NATIONAL ECONOMIC DEVELOPMENT AND LABOUR COUNCIL REPORT ARISING FROM THE FINANCIAL SECTOR TRANSFORMATION WORKSHOP HELD ON 05-06 APRIL 2018.

10 APRIL 2018

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1. BACKGROUND

Manco, at its meeting of 20 November 2015, agreed to convene a Second National Financial Sector Summit.

At its meeting of 28 July 2016, Manco directed the task team to develop a proposal, including the budget and other logistical issues in relation to the Second National Financial Sector Summit.

The task team proposed that a research study should be undertaken to evaluate the implementation of the 2002 Financial Sector Summit Agreements. The outcome of the research would assist the task team to make informed decision on the issues to be discussed at the Summit.

The research study was concluded in July 2017 and covered the following:

- The extent to which the 2002 resolutions had been implemented.
- The reasons for the lack of implementation, where resolutions were not implemented.
- Assessed whether new resolutions should be adopted or extend the application and implementation of old resolutions in instances where certain resolutions were not fully implemented, to
- Discussed the need for new resolutions and propose a way forward.

The research report reviewed the 13 Agreements that were adopted in the 2002 Financial Sector Summit. The main objective of the assignment was to evaluate the progress that the different financial institutions had made in the implementation of the 13 Agreements.

The task team further agreed to convene a preparatory engagement session in a form of a workshop. The workshop would assist the task team to agree on issues to be approved by the second National Financial Sector Summit.

This report summarises the outcomes of the Financial Sector Summit Workshop held on 05-06 April 2018 at CSIR International Convention Centre.

2. SESSION ONE

2.1. PRESENTATIONS

The workshop received the following presentations.

- Ms. Vawda presented the findings of the Nedlac research on the review and the progress of the implementation of the 2002 Financial Sector Agreements. Her presentation is attached as annexure B of this report.
- Mr. Carrim presented the findings of the Parliamentary Standing Committee on Finance report on Financial Sector Transformation. The report is attached as annexure C of this report.
- Mr. Ramputa presented on the Role of the Financial Sector Charter Council. His presentation is attached as annexure D.

2.2. INPUT BY CONSTITUENCIES

2.2.1. LABOUR CONSTITUENCY POSITION PAPER

2.2.1.1. Introduction & Background

The first NEDLAC Financial Sector Summit was held in August 2002 with thirteen (13) agreements reached and signed off by all NEDLAC social partners. The summit nearly collapsed on the eve of its sitting due to some disagreements or lack of agreements by some social

partners. Labour stated that constituencies should have learned some lessons from the 2002 summit. It stated that Nedlac work should be effectively strengthened and intense negotiations should be held ahead of the send National Financial Sector Summit.

Social partners and leaders within respective constituencies must accept that the majority of the population is increasingly losing patience with the slow pace of socio-economic transformation in South Africa. It stated that this is the reason that calls for radical economic transformation cannot be ignored anymore.

More recently, the World Bank released a study on inequality which found that South Africa is the one of the most unequal societies in the World. According to the World Bank study released on April 2018 headed 'Overcoming Poverty and Inequality in South Africa', nearly half of the population of South Africa is considered chronically poor at the upper-bound national poverty line of ZAR 992 per person per month (2015). The top percentile of households had 70.9 % of the wealth and the bottom 60 percent had 7.0 percent of the wealth.

2.2.1.2. **Is this the country we want to build and leave for generations to come?**

Labour stated that social partners have an opportunity to define South Africa's own path and make clear commitments in the forthcoming summit. The contributions of social partners in the financial sector transformation workshop premised and assessment that transformation in the financial sector as with the broader economy is crucial for higher economic growth and long term sustainability of South Africa particularly the democracy project.

2.2.1.3. **Regulatory framework remains an impediment to transformation of the financial sector**

Labour raised its concerns on limited development of a state bank and a truly black owned, managed and controlled financial services companies. Labour stated that it believed that the lack of progress in this area - beyond minority ownership in systemically important

banks and other financial services companies was a direct result of anti-competition practices within the financial services sector.

It appreciated the importance of financial regulation in safeguarding the integrity of the financial sector; however it submitted that regulators (FSB/SARB) have used financial stability as an excuse not to transform. Labour further stated that there was a need of meaningful balance between fostering financial stability and transformation sector.

In the aftermath of the VBS saga, it was worth reinforcing that Labour's call for transformation was not a call for regulatory forbearance, or even poor governance approaches rather that Black owned entities are given appropriate support to emerge. It stated that in the case of VBS Bank, regulators failed a black owned bank and treated it differently from other banks with reported challenges. Is sought clarity on whether National Treasury's mandate was to protect the sector against transformation or not.

2.2.1.4. **Challenges Facing the Financial Sector**

Without commenting on each every agreement of the 2002 summit, Labour indicated that few black people still face difficulties in particular with regard to products which portray black people as a group that is in need of more funeral cover than any other similar products. For this reason, Labour stated that consumer education should be completely be de-linked from the Financial Sector charter and Financial Services Board and allow black owned and managed institutions to be the providers of this education. It stated that, in its view, this proposal would assist black companies to fight what the private sector over-sells to consumers and society through media. It stated that context was a very important element that should be provided when such services are provided.

2.2.1.5. **Ensuring access to basic financial services**

Labour stated that between 2014-16 the public service lost about 100000 employees arising from the unilateral annuitization of imposition, most of which were civil servants who were about to

reach retirement age. In its view, there are very few civil servants that will survive on their retirement funds benefits. This is because due to the fact that the financial sector sells lemons to the civil servants. It further stated that for black people, every product must have an element of a funeral benefit, with very exorbitant cost.

It stated that there was a couple which was paying R750.00 per month for R50, 000.00 funeral cover. This was more than exorbitant. All what the poor person was looking for was a funeral cover but no company was interested to provide a proper advice to the couple.

It stated that social partners should start looking at the issue of bad incentives in the form of commissions which force ordinary workers in the financial sector to sell products that do not promote productive contribution in the economy such as funeral policies. Therefore, more regulation is needed on what products can be sold and at what price.

2.2.1.6. **HIV/AIDS**

Development of appropriate services for people living with HIV has not been necessarily achieved and therefore unfair discrimination continues on this sector.

2.2.1.7. **Procurement**

Support for emerging enterprises and black businesses through procurement enterprises and supplier development is very weak. It stated that government and other social partners must make sure that only locally based goods and services are procured and refuse to do business with those which are not complying. This will assist the financial sector to transform quicker.

2.2.1.8. **Proposals Made by Labour Constituency**

a. De-monopolising the financial sector

There must be asset caps on the sector. Investment, retail, brokerage and insurance firms must be separated and owned and controlled separately to avoid not only monopolizing of the industry by a few but also to cap conflict of interest and open the

industry to more entrance. The sector must be de-concentrated. No bank should be allowed to own an insurance company or neither a brokerage company nor insurance company should be allowed to own bank. This according to the Standing Committee on Finance and the Portfolio Committee on Trade and Industry is called "Insufficient access to markets because of a concentrated and vertically integrated market structure and old boys club".

b. State bank

Legislators should ensure that legislation is passed for a State Owned Bank to be established, registered and approved to operate and compete with existing banks in order to break monopoly capital in the sector.

c. Nationalisation of South African Reserve Bank

The nationalisation of the bank which must include regulating the power to print money which has been outsourced to the private sector is important to safeguard the future of South Africa. To emphasise this point Labour quoted Thomas Jefferson the third president of the US when he said

"If the American people ever allow private banks to control the issue of their currency, first by inflation then by deflation, the banks and the corporations will grow up around them, will deprive the people of all property until their children wake up homeless on the continent their fathers conquered. The issuing power should be taken from the banks and restored to the people, to whom it properly belongs"

The National Assembly should put the question of South African Reserve Bank back on its agenda for debate so that its mandate, powers and ownership questions and put back into the hands of the people through nationalization.

Labour stated National Treasury has failed to act decisively on protecting black institutions in the financial sector. A case in

point is the VBS bank. Instead of putting this bank under curatorship, National Treasury failed to assist. It sought clarity on why must a black institution have to proof twice more that the established institutions for it to do business.

d. We must avoid a return to an overly indebted black population

Organized Labour has always supported the call for responsible lending in the South African economy. It stated that it had campaigned for protection of the most vulnerable members of society against unscrupulous lending practices including prohibitive interest rates. Labour considered the April 2014 Credit Amnesty as significant relief for struggling consumers.

It raised its concerns regarding the recent judgement of the Western Cape High Court where the court ruled in favour of Truworths, Foschini and Mr Price in a case that challenged the requirements of the National Credit Act (NCA). By removing some key information requirements, there is potential risk of irresponsible lending by credit providers including banks (for example Capitec as suggested in the Viceroy Report and African Bank pre 2015).

Labour appreciated the relationship between an impaired credit record, access to financial services and employment – as such it urged the regulators to appeal the judgement and consider ways to reduce the risk of “sub-prime lending crisis” in South Africa.

e. The poor Black retirees

Labour raised concerns regarding the recent developments with retired Black professionals. It stated that anecdotal evidence suggests that a significant number of Black professionals become insolvent within four years of retiring

from formal employment. This includes a significant number of former public servants, and lower middle class skilled workers.

It stated that this arises as a consequence of poor regulation both design and communication. It further stated that limited financial information and education and financial exclusion is a cause for this. South Africa's financial sector continues to argue that distribution of appropriate financial services to Black people remains unaffordable. Where financial advisory services are available, the service fails to take into context the aspirations of Black families, is unaffordable." The information asymmetry between financial services providers and black consumers often leads to black retirees selecting products that do not support their long term objectives at best and at worst thus erode their lifelong savings.

This failure is also related to lack of transformation in the sector. Diversity in ownership would support innovation in product design, marketing and distribution. Currently, the financial services sector fails to accommodate even the higher income black professionals.

f. Allocation of credit to labour intensive sectors

One of the reasons for lack of jobs is that there are few firms that are entering the market mainly because of high cost of capital. It sought clarity on how can licensing be used to force the sector invest in labour intensive.

g. Illicit capital flows

Labour stated that illegal export of capital has cost the economy billions in rands which should have been used to create new firms and new decent jobs. The question is why the financial sector is not stopping these illegal flows. Why is treasury refusing to introduce capital controls.

h. The financial sector's commitment to the FSC

It stated that it counterparts from the Financial Sector will argue that it have made significant progress in meeting the commitments of the Council. The financial sector would also table statistics suggesting that the sector has exhausted all efforts to make progress with Enterprise development; Skills development; Access; Housing Finance and Small Business financing. Additionally, we expect them to table well designed graphics on progress with the Code in an attempt to convince social partners that the conversation is misguided and criticisms of the sector are not justifiable.

Labour stated that the workshop was held under a different climate where even the legitimacy of the role as Social Partners Representatives at NEDLAC is being openly questioned and challenged by the broader population. It stated that its collective responsibility is to work together, respectfully in order to influence the Agenda and approach to the transformation discussions. Social partners might otherwise lose the opportunity to shape the discussions they have done on the #FEESMUSTFALL and #EXPROPRIATIONWITHOUTCOMPENSATION debates.
It stated that a frank discussion is needed among social partners on the issues of transformation. All is not well in South Africa, all is not well with the financial sector, and the country's sustainability rests on social partner's ability to define a new path for addressing glaring issues. It further stated that leaders should steer away from box ticking and a "compliance driven approach".

It stated that financial charter is not implemented because of among others non-compliance with the FIAS. In terms of this Act if you fail to pass the exam may be retrenched.

i. Impact of technology on jobs

The sector must not be allowed to prioritise profits over jobs. The introduction of technology must create more jobs and trade unions must be consulted. The Nedbank Pepper Robot gives advice on financial services but is not FAIS compliant and cannot give advice. 3000 workers may lose their jobs. It sought clarity on whether a bank can be given a license to make profits and to get rid of workers through robotising the workplace.

j. WHAT MUST THE SUMMIT ACHIEVE

It stated that only 2 out of 18 agreements have been implemented. The Nedlac task team must be allowed to engage on these issues. Where there is disagreement the licensing mechanism must be used to force transformation. It proposed that legislature's power to legislate must be used to force compliance; because of the experience shows that self-regulation has delayed transformation. It sought clarity on how licensing can be used as a tool to force transformation and create jobs.

2.2.2. COMMUNITY CONSTITUENCY POSITION PAPER

2.2.2.1. Executive summary

This document outlines the broad thrust of the position of the National Economic Development and Labour Council (Nedlac) Community Constituency going towards the 2nd Nedlac Financial Sector Summit. The document consists of four sections; the first section provides a brief historical background and seeks to sketch the context which lays the basis for our position.

It further goes on to highlight the latest outcomes of the recent FSCC Consultative Conference which also served as a preparatory forum to consolidate the views of the Coalition partners.

Finally it puts forward the Community Constituency position around the Financial Sector Charter Council, The Standing Committee on Finance in Parliament process as well as the Proposals of the Nedlac Report on the Review of the 13 Agreements of the first 2002 Nedlac Financial Sector Summit.

2.2.2.2. **The Historical Background**

The first National Economic Development and Labour Council (Nedlac) Financial Sector Summit took place in 2002. The summit was a consequence of intense mobilisation and mass action by the Nedlac Community Constituency as led by the Financial Sector Campaign Coalition (FSCC) together with a multiplicity of people-centred, grassroots organisations standing up against a range of financial injustices that are visited upon the vast majority of South Africa's population. The Coalition arose following a highly successful South African Communist Party "make the banks serve the people "Red October Campaign the year before.

Today the Nedlac Community Constituency is made up of the FSCC, the Women's National Coalition (WNC), Disabled People South Africa (DPSA), The South African Youth Council (SAYC), South African National Apex Cooperative (SANACO) and the South African National Civics Organisation (SANCO) who all in turn also make up some of the FSCC coalition partners.

The collective action by the Financial Sector Campaign Coalition, shook the sector and forced a number of progressive changes, the most noteworthy of which was, among others, the introduction of the Mzansi Bank Account; the regulation of credit bureaus; and the enactment of radical reforms related to access to credit through the promulgation of the National Credit Act and so on. It also led to the historic creation of the Financial Sector Charter Council.

But when action is not sustained, the pace and quality of change slows down. In the absence of continuous pressure from mass public action, implementation on the Charter and Financial Sector Code lagged. The Coalition has continued over the years to raise its voice to resuscitate the campaign and even though discussions were rich, failure to act aggressively condoned the continued complacency with regards to transformation within the financial sector. The Sector, as a whole has become so complacent that it took more than 15 years to agree to have the forthcoming second Nedlac Financial Sector Summit this year; and even attaining that agreement was a struggle.

2.2.2.3. **Overview of the current conditions which inform the basis of our position**

South Africa, with an unemployment rate of over 26 percent and a poverty rate that exceeds 50 percent, cannot afford complacency around the transformation of a sector that manages over R8 trillion assets, and that contributes 21.6 percent to the gross domestic product annually. This sector has a critical role to play in stimulating the levels of economic growth required for development, job creation and the reduction of inequality.

2.2.2.4. **General urgent actions for transformation**

In this year in which we celebrate the centenary anniversaries of comrades Nelson Mandela and Albertina Sisulu, higher levels of patriotism are required from the financial sector in particular and everyone else. We need a financial sector with an ownership and management structure that reflects the demographics of South Africa, and which contributes to the establishment of an equitable society by providing engendered, accessible financial services to black people and by directing investment into targeted sectors of the economy.

This requires firstly, that speculative investments, securitisation and trading in derivatives have to end. Investment in the real economy is an imperative.

Secondly, while the investment patterns of mainstream banks have to change; the call for a fundamental change to the structure of the financial sector remains important. The Post Bank is still not yet completely operation as a fully-fledged bank. We have no State Bank. Support for cooperative banking remains woefully inadequate. It is with sadness that we note the placement of the VBS Mutual Bank in curatorship – a matter that we deem to have been clearly avoidable if we were really inclined to be developmental in every respect.

2.2.2.5. **Regarding Savings and Indebtedness**

South Africans do not save and remain highly indebted. A trend that is set to increase further given that now even retail outlets provide credit for food while already over forty-five percent of credit active South Africans are in arrears by three months or more. Much of the credit is not used for fixed assets but for immediate consumption (such as food, clothing and airtime). Indebtedness force consumers to turn to loan sharks or/ and to put up their homes as security for bank loans, both of which charge high interest rates. Some of the consumers eventually lose their homes because they are unable to repay the loans for various reasons.

2.2.2.6. **On Evictions**

In the course of our campaigns around evictions we have encountered incidences where many of the evictions have been completely illegal. We have come across cases where homes had been fully paid up, but yet were repossessed. A common and disgraceful practice of selling repossessed houses far below market value, in some instances for as low as R100 still exists while there is

now a glimmer of hope that the courts will begin to alter the situation. It is precisely these reasons that one of our coalition partners - Lungelo Lethu Human Rights Foundation felt compelled to institute the class action against the banks.

2.2.2.7. **On Transformation as whole**

We stated categorically at the parliamentary hearings convened by the Standing Committee on Finance that we are not impressed by the pace of transformation of the financial sector to date. We went further to state that the finance sector continues, in the main, to support the mining and energy sectors of the economy while paying lip service to the core interests of the of the majority of the citizens of the country.

The lack-lustre performance of the Financial Sector Charter Council has, so far, vindicated the sceptical views that were initially expressed by some, among us, that a voluntary implementation and reporting system without consequences for those who remain unwilling to comply with the BEE code is not going to advance transformation of the sector in any significant measures.

These and many other lingering injustices and pervasive inhumane practices that occur within the financial sector have necessitated that we should strengthen the FSCC more than ever before. The costs of our silence have been too high. We need to urgently reflect on the state of the financial sector, conduct introspection on our short comings with regards to effectively driving a campaign for transformation, and to consolidate the way forward before as we go to and beyond second Financial Sector Summit.

2.2.2.8. **Basic Expectations of the Community Constituency**

We recently held a highly successful 2018 FSCC Consultative Conference – in which all the Nedlec Community Constituency

components and over fifty other civil society formations and guests were invited – to identify challenges to be prioritised and addressed in taking forward the sector transformation agenda. We emerged with a framework that will inform deliberations in our structures and elsewhere to enable the formation of a coherent transformation agenda that can be advanced by all progressive forces.

2.2.2.9. **Among the key outcomes of the Consultative Conference that emerged from the two day deliberations included the following**

a. The establishment of a Task Team which includes all FSCC coalition partners and Apex bodies to drive the implementation of the Program of Action.
b. Clarify the jargon used in the sector noting that it is complex in nature.
c. Financial Services Charter and Corporate Social Investment Programmes (CSI) to support cooperatives as part of Transformation imperatives.
d. Agitation of society at grassroots level through a structured Mass Financial Literacy Campaign with emphases on savings and investment. This will allow information to filter to the general masses of our country.
e. Establishment of Credit and Savings Clubs (Cooperatives) in primary, secondary schools and institution of higher learning
f. SAFOBS Secondary cooperative and FSCC should form a partnership in line with the Micro Insurance Regulation (Insurance Act No. 32 of 2017) since the big players prevent new entrants in the market.
g. The proliferation of CFI's should assist in providing finance to programmes such as food security campaigns.
h. Organise cooperatives to re-skill retrenched workers in the mining industry and elsewhere. SANACO and DGRV should lead that program. UBank which was previously Teba Bank is has specific obligations to assist mine workers in this regard.

i. Traditional healers are unable to open bank accounts and access medical aids funds. As a result they are unable to use speed points. (Speed points are obtainable from private entities)

j. A commission should be established to investigate the liquidation of companies in relation to their Trust investments. There is growing tendency by big companies to hide investments in Trusts and then liquidate the company, give peanuts to the workers and redirect that investment elsewhere.

k. The restructuring of the financial securities system has to be revisited as it has proven overtime that it always affected the poor more than the rich. It is, among others, such practises in the industry which generate jobless growth and or culminate in job cuts at the expense of the poor.

l. The resources to support the creation alternative community or cooperative financial institutions (CFI's) are woefully inadequate. Consideration ought to be explored to leverage and or harness the cash flows from the taxi industry operations or the soccer events where communities use their own monies

m. Review the housing mortgage bonds model such that is it be established and managed in a manner whereby housing mortgage bonds incur less interest and can be repaid over shorter periods as far as possible

n. To campaign for the removal of private shareholders to enhance the independence of the Reserve Bank to break the strangle hold of the foreign influence over the country's fiscal and monetary policies

o. The state to assist those who have housing mortgage bonds with the banks and have been proven through the judicial system that they cannot afford to further pay their loans due to circumstances beyond their control to have the loans turned into CFI's loans that are guaranteed by the state for amounts equal to housing subsidies to break the circle of debt.

p. The state to fully licence the Post Bank to strengthen its role so that it can assume the responsibility of being a state bank.

q. The Competition commission should be capitalised adequately in the short term to take on more investigative cases against the cartels involved in numerous acts of price fixing in more sectors of the economy and that the penalties should be beefed up to be so steep such that the commission can be financially self-sufficient in the long term

r. The finalisation of the Mining and the Property Charter Codes, both of which remain highly complementary to the financial sector should be accelerated so as to bring the previously advantaged to the throngs of economic freedom and minimise inequalities in the country

s. Amendments of the Nedlac Constitution should guarantee full participation of the Community Constituency at Finance and Monetary Chamber

t. Intensify the campaign for the reversal of the 15% recent Vat increase because this shall have devastating effect to the poor.

u. We campaign for the implementation of the wealth personal income tax as most have benefited over the years that helped them to accumulate wealth at the expense of the marginalised population of the country. Zero rating of certain products and commodities is not sufficient

v. Lobby municipalities for better amenities so that informal trading could thrive. The amenities to address issues of safety, harassment and better trading environment.

w. Organized informal trade and cooperatives will build social cohesion and allow the rand to rotate within the local economy.

x. Infrastructure to be planned in a manner that uses more of natural energy than energy from the grid.

y. Promotion of ablution facilities that use less water because of water scarcity.

z. Big business and government to support youth development programmes where social cohesion will be established at a tender age.

aa. Shopping Malls management to contribute towards this initiative as part of their CSI.

bb. Government to be lobbied to allow stop order deduction from employees with a persal number so that they can contribute towards NEHAWU SACCO to grow its membership that is at 12000.

cc. There must be a campaign to ensure that all government entities and spheres led by the department for small business development extends the 30% of its budget to cooperatives in various ways including tendering and all procurement.

dd. CFI's must granted the opportunity to participate in the disbursement of SASSA grants, which would be a serious and needed form of finance sources for them

ee. Powers must be given to bodies such as the NCR and the FSB to determine the ceiling of the fines beyond what big business budgets for their misdemeanour's as a deterrent from habitual non-compliance and collusion.

ff. The reserve bank must be brought back into the hands of the South African people so that it plays a developmental role.

gg. The SACP and FSCC must influence change in societal culture and mind set on their responsibilities such as in taking forward the SACP resolutions to call for support to expand social ownership through de-monopolisation measures and expand public and worker ownership through publicly-owned enterprises and co-operatives. This must include ensuring that a percentage of ownership in the mining sector goes to workers and the state functioning as the custodian of the broader public (the people or nation as a whole). The proceeds of the publicly owned state must be used to establish and grow a Sovereign Wealth Fund in the interests of the people as a whole with the working class and poor as the majority. In must also include re-nationalising SASOL and establishing a state-owned fisheries company

2.2.2.10. **On the Financial Sector Charter Council past, present and its future**

The Community Constituency further remains in support of current initiatives to expand the mandate and scope of activities of the Financial Sector Charter Council to be extended beyond its narrow confines of the administration of the BBBEE Code. We envisage the Council to have the capacity to play a much more enlarged role with teeth and punitive powers to ensure that it becomes able to address most shortcomings around the transformation agenda. This would entail changing its name to the Financial Sector Transformation Council as has been proposed.

2.2.2.11. **On the Parliament's Standing Committee on Finance Process**

We also stand firmly behind the sterling work undertaken by the Parliament's Standing Committee Finance as well as the possible implementation of the entire plethora of the Committees' recommendations post haste without reservation as soon as all round consensus can be reached by all.

2.2.2.12. **On proposals arising from the Nedlac Report on the 13 Agreements of 2002**

As the Community Constituency we fully endorse the observations made as well as the 15 Proposals reflected from Page 50 of the Final Report of the Review of the 13 Financial Sector Summit Nelda Research published in April 2017. We are of the view that the report should have further proposed the re-introduction of the debate on the need for legislation to bring back the concept of prescribed asserts to ensure that the Sector can be compelled to invest in previously disadvantaged areas which would give impetus to programmes such as the much vaunted "township economies" as well as the rural development objectives.

2.2.3. Business Constituency Position Paper

2.2.3.1. This draft document is an attempt to identify common threads in the original position papers of BASA, ASISA and SAIA, and note potential unique issues to the different sub-sectors. Please note that only the SAIA position paper was mandated by the SAIA Board, and the other papers should only be seen as indicative of the thinking in the other two sectors. The purpose of this document is to facilitate discussion at the Financial Sector Pre-meeting which will take place on 4 April 2018, in preparation for the Nedlac Financial Sector Summit Transformation Workshop on 5 and 6 April 2018. This document has been updated with the latest broad position shared by BASA as to the way forward in the Summit Workshop discussions, as per an email received from BASA today.

2.2.3.2. General Topics

a. The discussions at the Summit Workshop should be a broader, more strategic and systemic approach towards transformation and the financial sector's role in transformation, whilst we must be aware of potential expectations from the other constituencies, including SCOF, and we should take the opportunity to show that we are committed and have real plans to address transformation.
b. Such broader role should be informed by the imperatives of inclusive growth, job creation and inclusion, with particular concentration on how the sector can best, through its business, make an impact on these imperatives.
c. Areas of concentration for the Summit should be:
    i. Infrastructure finance, including addressing market failures in this area. Such failures could include weaknesses in SOE's, capacity and expertise to package projects and others. The short-term insurance sector also has a role to play.

ii. Development of SME's and micro enterprises, including support services and financing. The short-term insurance industry has a very specific important role to play here as well.

iii. Banking the unbanked through initiatives like banks facilitating social grant payments and other initiatives. Financial inclusion is a key area for the whole sector as indicated elsewhere in this summary document.

iv. Procurement, such that institutions' work on procuring significantly more goods and services from black-owned enterprises.

d. In preparation for the Summit. Business proposed that the following issues must be considered.

i. Market concentration and ownership and licensing (SAIA believe that we cannot avoid this topic)

ii. Support for emerging enterprises and black businesses through procurement and ESD

iii. Role of DFIs and state owned entities

iv. Role of FSC Council and financial sector regulatory bodies

2.2.3.3. The above mentioned broader approach should result in developing an agreed strategic approach, and a detailed package of deliverables, which will provide a measure for progress on transformation. With this approach, we could agree that the FSC has been settled and should remain as agreed and gazetted, unless there are sector specific imperatives that need to be included.

2.2.3.4. The Financial Sector plays a key role in the economy, and has an important role to not only transform the sector, but also facilitate and assist with the transformation of other sectors. The Financial Sector is committed to contribute to and accelerate efforts to transform the South African economy to a fair, inclusive and sustainable one. All three sub-sectors play important roles: Banks play a critical role in providing financing and credit, the savings and investment industry

acts as the custodian of long-term savings, and the short-term (non-life) insurance industry enables credit, financing and financial security through ensuring assets for individuals and businesses.

2.2.3.5. Historically, the Financial Sector proactively agreed on a voluntary sector specific transformation charter, and this framework to transform the financial sector is still believed to have an important role in setting targets, measuring against these, and reporting against them. The Financial Sector Code gazetted at the end of 2017 already offers more stretch targets and incorporates important aspects that could assist the Sector to accelerate transformation. However, as stated above, this Summit should concentrate only of the principle to use the FSC as a framework for targets and measuring, especially in view of potential competition issues when setting targets.

2.2.3.6. Reporting against the Code is an imperative to ensure better availability of data, and enable the Sector to benchmark and track progress. The requirement to report against the Code, is already included in the latest version of the Code, and should facilitate improved reporting. In addition, the different sub-sectors are also addressing reporting against and compliance with the Code through various sub-sector specific initiatives.

2.2.3.7. The Financial Sector supports a wider role in the transformation of the Sector by the Charter Council, and the better capacitating of the Council to strengthen its contribution.

2.2.3.8. The Financial Sector believes that much progress has been made in general, contrary to popular belief, but commits to further accelerate transformation. The different sub-sectors have also identified where the challenges lie and are committed to address these.

2.2.3.9. Following the Parliamentary hearings on the Transformation of the Financial Sector, the different sub-sectors have embarked on sub-

sector specific programmes to consider ways and means to accelerate transformation, and to identify key areas for attention where the sub-sectors could make more impact, and/or those areas which need more attention.

2.2.3.10. Common priority areas identified by the sub-sectors include (not necessarily limited to.

2.2.4. Government constituency position paper

2.2.4.1. Government stated that South Africa's legacy of discrimination continues to exclude millions of people from meaningful participation in the economy, reinforcing unemployment, poverty and inequality.

2.2.4.2. Progress has been made in transforming the financial sector, but more needs to be done to have an inclusive financial sector through more affordable financial services, improved market conduct, achieving employment equity particularly at top management levels, procurement opportunities to black business owners and transformation of ownership structures.

2.2.4.3. The financial sector should not only be transformed, but be transformative

2.2.4.4. Financial sector needs higher standards for transformation

i. The financial sector acts as an "intermediary"
ii. In a South African context, access to finance and financial services are key to achieve economic and social transformation.
iii. Funds controlled by the financial sector ultimately belong to customers, and financial firms are merely custodians of other peoples' money. Hence government has to regulate:

a. Safety and soundness of financial firms (prudential regulation),
b. Those firms treat their customers fairly (market conduct regulation).
c. Financial stability risks, to reduce bailing out banks by taxpayers (fiscus) (taxpayers) as 2008 GFC.

2.2.4.5. Parliamentary Hearings on Transformation of the Financial Sector

i. It stated that scrutiny of Financial Sector Transformation intensified during the review by the Standing Committee on Finance (SCOF) of the Financial Sector Regulation Bill now an Act (FSRA). Committee members expressed concern over the apparent lack of meaningful transformation across the sector.

ii. FSRA was strengthened to entrench the principles of transformation in particular by:

a. Making transformation an object of the bill;
b. Referring to the financial sector codes in the bill and;
c. Requiring that a transformation working group or subcommittee be established in terms of structures for co-ordination

iii. SCOF agreed to hold public hearings on transformation. The tree public hearings took place between March and May 2017, in which more than sixty written submissions were submitted.

2.2.4.6. What is transformation

i. Over the hearings and the surrounding media interest, it was clear that transformation means different things to different people:

a. For the working-class pensioner, it means a comfortable pension
b. For the black industrialist it means greater direct black ownership of financial institutions;

c. For a panel beater in a peri-urban area it means being able to provide panel beating services to insurers;
d. For a woman living in the a rural town it means having a healthy well capitalised Co-operative Bank in her district that offers a full suite of appropriate banking services;
e. For others it purely means the representation of black people in the decision making structures on financial institutions.

ii. Transformation policy for the sector should in essence encompass all the above. Government stated that a transformative financial sector that reflects the demographics of the country.

2.2.4.7. Proposed principles for effective transformation

i. Transformation should promote inclusive and balanced growth.
ii. Transformation should be mass-based and sustainable, benefiting the most disadvantaged South Africans through the creation of new assets, capabilities and opportunities to build livelihoods, and build asset wealth.
iii. Transformation should recognise the role of foreign capital in supporting SA's investment needs, but aim to reduce reliance on foreign capital by taking steps to grow the domestic savings pool.
iv. Greater wealth equality for black South Africans must come through growing their savings. This cannot rely only on redistribution of current wealth, there is not enough to go around.
v. Ownership is not enough, transformation should focus on all elements effecting black economic empowerment as outlined in the BBBEE codes, especially employment equity, management control, enterprise development and procurement.
vi. Transformation should mobilise both private and public investment in social and economic infrastructure, new

technologies and new activities that help build a modern and diversified economy.

vii. It should continue to confront cartels and collusion robustly and provide new opportunities for access to markets.

viii. Transformation should achieve a more balanced structure of ownership and control in our economy.

ix. It should build self-reliance of South Africans, reject the dependence on debt and protect our fiscal sovereignty.

x. Transformation should result in a de-racialised economy that belongs to all, black and white, where the legacy of apartheid is no longer visible.

xi. South Africa needs to transform in order to grow and we need to grow in order to transform.

2.2.4.8. Meaningful transformation of the financial sector is not merely a question of ownership of financial firms, but to how the sector supports real economic activity and wealth creation.

2.2.4.9. A sustainable financial sector that is representative of all South Africans in the provision of appropriate financial services, to support financial customers and the real economy, with attention to access and protection for vulnerable groups, in a manner that promotes inclusive growth. In particular, transformation policy should:

i. Improve net wealth

ii. Deliver good-value and appropriate services to customers to create asset wealth through a more diversified and inclusive economy

iii. Support small businesses and new entrants.

2.2.4.10. The role of the state

i. The State has many State finance providers including retail focussed institutions.

ii. However many are not performing well- this means the amount of finance is not the only constraint to development

2.2.4.11. The future of the Financial Sector Charter Council

i. The FSC should remain the primary instrument for effecting transformation

ii. Higher targets must be set across the sector, especially for ownership, management control, employment equity and procurement, with incremental timelines for compliance.

iii. Ownership targets should be revisited to accommodate "spin-offs", for example a part of the group sold off to a black industrialist/s.

iv. Engagements with BBBEE Commissioner should be on going to ensure concurrence on targets

2.2.4.12. In conclusion, government stated that the is a need to develop transformation plans for the banking, life-insurance, asset management and non-life insurance sector with clear objectives and measurable deliverables underpinned by the FSC.

2.2.4.13. No one player can drive successful transformation, therefore there is a need for all key players to buy-in, and be part of a joint process to determine agreed outcomes and targets.

2.2.4.14. Stronger consequences are required for slow/no transformation.

3. SESSION TWO

3.1. COMMISSIONS REPORTS AND RECOMMENDATIONS

3.1.1. **Commission on Market Concentration and monopoly in relation to ownership and licencing**

3.1.1.1. The commission on market concentration was facilitated by Themba Baloyi. The following areas of agreement and areas of actions were recorded by the commission.

a. The department of education together with national treasury should work together and make efforts of making sure that financial education is implemented. Constituencies also need to take responsibility in providing financial education.

b. Frameworks should be developed in order to facilitate growth of small companies. The framework should focus on changes in

the legislations, funding and setting up of a fund, and competition commission legislative.

c. In relation to barriers to entry, the commission noted that the are various issues that could cause this including the issues of compliance.
d. Refine the language of the Scof report on financial sector transformation
e. The commission also supported the of the parliamentary report on financial sector transformation on market concentration and ownership.
f. The commission agreed that further engagements should be convened between the workshop and the summit.

3.1.1.2. The commission further agreed that further engagements should be convened between the workshop and the summit. These engagements should focus on.

a. The role of the financial sector in stipulating economic growth and creating jobs
b. Financial sector value chain
c. De-monopolisation of the financial sector.
d. The need for a state bank as raised by Labour.

3.1.2. Commission on the support for emerging enterprise and black businesses through procurement enterprise and supplier development.

3.1.2.1. The commission on supplier development agreed and supported the recommendations of the Scof report. These recommendations are as follows.

i. Balance need to introduce global standards and regulations with need for new entrants in the financial sector and other transformative goals. (12.7.3) ("Several black entrepreneurs say that this tightening of regulations, often influenced by global standards and regulations has the unintended effect of increasing the barriers to their entry and growth. The

Committees believe that the Bills giving effect to the new Twin Peaks model need to take this into account, but should also balance the need to create more space for black entrepreneurs and the need to protect the interests of financial customers.")

ii. B-BBEE Commission and FS Charter Council tighten loopholes in policy and regulations to reduce prospects of the system being rigged. (12.7.5)("…companies should not be allowed to claim ESD points for 'ordinary business practices' such as giving a loan to a black person or business, which should have been granted anyway. The Committees note that at the hearings it was proposed that loans and investments should be excluded in the calculation of Total Measured Procurement Spend (TMPS) as per clause 6.4 of Statement FS400 of the new FSC. Consideration should be given to the proposals at the hearings that to claim ESD points, financial institutions should provide finance at discounted rates and on preferential terms and conditions; otherwise it would imply that ESD points are being given for ordinary lending and the provision of banking services as if the financial institutions are doing black people and businesses a favour when they actually pay the same generally applicable interest rates.")

iii. To avoid cherry-picking the easiest elements of empowerment financing, government consider disaggregating the combined empowerment financial targets in the banking and long-term insurance subsectors across the four different pillars of Empowerment Financing to give more weight to particularly those pillars that focus on funding black SMEs, rural and township entrepreneurs, and new industries. (12.7.4)

iv. NT, the FSB and the insurance associations to investigate BIAC concerns about the 'conflict of interest' rule, 'binder agreements', 'premium collection' and other regulatory barriers. (12.7.6)

v. Consideration be given to DTI proposal that the panel system that affects small and medium-sized black-owned panel-beaters, body repair shops and tow truck operators be phased out. (12.7.7)("In the short-term insurance sector, there have been constant complaints, including at these hearings, that procurement spend does not flow to SMEs as a result of policies in the industry. These include the 'Preferred Insurance Service Provider System' and the 'Motor Manufacture Factory Approved System' which limit access to procurement opportunities for small and medium-sized black-owned panel- beaters, body repair shops and tow truck operators. The Committees believe that consideration needs to be given to the proposal made by the DTI that the panel system be phased out. This should be done in a planned way and should seek to avoid the big firms continuing to dominate. Consideration also needs to be given to the phasing out of 'Factory Approval' system. The interests of policyholders also need to be taken into consideration in decisions on these matters.")

vi. FSC targets to facilitate improved access to markets for small and medium-sized black suppliers such as tow-truck operators and panel-beaters. Black suppliers get more work from the government garage and the SOEs. Support DTI proposal that procurement from black suppliers be increased to 50% by 2021. (12.7.8)

vii. A proper balance between implementing global regulatory and other standards and ensuring the emergence of new black entrants in the sector. (12.7.9; 12.3.17)

viii. NT, the FSB, the DTI and the insurance associations and other players work more effectively together with the towing and panel-beating SMEs and consider reintroducing the DTI special dispensation for short-term insurers. Review 6 December 2014 Memorandum of Agreement on transformation and procurement targets in the towing and panel-beating Industry and consider introducing a new

version of this, which should include setting targets for enterprise development and procurement from the SMEs. (12.7.9)

ix. Report back to Trade and Industry Committee within 6 months of the adoption of this Report. (12.7.10)

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xiii. Report back to Trade and Industry Committee within 6 months of the adoption of this Report. (12.7.10)

3.1.2.2. The commission also recommended that a task team focusing on supplier development should be established to further engage and pn issues of supplier development. The task team will provide clear agreements and resolutions to be adopted by the Summit.

3.1.3. Commission on the Role of DFIs and state owned financial institutions in the transformation of financial sector

3.1.3.1. The following proposal were for further engagements were agreed by the commission:

- There is a need to reprioritise the role of State Owned Financial Institutions to focus on paly and inclusive role in the financial sector.
- Responsibility of the DFIs. Do DFIs take the responsibility given to them efficiently?
- Cooperatives should develop their own mechanisms and monitor their own funds in order to become sustainable.
- DFIs should be strengthened in terms of timelines and what is expected out of them.
- The state should establish a state owned bank. The role of the state bank should be clearly defined.
- DFIs must be put under one Ministry
- The private public partnership is critical in order for DFIs to function efficiently.
- DFIs should be consolidated in one Act.
- A link should be identified between Business and DFIs.
- The DFIs should not depend on the state.
- DFIs need strong mandate to pursue development.
- Liquidity of the SOEs should be further discussed.
- Government should strengthen policies and regulations and ensure that they are adhered to by all SOEs and DFIs.
- There is a need to create platforms for collaborative debates.

3.1.3.2. The commission on the role of DFI and SOEs proposed that Nedlac should establish a task team that will engage and provide clear agreements in relation to the role of DFIs and SOE's ahead of the Summit. The task team should include not only Nedlac social partners but other stake holders including DFI's and SOEs.

3.1.4. **Commission on the role of the Financial Sector Charter Council and Financial Sector Regulatory Bodies**

3.1.4.1. The commission outlined the following roles/responsibilities that have been assumed by the following entities:

Financial Sector Charter Council (FSCC)	• Sets FS Codes
	• Sector assessments reports
	• Develop interventions plan
	• Setting of the framework, target and development of the strategy
	• Provide the platform for social dialogue and to ensure that there is transformation
	• Introduction of the punitive measures
	  o Make recommendations
	  o There needs to be formalization of work between FSCC and the FSRB

BEE Commission	• Plays and oversight role on compliance with BBEE Act • Final arbiter • Engages FSCC on achievements • Engages entities directly
Financial Sector Regulators	• Ensure institutions have transformation plans in the Codes • Supervises achievement of plan • Requires information to be submitted • Can take enforcement action • Monitor and ensure compliance • Constantly engages with sectors by providing support to ensure compliance by relevant sectors and applies punitive measures for non-compliance.
Verification Agency	• Verify information submitted by institution regarding achievement of targets

3.1.4.2. The commission identified the following issues that still need further consideration:

i. Prudential requirements (input by the Reserve Bank)
ii. Performance standards for the FSCC
iii. Formalizing the process between FSCC and FSRB
iv. Commission recommendations to be reported at the plenary
v. Role of the representation serving in the FSCC

3.1.4.3. The following proposals were made by the commission

i. There is a need to have further engagements at the task team level in order to have/develop a declaration ahead of the July 2018 Financial Sector Summit. NEDLAC to convene the work of the task team with each Constituency finding its own participation;
ii. There was a need to streamline the reporting requirements for both the regulatory entities as well as the charter council, mechanisms to be implored should be further discussed in the task team;
iii. Constituencies need to have formal and mandated positions to submit to the proposed task team; and
iv. FSCC to also submit a proposal on their preferred role to the task team considering the changes in the legislation.

4. Conclusion

4.1. The workshop agreed that further engagements should be undertaken by Nedlac in a form of task teams. The task team should engage and agree on a Summit declaration and agreements.