement, access to markets, financing infrastructure and training), and
* Financial inclusion.
* ABSA’s scorecard reflects its focus on transformation. Progress to date included improvement in its B-BBEE contribution status from level 3 (2015) to level 2 (2016), being the first of the major banks to allocate 10% ownership to black partners through the BathoBonke empowerment consortium in 2004 and it intended to conclude another BEE transaction to which Barclays PLC has already committed about 1.5% of Barclays Africa market capitalization (around R2.1bn) as at 31 December 2016. Barclays PLC, intends to sell-down its shareholding in Barclays Africa and give black South Africans an opportunity to increase their direct and indirect shareholding in the group.
* In terms of Management control 88% of promotions in 2016 were black. Much progress had been made in building a strong pipeline of black talent that, together with our focus on promotions and recruitment, would assist ABSA to close the employment equity gaps at top and senior management levels.
 |
| **FirstRand** | **Intro:**The banking sector as the custodian of the savings of South Africans did not make the rules but must play its role. The strength of SA’s banking system is a national asset (consistently ranked in the top 10 in the world for its developed, sophisticated financial systems). Banks understand their role in ensuring a sustainable future for the country and deliver transformation and inclusivity. **Highlights:**The FirstRand BEE deal resulted in R23.5bn of value transfer to broad based black shareholders and FirstRand’s black ownership amounted to 36.5% of the Group.**Challenges/concerns identified:**A commercially sound and profitable banking system remains a non-negotiable for the country and therefore the right policy decisions should be taken to avert devastation that could occur from banking crises. Examples from around the world have demonstrated the devastation that resulted from banking crises as job losses, recession and social unrest have all played out throughout the world following the global financial crisis. The maintenance of a sound banking system whilst driving transformation and inclusivity were fundamentally complementary objectives and the achievement of inclusivity would accelerate a strong economy. |
| **Standard Bank**  | **Current assessment of transformation:*** In 2004 over 6 000 black employees at the bank received shares in the institution, which amounted to R3.1bn as at December 2014. All these beneficiaries could have remained in the share scheme but most of them decided to sell.
* Progress was made in diversifying the black management structure but not as much as desired.
* More than R500m lent to small black enterprises under the enterprise development program in 2016 to while keeping within its risk limits and also provided free training to support 6 000 SMEs in the last two years.
* Explored ways to partner with government funding entities to provide breach funding to black owned entities that had secured government contracts.

**Challenges/concerns identified:**Because of limits on leverage, every R10 that is allocated to a BEE scheme reduced the amount of money that can be loaned to the real economy (including to black entrepreneurs) by R80. There is thus a trade-off between these schemes and transformation/development in the wider economy.  |
| **Nedbank** | **Intro:**Transformation is a key strategic enabler and led by the board, CEO and executive committee.**Highlights:*** Transformation at top and executive management has resulted in 53,85% black top management. Significant progress made at middle management - 59,52% Black, junior management - 87,64% Black and representation of people with disabilities exceeds the national target.
* B-BBEE Eyethu scheme unlocked R8,2 billion in realised value for more than 500 000 SA shareholders.
* Since 2011, Nedbank has partnered with 23 Municipalities that led to 2400 SMMEs benefiting from various business skills and capacity building interventions.
* Nedbank has partnered with government on Public Works Projects.

**Challenges/ concerns identified:*** Stricter targets across the Codes will lead to lower B-BBEE levels
* More work needed to prevent discounting on priority elements of new scorecards
* Improving our work force profiles particularly at Senior Management level, to be more demographically represented
* Subdued economic growth
 |
| **Industry and industry representative bodies:** **insurance, asset management and intermediaries (including advisors)** |
| **ASISA** | **Intro:**ASISA represents 127 member firms which include asset management, life insurance firms and collective investment industry **Role of the sector:*** Asisa members are “the custodian of savings”.
* The role of ASISA is to ensure that private and public resources are well guarded, mobilise both local and foreign capital so that needs are met in the long term, ensure that pools of assets accumulated are deployed appropriately to ensure investments are made in the economy so that it create jobs, increases the number of savers and supplements the public purse to actually invest in the development of the country.
* It is crucial that the insurance industry should be able to compete favourably and attract both local and foreign capital for investment.
* The industry’s credibility rests on the generation of returns, the average manager returns for global fund against inflation showed that over a period of 20 years the returns have been over three times inflation rate and this shows that the collective savers have owned an increasing portion of the broader economy.

**Current assessment of transformation:*** The statistics of actual ownership of JSE top 100 companies indicates progress for black shareholders at 23% within 20 years, indirect ownership through retirement funds was about 13% and if well nurtured would be indicative of the future ownership of the economy.
* Long term sustainable increases in black ownership of the economy is dependent on the growth in the proportional submission of money by black people into the savings pool that support the collection of savings that the industry manages. Local accumulated savings are deployed as investment capital that ultimately owns a huge part of the economy presently. Approximately 40% of the locally owned sector of JSE is owned collectively (16 million pension fund members). Ultimately sustainable ownership can be achieved through collective savings.
* ASISA statistics show an increase of SA black ownership from 16% in 2005 to 31% in 2015 (surpassed target of 25%), management and control in boards increased from 30% to 49%, black executive directors increased from 22% to 47%.
* In terms of employment equity, black senior management increased from 16% to 35% while black middle management increased from 32% to 48%; although the target was not met appreciable progress was observed in this sector which is highly capitalized.
* The target for Skills Development was 3% but over the ten year period there was an increase from 1.2% of the profits of the industry to about 4.9%.

**Challenges/concerns identified:**The long-term portion of the industry requires that large sums of capital need to be held for the duration of the policy. Very few people/entities have the necessary capital to meet this requirement. The requirement that long-term promises be met therefore means that the industry is concentrated. The industry is not monopolistic but competitive and concentrated. |
| **South African Insurance Association** | **Overview of the industry:**There are 74 Short-term Insurance Companies:* 31 companies offer products in only 1 or 2 segments of insurance
* 36 companies offer products in 3 or more segments of insurance
* 7 companies offer products across all segments
* 6 insurers are state owned
* 14 companies are captive insurers –they only insure the assets of their holding company
* Top 6 companies = 56% Market Share
* Top 10 companies = 66% Market Share

**Current assessment of transformation:*** A Financial Inclusion Forum was established in 2016 between the SAIA, Financial Services Boar (FSB) and the National Treasury to jointly explore ways increase financial inclusion.
* The number of people with motor insurance increased from 2.1 million in 2004 to 3.2 million in 2014. The number of people with household contents insurance increased from 1.7 million in 2004 to 2.2 million in 2014.
* Projects that contribute to broader socio-economic transformation: College of Insurance; Motor Transformation and Sustainability Forum; Crime Combatting and Reduction; Partnerships for Risk And Resilience; Youth employment accelerator; Business For Road Safety Forum; Agricultural Insurance Public-Private-Partnership; Green Geyser Replacement Project

**Challenges/concerns identified:*** Industry is committed to broad-based socio-economic transformation and to contribute to NDP implementation but acknowledges lack of collaboration
* The demographic representation of staff at all levels
* Procurement spend with black owned businesses, smaller black businesses, and black women owned businesses
* Financial inclusion and financial literacy
* Implement SAIA enterprise and supplier development programmes

**Next steps for SAIA:*** Regular monitoring of insurer procurement spend, especially in MBR environment, including monitoring spend on suppliers that are 75% black owned or more
* Investigate ways to support the establishment of black insurers
* Through Financial Inclusion Forum, investigate ways to increase financial inclusion
 |
| **Association of Black Securities and Investment Professionals (ABSIP)** | **Intro:**ABSIP believes that while transformation of the sector has been slow, some progress has been recorded but much more could still be done at a faster pace. Legislative and regulatory support are key to advancing transformation, as is a collaborative, supportive and inclusive effort by both large established and small emerging players. **Overview of the sector:*** There are 42 black investment management firms in the sector. Black-owned investment management firms account for 35% of the players by number, the assets they manage account for less than 5% of the total assets under management in the industry.
* There are fewer than 5 black hedge fund managers in South Africa.
* The number of black-owned stock brokerages remains disproportionately low (approximately 7 major players) and they collectively have market share of approximately 1.62%.
* The number of majority black owned private equity firms registered in the country is not specifically disclosed. The annual KPMG-SAVCA Survey lists funds based on their level BEE score. The collective market share of Level 1 firms is 2.1% and that of Level 2 private equity fund managers is 13.7% of total funds under management. It is not clear if the Level 2 firms are majority black owned. 50% of the funds under management are managed by firms who have undisclosed BEE ratings or are non-compliant.
* The banking sector has for some years been characterised by an enduring oligopoly market structure. These five banks hold a market share of approximately 91% based on total assets and approximately 92% based on total deposits. While there are in total 33 registered banks, there appears to be only one bank with black shareholding of more than 50.1%.
* There are 73 long-term insurers registered with the FSB. The top four players account for 67% of the total assets of the industry while 69 players share the remaining 33% which is highly fragmented.
* There are 90 short-term insurers registered with FSB. The top five players account for 50% of the premiums while 85 players share the remaining 50% of the industry which is highly fragmented.

**Challenges/concerns identified:*** There simply is not enough change in terms of black professionals playing a leading role in these firms.
* Asset owners are not supporting black asset management firms.
* The government is setting high compliance requirements without the necessary support to new entrants and this contradicts all policy directives to enable deracialisation of the FSS.
* A black player that submitted applications to the FSB for approval was rejected with no guidance provided.
* There is a lack of support by the regulators to enable black business to gain the necessary tools to compete against white business.
* It is the view of many black participants that the regulator is disabling to black participants within the industry and is regarded as being anti-transformational.
* Because the B-BBEE legislation remains voluntary and only applicable to those who wish to comply, black brokers lack the support of enabling legislation/regulations to drive transformation.
* Barriers to entry for new black entrants or start-ups remain too high for genuine inclusive growth; thus reducing its optimum competitiveness.

**Recommendations contained in submission:*** ABSIP recommends that a form of compulsory disclosure is required for all participants in financial sub-sectors, particularly in asset management, in order to determine the state of the market structure and whether transformation is meaningfully occurring.
* Annualised statistics should be maintained by every regulating authority of each registered firm within the sub-sector and the market share of the firm. Target “Concentration Ratios” should be set by policy-makers to reflect more competitive market structures with targeted black firm participation at a sub-sector level with specific targeted dates.
* All critical sectors should have compulsory compliance with B-BBEE legislation, whether the incumbent players do business with the state or not.
* The following will enable the FSC to effectively play its role as a public good:*Expand the FS Charter to include process and outcome indicators*

*Develop inclusive growth paths for each sub-sector**Sanctions for non-compliance of B-BBEE Scorecard**Black women’s participation in the financial services sector should be placed high on the FS Charter Council’s transformation agenda.* |
| **Maxima Advisors** | **Intro:**This submission focuses on the Asset Management (AM) Industry deliberately as part of the financial sector, the focus centrally because of its centrality in various other sectors of the economy and even within the financial sector itself.The asset management industry is the catalyst and an enabler for many other industries, directly and indirectly through its financing instruments or management of assets (monies) which bulk of them come from pension funds.**Overview of sector:*** There are 32 black asset managers in SA, who manage an estimated amount of R300 billion assets out of an industry asset base of R7 trillion that's about 5%. Of these 10 of them manage the 5% stake of the industry managed assets. Whilst a white firm, Coronation manages R576 billion alone
* A few black AMs are wholly black formed and owned, the white man still hang on the sides and thus participate even in the "black slice", making those that had apartheid money greatest beneficiaries of the democratic order by far.
* Lastly, about 86% of the assets managed by Black AMs come from institutional investors (retirement funds), while 14% come from retail products (UTs, CiS, etc).

**Recommendations contained in submission:*** There is a plausible case for the establishment of a state bank and state insurance company accompanied with consistent reallocation of government employees’ pension funds to bolster deracialisation of the financial sector.
* Government needs to relook the impact of the legislative paradigm administered by the Financial Services Board (FSB) in introduction of black professionals within the financial services sector and overall impact of transformation of the industry.
 |
| **Black Insurance Advisors Council** | **Challenges/concerns identified:*** Conflict of interest (sector players)
* Lack of support for emerging insures
* Regulation limits entry
 |
| **Black Insurance Owners Association** | **Overview of the sector:*** Market share of insurance companies:

1% is owned by the historically disadvantaged; 99% owned by the historically advantaged* Assets under management in South Africa 1994-2016

4.6% controlled by historically disadvantaged; 95.4% controlled by historically advantaged* The South African retail banking sector remains highly concentrated with six large banks accounting for more than 90 percent of retail deposits; namely, Standard Bank, Absa, First National Bank, Nedbank, Capitec and Investec.
* Retirement Funds:

Employers used to carry the risk on pension fund pay-outs (through defined benefit schemes), By virtue of having the risk, they had equal representation of Trustees. However, employees are now on full risk with regard to their returns and costs. But employers have retained control of Provident Funds in the main* Employers should not have any absolute right to be Trustees but members should rather nominate and elect Trustees
* The Twin Peaks Bill is a bad idea

**Challenges/concerns identified:*** Reserve Bank is anti-transformation due to the following:
	+ Banking licence requirements are not public knowledge;
	+ RB not accessible
	+ Reserve Requirements for start-ups make no sense
* Funding terms for black business have in most cases being hostile, black business is treated same was as black consumers: expensive credit and tight payment terms
* We submitted to this honourable house on the 7th February 2017 that the Insurance Bill is unconstitutional to the extent that it fails to incorporate express transformation objectives.
* Council for Medical Scheme has placed the appointment of Brokers in the hands of employers,
* Licencing for Administration and Managed Care is subject to acquisition of a contract with a Medical
* Scheme.
* SA regulated industries are the most resistant to transformation, most profitable, most stable and that is because regulators, regulate in the interest of big players by playing the role of gate keepers for the industry, making new entrance difficult and always creating barriers to entry
* Regulators have obscure licencing requirements, not transparent
* The Twin peaks bill as it is a response to a European problem and we are fixing what is not broken, introducing risks

**Recommendations contained in submission:*** Unless we have state bank or black bank with significant muscle, the funding of black business will remain a mirage.
* Parliament should take a holistic approach on all financial sector laws before it and vigorously dissect their value add in proposition to the transformation of our society.
* Medical Aid Brokers are supposed to serve Members and therefore should be exclusively appointed by Members.
* Black business should be recognised above BEE as the only credible instrument for black empowerment
* The FSB is an organ of State and should be bound by Codes of Good Practice issued in terms of the B-BBEE Act when determining criteria for the issuing of insurance licenses and making concessions.
* Because the Financial Sector Regulation Bill is still within parliament, it is recommended it should be properly dissected to pass transformational muster because if the Financial Sector Regulation Bill is not revisited, all the progressive submissions on the Insurance Bill will be futile and these public hearings will serve no basis in so far as finance regulation in South Africa is concerned.
* The introduction of micro-insurance in its current form will exacerbate the lack of transformation in the industry by opening up only one aspect of the insurance industry and not all. Parliament should thus consider whether the introduction of micro-insurance will not serve to further transform the insurance industry and create permanent walls between those who are relatively rich and have a bigger share in the insurance industry and those who are relatively poor and having a smaller share in the insurance industry.
* The Reserve Bank must facilitate the establishment of a Black Bank and offer them credit at Repo Rate like all Banks
* All barriers to entry must be removed
* Government must play its role and lead the process of change
* Government must be biased towards the previously disadvantaged who are painfully suffocated by the current system
* The current practice that insurance companies in South Africa are compelled to use Banks, Auditing Firms and Actuarial firms that have been ring-fenced is not assisting the transformation agenda and stands to be revisited.
* If the industry is unwilling to transform itself, this parliament must legislate these transformational imperatives.
 |
| **South African Towing Board, The South African Auto Repairer and Salvage Association, Western Cape Towing Association, South African Builders Contractors Civils Association and Retail Automotive Aftermarket Federation** | **Intro:**The Associations object to SAIA presenting itself as a an agent of change and transformation as it only looks out for the interests of its members, who are the insurance companies and perpetrators of discrimination against black towers and panel beaters and construction and building workers. We cannot and will not endorse any transformation initiatives that are initiated and driven by SAIA as they have proven that they stand firmly on the side of the Insurers and large white monopolies who dominate the Insurance sector value chain.**Overview:**The short term insurance industry is worth approximately R95 Billion a year in terms of procurement of which only R1,5 Billion goes to black tow truckers and panel beaters and contractors.**Challenges/concerns identified:*** A grading system which gave rise to a Preferred Insurance Service Provider System and Motor Manufacture Factory Approved System, which limits access to procurement opportunities for small and medium size body shops.
* Uncompetitive, racially discriminatory and exclusionary procurement practices in the towing, panel beating, construction and building industry which services their clients on their behalf.
* Billions of Rands in terms of procurement spend are directed to white owned companies by insurance companies and SOE’s such as SAA, Government Garage, Eskom, Telkom, etc.
* In terms of the Agreement signed on the 6th December 2014 there has been no procurement increases to black businesses, instead there has been victimization against black service providers who were party to the signing of the Memorandum.

**Recommendations contained in submission:*** Government needs to investigate the Auto-body approval system urgently, as these approvals are outlawed everywhere else in the western world as discriminatory and illegal.
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| **Industry and industry representative bodies: Microfinance sector** |
| **Microfinance South Africa (MFSA)** | **Intro:**MFSA is a representative body of registered and legal microfinance Credit Providers with almost 150 members, providing short term and unsecured credit, registered with the NCA.**Challenges/concerns identified:*** The incentive to transform is not substantial to a number of stakeholders in the Financial Industry.
* A more focused approach is required with more substantial benefits in order to promote transformation in the industry.
* Consumer awareness remains problematic on the transformation agenda. Consumers are not educated enough and still remain unbanked. More effective consumer education needs to be implemented in order to ensure transformation does take place specifically with regards to access to credit and the use of technology and appropriate products.
 |
| **Co-operative Bank Sector including development agency, banks and associations**  |
| **Co-operative Banks Development Agency (CBDA)** | **Intro:**The CBDA is mandated through various pieces of legislation to: Supervise and regulate co-operative financial institutions, provide liquidity and technical support, and build capacity and support development (incl. eventual integration into the National Payments System).**Sector Challenges:*** Low skills base (Finance, Banking etc)
* Inaccurate financial reports submitted to the CBDA Supervision Unit
* Inadequate capital, low growth trends
* Poor governance structures (oversight role)
* Weak risk management levels
* Lack of understanding and non-compliance to the regulatory framework
* Infrastructure
* Seed funding
* Branding & marketing
* Manual operations
* Limited product & service offerings
* Constraining regulatory requirements

**Recommendations contained in submission:*** Deliberate policy position on co-operative banking
* Development of a National Co-operative Banking Strategy
* Review of the Regulatory & Legislative Framework
* Implementation of the deposit insurance fund
* Review of the co-operative Banking Model
* Adequate resourcing of the CBDA
* Location of the CBDA
* Review and close monitoring of the Financial Sector Charter
* Establishment of a co-operative banking sector Industry body
* Establishment of a Secondary Co-operative Bank
* CFI Infrastructure enhancement
 |
| **Limpopo Forum Secondary Financial Cooperative** | **Intro:**A South Africa that is hungry for richer black economic empowerment and industrial transformation should be brimming with Cooperative Banks or other financial institutions of that type.**Overview:*** The Co-operative financial sector is currently regulated by Co-operative Bank Development Agency (CBDA).
* The CBDA provide supervision and capacity building to CFIs.
* South Africa currently has less than 200 CFIs and no more than five Cooperative Banks.

**Challenges/concerns raised:*** Dedicated Bank Bill is not enacted as yet and has been under discussion since 2004 - the main objective of the Bill is to improve access to basic banking services for low income and historically disadvantaged communities in the country by creating opportunities for companies such as retail outlets and cellular phone companies to expand banking services but no clear indication from National Treasury on when will the Bill be enacted.
* A study conducted by the FinMark Trust observed that “The introduction of formal regulation to the CFI sector in South Africa, and the creation of the CBDA, resulted in the number of registered CFIs decreasing significantly.
* The Ernst & Young study cites as key reasons for the depressed recognition of cooperatives, insufficient advocacy and neglect by academics, and mainly economists who over-emphasise top down solutions. In South Africa cooperatives in general are seen as a preserve of rural communities and aged.
* Most of the CFI are not registered with the regulator because they don’t meet the registration requirements, while some are closed and some are deregistered because of the following reasons
* No funding assistance available to CFIs thus they:
	+ Lack proper operating funds
	+ Lack proper operating facilities
	+ Lack funds to disburse loans
	+ Lack of marketing material
* Communities have no knowledge of the co-operative banking sector.
* Lack of capacity building support

**Recommendations contained in submission:*** The Government should come up with the ideas of strengthening the CFI’s as the CFI’s are serving the South African society to address the socio-economic challenges of poverty and unemployment.
* Provide at least once off grant of R150K and loan fund of R250K PER STRUGGLING CFI’S
* The Government should encourage and facilitate CFIs to meet and form secondary co-operatives at the provincial level ,so that the provincial secondary’s can meet at national level to form tertiary Co-operative bank as the sector currently does not have a convincing structure to can help each other nationally
* Government should give to CFIs the SASSA grant payment system and these will have a great impact on the income centres of the CFIs
 |
| **National Apex Cooperative of SA** | **Intro:**NACSA unites, represents and capacitates cooperatives by harnessing knowledge and technology for radical socio-economic transformation and sustainable development.**Overview:*** The Co-op Act 2005 as amended by 2013 indicates that there are three levels of co-operatives
* Primary co-operatives
* Secondary co-operatives and
* Tertiary co-operatives
* Co-operative Sectors:
* Financial Co-operatives (Co-op Banks)
* Agricultural Co-operatives
* Consumer Co-operatives
* Housing Co-operatives
* Services Co-operatives (Transport etc.)
* Arts & Crafts Co-operatives
* Marketing Co-operatives

**Recommendations contained in submission:*** Develop a national Co-operative Bank with the following functions:
* Serve as reserve bank of Co-operatives in South Africa
* Wholesale productive loans
* Large investment loans
* Development funding loans
* Assets acquisition finance
* Co-operative business restructuring finance
* Bailout and mergers finance
* Co-operatives and SMEs bridging finance
* Credit and deposit insurance
* Insurance (including health) and assurance products
* Mobile payments and ecommerce administration
* The establishment of a Deposit Guarantee Fund
* The establishment of a Solidarity Fund
* The establishment of an Audit Fund
* Move the CBDA to DSBD
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| **DGRV - Ludwig Ehard  (German Cooperative and Raiffeisen Confederation)** | **Intro:**DGRV is a national co-operative apex organization and -top-level auditing federation; it unites as an apex organization with co-operatives in 4 sectors: banking, agriculture, crafts/trade/services and consumers**Recommendations contained in submission:*** A multilevel approach in Setting-up co-operative Financial Systems should be adopted with (National co-operative - central bank; Regional co-operative central institute; Local co-operatives)
* Establish a legal framework for co-operatives, for SME and rural finance institutions
* Develop regulation, rules, supervision, licensing, norms, standards
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| **National Association of Cooperative Financial Institutions of South Africa (NACFISA)**  | **Intro:**NACFISA was registered in March 2013 under the Cooperatives Act of 2005. It represents the sector with a membership of 28 Cooperative Financial Institutions and 2 Cooperative banks which are registered with the Cooperative Bank Development Agency (CBDA) and the Reserve Bank respectively. **Overview of the sector:**The cooperative sector has grown by 13, 33% from 26 CFIs in 2013 February to 30 in 2016 February, with an asset growth of 15.41%, from R231million to 280 million. (CBDA annual report 2015/16)**Challenges/concerns raised:*** Regulations are too restrictive to allow for a rapid growth in the sector and to bring about tangible transformation that makes the cooperative sector attractive to those who are yet to join.
* The legislative processes in existence currently (Cooperatives Bank Act 40 of 2007) are not supportive enough to the development of cooperatives in the financial sector.
* The different classification of cooperative financial institutions and cooperative banks by CBDA rules gives the impression that the one is inferior to the other. Thus members are more attracted to cooperative banks than cooperative finance institutions.
* The singular regulatory body which is the CBDA has no independent appeal process and therefore renders the regulatory mechanism unfair.
* The banking platform software project is a giant step that government has extended to cooperative banks however the system is too costly for cooperative banks to acquire, this if not considered may lead to the system being a white.

**Recommendations contained in submission:*** The development and design of the rules as conferred to the CBDA by section 57 of act 40 of the Cooperative Banks Act must be reviewed to read as “in consultation with the Cooperative Sector”.
* The budget of the CBDA needs to be reviewed to ensure that it carries out its mandate in support of the Cooperative sector.
* The CBDA should extend its reach by opening provincial offices in all provinces with a view of adequately allocating time to assess, establish and registration cooperative banks instead of a single centralised office in Pretoria.
* In order to build awareness and confidence in the sector government has to assist to drive campaigns on the importance of saving in cooperative banks.
* The CBDA rule that differentiate cooperative financial institution must be done away with and replaced by different levels of cooperative banking.
* An independent appeals authority should be established to ensure a fair and credible process.
* The Cooperative sector must be part of a team of formulating rules together with the CBDA so that the rules are fairly consultative.
* The banking platform must be extended to all cooperative banks with no cost, to improve reporting and efficiency.
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| **Civic society** |
| **Centre for Competition, Regulation and Economic Development (CCRED)**  | **Intro:** Banking transformation is only part of a broader set of measures to shift the economy towards greater inclusion. **Challenges/concerns raised:*** Barriers to entry remain high. Entry brings benefits in lower fees, more dynamic products, and competition for low income customers. There are natural and strategic barriers.
* There is limited transparency and comparability of bank offerings.
* Obtaining a banking licence is difficult without a tiered structure. Failure to encourage and support entry through permissive regulation has the same effect as high barriers to entry.
* Collusion by banks is part of the story. It is important to recognise the collusion case as part of global cartel arrangement and it highlights the limited transparency and flaws in supervision. It also demonstrates that competition law is not enough to correct harm. Harm from cartels is generally larger than the penalties allowed by law. Cartels arise and are fighting off entrants and are sustained by high barriers.
* Comparative studies on Mobile Money demonstrate the role of regulation in stifling the growth of MM in SA. The benefits of Mobile Money in Zimbabwe and Kenya arose from a flexible, adaptive, risk-taking regulatory environment.
* There has been slow progress in implementing the banking inquiry recommendations.
* Developmental finance is not enough.

**Recommendations contained in submission:*** Transformative finance is inclusive and rules of the game should be changed, not to favour the insiders only.
* It is important to introduce better monitoring and publishing of commercial lending to SMEs and black-owned businesses.
* South Africa requires a long-term, risk-taking, patient funding for new investments in productive assets.
* Provision of services to SMEs and black-owned entrants should be incentivised.
* Licensing should be opened up to promote the diversity of offering. Bank regulations should be viewed as contributing to the goals of industrial policy.
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| **Finmark Trust** | **Intro:**FinMark Trust is an independent trust whose purpose it is to make financial markets work for the poor by promoting financial inclusion and regional financial integration. **Overview:**In 2000 the SACP and COSATU tabled at NEDLAC the demand that government and the financial institutions address deficiencies within the financial sector. In the subsequent engagements, all the parties agreed on the need for all the participants to ensure that the financial sector contributes more to the socio-economic development in the country. At the same time, the parties agreed on the need to maintain the long-run viability of the financial sector, and recognised that the problems identified were in large part due to external constraints.The critical objective of the constituencies’ engagement at NEDLAC was to ensure that the financial sector as a whole does more to support economic and social development, in particular by:* Providing sustainable banking services, contractual savings schemes and credit for small and micro enterprise and poor households
* Supporting higher levels of savings and investment overall
* Expanding developmental investments that strengthen the economy, create employment, improve the access of the poor to productive assets and housing and/or raise living standards by improving infrastructure or production of basic goods and services.

**Current assessment of transformation:**Access to banking has increased across all social boundaries, but most noticeably for those who are the vulnerable group (LSM 1-5). Further analyses shows that the growth was driven by both legislative and commercial initiatives. |
| **Firstsource Money** | **Intro:*** Banks are not “financial intermediaries” as our government, Treasury and Reserve Bank officials think they are. Policies that are made with assumptions or understanding that banks are “financial intermediaries” always fail and that is why there is no growth in South Africa. Banks do not collect money from savers and lend it to borrowers. They have never done so. One of the key reasons why we had the global financial crisis (GFC) is because of the erroneous understanding of what banks do.
* 5% of South Africa’s money supply is created by government (Reserve Bank) while the 95% comes from the private commercial banks. Money creation and allocation power vests with commercial banks - the Big Four, yet the prerogative for money creation lies with the state. Our laws do not recognise this transfer of such immense power from state to individuals and firms. Once we recognise this 95% reality, it stands to reason that some kind of responsibility goes with the privilege.
* Banks do not consider or even care about the macroeconomic and related economic and social implications of their power to create and allocate money. The state does not know that it has abrogated its responsibilities and rights to banks, and it does not even know how much poverty and unemployment including crises are caused by banks. Banks shape the economy whether we like it or not. We either choose to leave it that way or do something now urgently.

**Recommendations contained in submission:*** The Reserve Bank must be subjected to democratic control and fall under Treasury, and its mandate of price stability be changed to include targeting unemployment. The Reserve Bank should be instructed by Parliament to supply sovereign money to all state banks and public banks, new or old.No state bank should ever go to markets for money, but to the Reserve Bank only.
* New policy banks (state banks) to be created. Public banks (Community, Regional Government Banks) catering for SMMEs should be in place: All of them should not be for profit. Community public banks should also include co-operatives.
* New macro-prudential policies must be put in place; and credit guidance should be at the centre of all public banks.
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| **Keith Levenstein** | **Intro:**The presentation provides an overview of the B-BBEE Act as well as the relationship thereof the FSC.**Current assessment of transformation:*** The minister has issued many comments and gazettes in trying to ensure that the sector codes would be aligned with the Amended Codes. At the time (2013) 9 sectors had their own sector codes (FSC, Transport, AgriBEE, Property, ICT, Construction, Chartered Accountancy and Forestry and Tourism).
* In March 2014 the minister issued notice 226 of 2014 stating that the transitional period would end on 30 April 2015. Therefore the Amended Codes of Good Practice came into effect on 1 May 2015. At the time the Amended codes, i.e. those emphasizing a stronger transformation policy, only affected industries that did not have a sector code. The existing sector codes remained in place, and would have to remain in place until amended or repealed.
* The minister stated in May 2015 that he wished to repeal all sector codes if they were not aligned by October 2015. To date, March 2017, nearly two years later he has not followed up on his intention with regards to FSC.

**Challenges/concerns raised:*** The delay in finalizing the FSC is responsible for lower levels of transformation.
* The FSC Council is dysfunctional and needs to be improved.
* The objective of a sector code is to achieve more transformation than the generic codes would require but this is currently not the case, sector codes are more lenient
* Annual reports are to being produced by the FS as is required by the generic codes.

**Recommendations contained in submission:*** The FSC needs to berepealed until such time as an amended FSC can be issued.
* The FS must follow the amended generic codes until such time as a final FSC can be issued.
* I recommend the FSC Council be disbanded in line with the FSC being repealed and reconstituted properly with better oversight.
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| **Brigitte Brun** | **Intro:**A concern with regard to the draft Amended FinancialSector Code Gazette No.39818 issued on the 17th March 2016 was raised as they are perceived to be detrimental to Black African South Africans and will not assist in thetransformation of the Banking Sector for Black African people.**Challenges/concerns raised:*** Statement FS200: Measurement of the Management Control element of Broad-Based Black Economic Empowerment(B-BBEE) - deviates from the generic codes by allocating “a meagre bonus

point” to Financial companies if their staff compliment is made up of Black AfricanSouth Africans.In essence a Financial Institution could employ no Black African South Africans at allin its institution and only lose a total of 5 out of 20 points on the Management ControlScorecard* Statement FS300: Measurement of the Skills Development element of B-BBEE - no obligation to spend any training development spend on Black African South Africans and full points can be scored by the Financial Institution.
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| **Osiba Holdings**  | **Intro:**It is generally recognised in small business development circles internationally that business advising plays a crucial role in enabling small businesses to survive their early years and grow, as the quotes below clearly indicate.Credit guarantee schemes play an important role in mitigating the risk of lending to SMMEs and thereby increasing access to finance by SMMEs.**Challenges/concerns raised:**The work we did with the motor body repair industry showed clearly that one of the biggest challenges faced by small, mainly black-owned motor body repairers, is lack of access to insurance work - Short-term insurers play an important role in channeling body repair work and they use a panel system that excludes the majority of black-owned panelbeating shops and favours established, mainly white-owned, repairers.**Recommendations contained in submission:*** Commercial banks should be required to establish and fund a universal business advisory service open to all small businesses, regardless of whether or not they are bank clients.
* Banks should be required to constructively re-engage with the Khula Credit Guarantee Scheme so that the quantum of lending to SMMEs can be significantly improved. Where there are problems with the scheme – either in terms of design of execution – these should be resolved collaboratively and constructively instead of simply dumping the scheme altogether. Should banks not be willing to collaborate with the scheme, they should then be required to introduce other innovative instruments to enable increased lending to SMMEs.
* Short term insurers, should be required to put in place a mechanism to significantly increase the quantum of repair work available to small, mainly black-owned body repairers nationally, and should be closely monitored and required to report regularly on this.
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| **Yvonne Oberholzer** | **Intro:**The submission was provided on the premise of informing the house on the undue sequestration process undertaken by ABSA against Y Oberholzer by taking advantage of section 8(g) of the insolvency act of 1936 which has now been amended by section 8(A) as highlight some of the unjust malpractices by ABSA. **Challenges/concerns raised:*** The banking code of practice states that a client should be referred to a debt counsellor to avoid sequestration but even under debt review sequestration could not be halted.
* A forensic audit sponsored by a stranger was done on the mortgage bond account which ABSA used as the reason for sequestration and it was discovered that the account was overcharged. For 3 months requests for statements of the bond account have been sent to ABSA but these have not been provide yet.

**Recommendations contained in submission:**The insolvency act dates back to colonial days and should be overhauled, as it is not in line with our constitution |
| **Regiments** | **Issues identified**:* The sector focus is skewed to wealthy and high earners with limited innovation and competition compared to vibrant emerging markets.
* Credit Allocation, Interest and Service Charges are individual customer focused with no evident risk pooling or cross-subsidization. The poor borrow little and pay more.
* Capital Allocation is economically inefficient due to legislation, tax policy, gatekeeping and vertical integration.
	+ Regulation 28 limits asset allocation to alternative asset classes under the guise of prudence ignoring economic imperatives as expressed in the NDP.
* Provider-Customer power dynamic empowers customer with limited recourse in the face of procedural and substantive unfairness.

**Recommendations contained in submission:*** Sector arrangements with respect to transactional banking, insurance and the payments system, including the relevant legislation including the NPS Act must be reviewed and reformed in line with the recommendations of the Competition Commission Banking Enquiry of 2008to ensure true value for services, especially for the poor, is achieved
* Legislation for second and third tier banks
* Separation of acquirers from issuers
* Equitable PASA membership that encourages innovation
* A solution must be designed and implemented that embodies principles of risk pooling, cross-subsidization and government guarantees to enable the poor to access credit at comparable rates to the wealthy or high earners.
* Credit allocation to the poor can be enhanced by risk pooling in the same manner as health and retirement insurance to eliminate the current cherry picking
* Availability of affordable credit backed by a government guaranteed structure
* Services charges to the poor can be reduced by cross subsidisation
* The National Treasury, DTI and Competition Commission need to evaluate the regulatory regime, tax regime, concentration risk and vertical integration in the investment industry in order to more rationally align these with national imperatives as per the NDP
* Establishment of a Financial Services Commission for Conciliation, Mediation and Arbitration (FSCCMA) to mirror the arrangements for the Employer-Employee relationship.
* Fintech development should be supported by legislation to ensure start-ups and innovations are encouraged
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| **Wealth Creation Global**  | **Intro:**The submission was with regard to the proposed amendments to the Cooperatives Bank Act 40 of 2007**Challenges/concerns raised:*** The Cooperative Banks Act 20 0F 2007 in its current form is a barrier to entry to the sector as it gas stringent minimum requirements
* The CBDA as established under S55 of the Act does not add value nor does the section under which it is established shows any piece of evidence that by establishing CBDA it purported for the institution to drive and encourage development in the sector specifically and economic development in general

**Recommendations contained in submission:*** Do away with the common bond requirement in the act as it is not enabling nor encouraging communities to work together
* Dissolve the CBDA with immediate effect
* Do away with proposed limitations as they are barriers to entry, with regard to:
1. R30 million ceiling for an entity to be regarded as a Coop Bank
2. 200 minimum number of members required to form a coop bank
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