

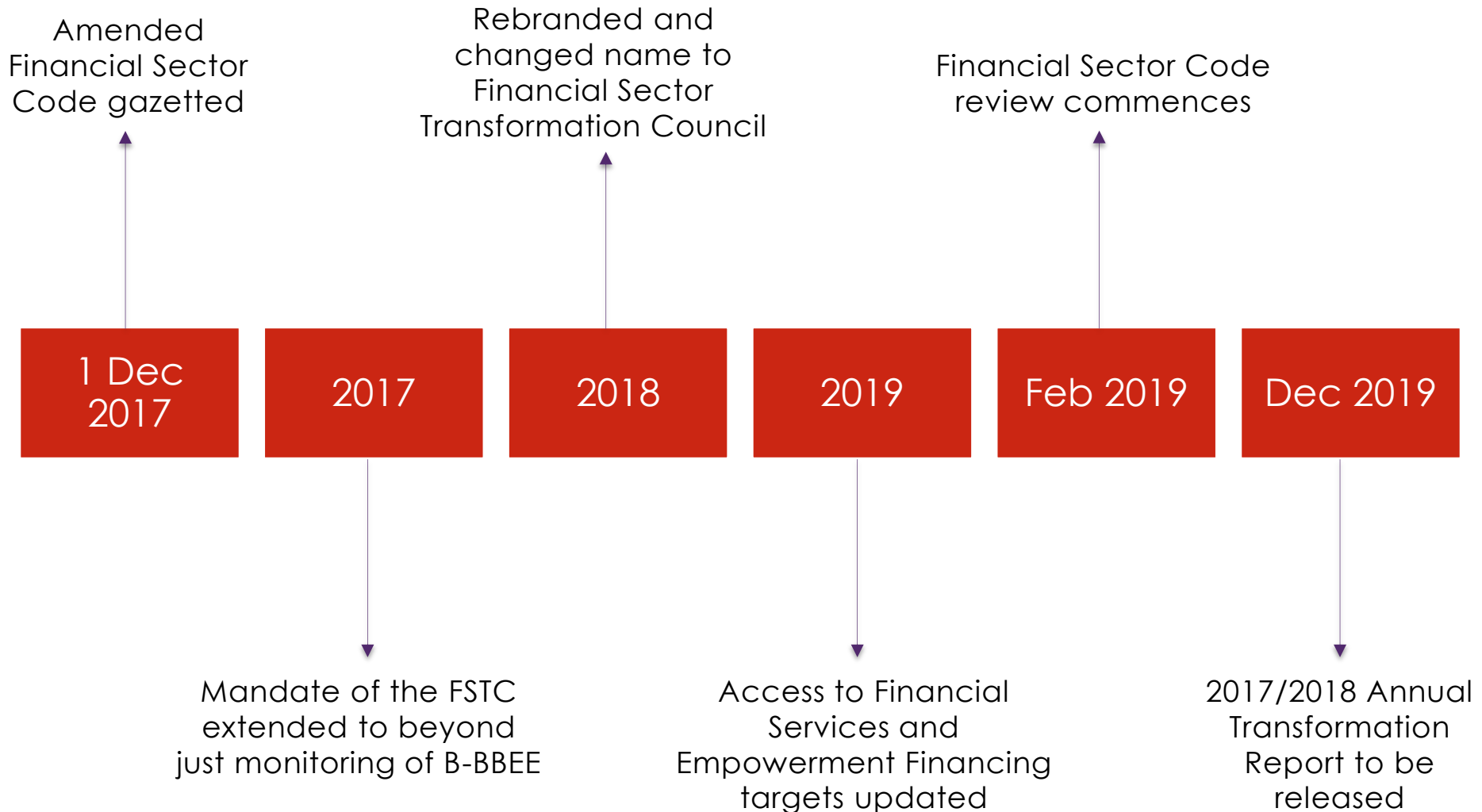
BRIEFING TO THE STANDING COMMITTEE ON FINANCE

Transformation of the Financial Sector

26 November 2019 | Cape Town

- 1. Introduction**
- 2. Implementation of recommendations made by SCOF & the PCTI**
- 3. Overview of the Financial Sector Code**
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1. INTRODUCTION



2. IMPLEMENTATION OF RECOMMENDATIONS MADE BY SCOF & THE PCTI

- **Nov 2017:** SCOF and the PCTI released its 1st Report on the Transformation of the Financial Sector in which several recommendations were made.
- **Apr 2018:** Financial Sector Transformation Workshop held under the auspices of Nedlac to discuss recommendations made.
- **Q4 2018:** Agreed to hold Second Financial Sector Summit – did not materialise.
- **Feb 2019:** FSTC commences review of the FS Code. As part of this review process all recommendations made by SCOF and the PCTI are being taken into consideration.

2. IMPLEMENTATION OF RECOMMENDATIONS MADE BY SCOF & THE PCTI

<p>Creating public awareness of the FSC</p>	<p>FSTC has developed a stakeholder engagement strategy of which implementation is underway.</p>
<p>Higher FSC targets</p>	<p>Under consideration as part of FSC review process. Proposals include aligning targets to race and gender demographics.</p>
<p>Reporting by financial entities to the FSTC</p>	<ul style="list-style-type: none">• B-BBEE reporting provisions by financial sector entities have been made in the draft CoFI Bill. This will include the provision of B-BBEE certificates and transformation plans.• FSC provides the FSTC with powers to “name and shame” entities who do not comply with the reporting provisions of the FSC.

2. IMPLEMENTATION OF RECOMMENDATIONS MADE BY SCOF & THE PCTI

<p>Decisions on ‘once empowered, always empowered’ - be consistent with the B-BBEE Act</p>	<ul style="list-style-type: none">• FSC is aligned to the dti Generic Code. Approval was requested and granted by the dti for special dispensation relating to dilutions due to regulatory requirements and top up options for dilutions not related to regulatory requirements.• Will be reviewed as part of the FSC review process.
<p>FSTC to be effectively capacitated and resourced and held accountable for its performance</p>	<ul style="list-style-type: none">• Recommendations made to strengthen the FSTC but lack of funding remains an impediment to implementing some of the recommendations.• The “seniorisation” of the Council to include top leaders of the Constituencies was implemented in 2018 along with a broadened mandate that looks beyond the FSC.• The FSTC is in the process of introducing performance assessments for its governance structures and for the individuals in those structures.

2. IMPLEMENTATION OF RECOMMENDATIONS MADE BY SCOF & THE PCTI

<p>Management Control Element - Financial institutions should seek to exceed the targets in the FSC for management and boards</p>	<ul style="list-style-type: none"> • Sector is still not meeting targets. • Discussions are underway in the review committee to understand and find mechanisms of unlocking the barriers.
<p>Empowerment Financing Element - Prevent cherry-picking of the easiest sub-elements and that there is a focus on funding black SMEs, rural and township entrepreneurs, and new industries</p>	<ul style="list-style-type: none"> • A specific target has been set for SME funding. • Discussions are underway in the review process to better structure Empowerment Financing targets.
<p>Procurement and Enterprise and Supplier Development</p>	<ul style="list-style-type: none"> • Targets to facilitate improved access to markets for black SMEs and procurement from black suppliers be increased to 50% by 2021.
<p>Asset Management</p>	<ul style="list-style-type: none"> • Appropriate targets to be set for asset managers and asset consultants.

2. IMPLEMENTATION OF RECOMMENDATIONS MADE BY SCOF & THE PCTI

<p>Financial education – Give greater attention to the financial education and literacy of customers and the public in general</p>	<ul style="list-style-type: none">• Under review currently as part of the review process.
<p>Cooperative Banks – FSC to set effective targets for the strengthening of the co-operative subsector</p>	<ul style="list-style-type: none">• To be considered as part of the review process.

3. OVERVIEW OF THE FINANCIAL SECTOR CODE

ELEMENT	POINTS			
	Banks and Long-Term Insurers	Short-Term Insurers	JSE and Members	Other Financial Institutions
Ownership	23	23	23	25
To increase ownership rights and economic interest in the hands of black people.				
Management Control	20	20	20	20
Ensure fair representation of black people including black women across management positions.				
Skills Development	20	20	20	20
Ensure training and development of black people employed, upskilling those that are unemployed and those with disabilities.				

3. OVERVIEW OF THE FINANCIAL SECTOR CODE

ELEMENT	POINTS			
	Banks and Long-Term Insurers	Short-Term Insurers	JSE and Members	Other Financial Institutions
Procurement and Enterprise and Supplier Development	15	35	35	35
Ensure support of large and small black suppliers, black-women owned suppliers and black designated groups.				
Socio-Economic Development and Consumer Education	5	5	5	5
Ensure that social impact contributions by companies are made for black and disadvantaged communities and that SMEs and consumers in general are given the necessary knowledge and skills to enable them to make better financial decisions.				

3. OVERVIEW OF THE FINANCIAL SECTOR CODE

ELEMENT	POINTS			
	Banks and Long-Term Insurers	Short-Term Insurers	JSE and Members	Other Financial Institutions
Empowerment Financing and Ent	25	N/A	N/A	N/A
Availing finance for black-owned businesses including SMEs, agriculture, infrastructure for under-developed areas and low-cost housing.				
Access to Financial Services	12	12	N/A	N/A
Ensure financial inclusion for those previously excluded by developing appropriate products and services for them and ensuring that those products are accessible.				
Total	120	115	103	105

4. HIGHLIGHTS OF THE 2017/2018 ANNUAL REPORT

167

Number of certificates and scorecards submitted by financial sector entities

50%

Percentage of reported entities with a B-BBEE contribution level of between 1 and 4

Mixed Perf.

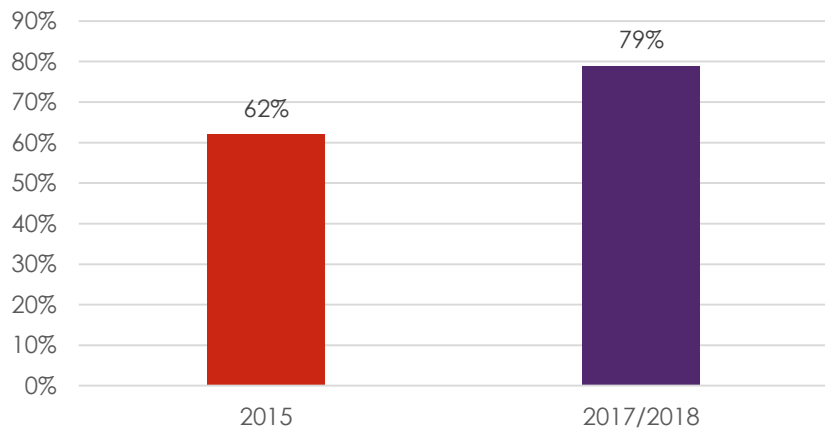
Larger entities scored better in some areas and underperformed in others whereas smaller entities largely underperformed on most areas of the scorecard

Dec 2019

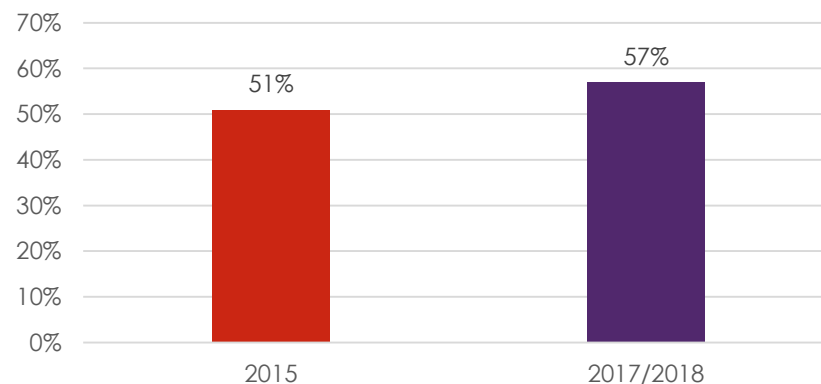
Report to be published

4. HIGHLIGHTS OF THE 2017/2018 ANNUAL REPORT

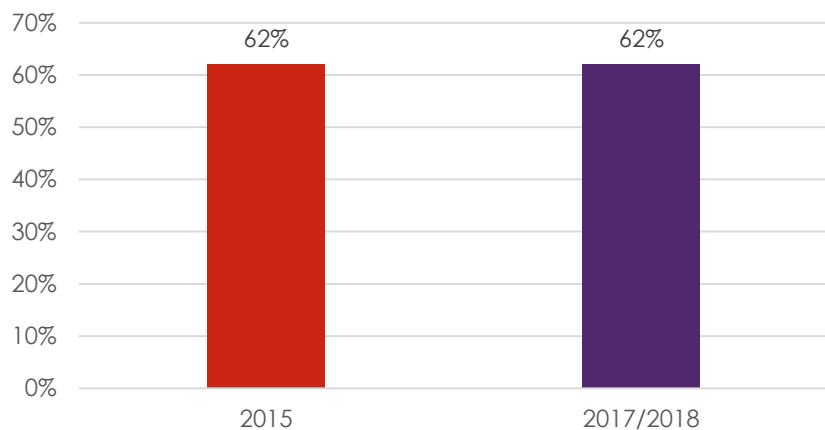
Ownership - Still Below Target



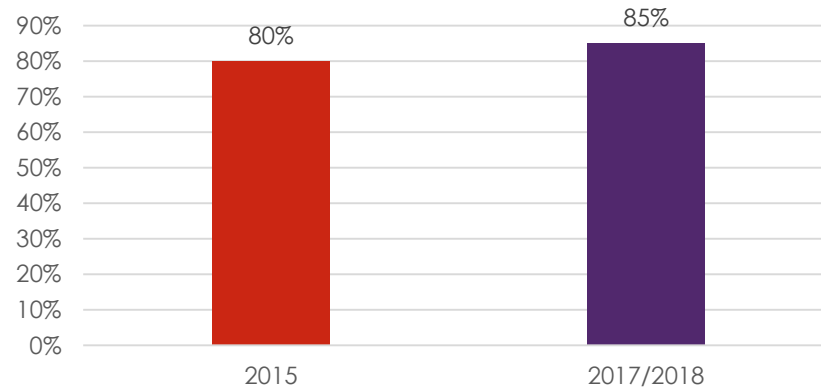
Management Control - Still Below Target



Skills Development - Still Below Target

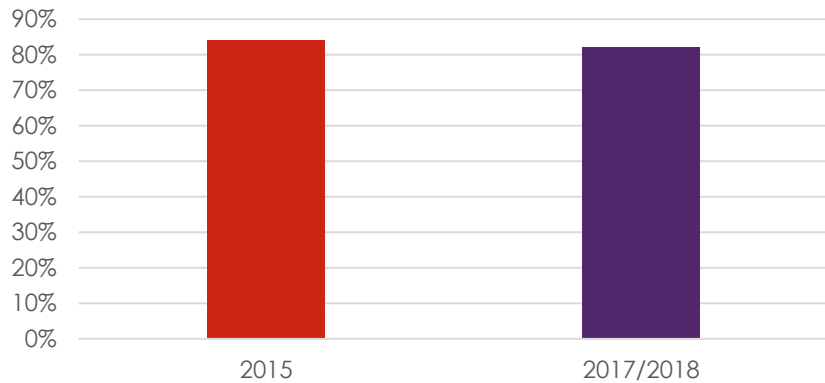


Procurement, ED, ESD - Still Below Target

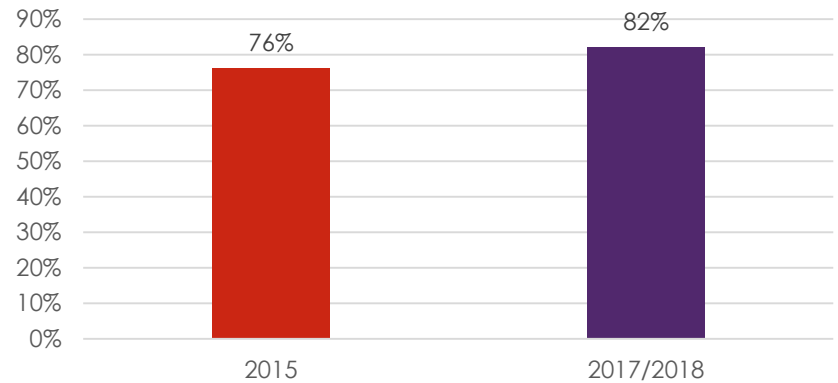


4. HIGHLIGHTS OF THE 2017/2018 ANNUAL REPORT

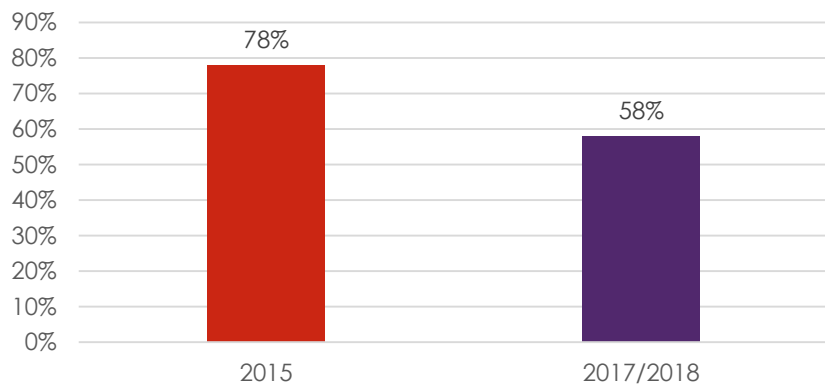
**SED, Consumer Education - Still
Below Target**



**Empowerment Financing - Target
Exceeded in ZAR**



**Access to Financial Services - Still
Below Target**



- Make financial institutions aware of their obligation to submit their B-BBEE performance to the FSTC annually.
- Improve reporting processes to allow for measurement of improvement or decline and identify bottlenecks.

5. REVIEW OF THE FSC

- The process to review the FS Code commenced in February 2019.
- Eight committees were established in line with the various elements in the sector code.
- The process was halted in May to allow both Organised Labour and Organised Community to have their members capacitated on the Codes so that they can participate meaningfully.
- The committees resumed in October 2019 and a final draft is anticipated to be submitted in May 2020.
- **Some of the key proposals that have been made include:**
 - Reporting by retirement funds should be made compulsory.
 - Proposed targets in all elements should, where possible, be aligned to race and gender demographics.
 - Supporting black suppliers through financing, access to markets and other initiatives be considered as key for transformation. Suppliers to be encouraged to provide locally produced goods.
 - Increasing support for black women-owned businesses.
 - Job creation also to be used as a measure of transformation progress.
 - Penalties be imposed for failure to meet targets.

6. WAY FORWARD

**Financial Sector
Summit Must Be
Held**

**Compliance by
Government on
Funding the FSTC**

**Simplify the FSC
and Provide
Guidance**

**Improve
Stakeholder
Engagement**

**Improve FSTC
Governance and
Accountability**

**Make financial
institutions aware
of their obligation
to submit their B-
BEE performance
to the FSTC
annually**

**Clarify the Link
Between
Transformation
and Economic
Growth to Get
Buy-In**

**FSTC to Host a
Strategic Planning
Session in Early
2020 to Map a
Vision for the
Future**

THANK YOU.