Financial Sector
Charter Council

2007
Annual Review

Report on the Transformation of the
Financial Sector in South Africa

Financial Sector
Charter Council

The Charter is unique to the industry in that it addresses both the internal and external transformation requirements of the sector.

The scorecard in the Charter is heavily weighted to ensuring banks and other financial services players invest in development and transformation of SA's economy and society, rather than just effecting change within. The emphasis is on broadening access to financial services, so that millions of black people who were unbanked or uninsured could gain access to the sector's products. Under the Charter, SA's financial services players also committed to invest tens of billions of rands in low-cost housing and in infrastructure projects. And they committed to funding empowerment deals across the economy. Without the Charter, the impetus to do that might well be lost.

Despite its shortcomings, the Charter has had a huge impact in transforming the sector and pushing it to play a more developmental role in the economy.

> *"The Financial Sector Charter has been unlike any other charter in that it carves out an explicit development role in the economy for the financial sector."*
>
> **— Minister of Finance, *Trevor Manuel***

FOREWORD

The last few months preceding the release of this annual report, the global financial sector has experienced financial turmoil as a result of the sub-prime mortgage lending risks in the United States. The effects of the global financial and credit markets are posing a major challenge, not only to the stability of the local markets, but also in terms of their effects on our country's transformation agenda in general, and in particular the sustainability of the existing Broad-Based Black Economic Empowerment deals that have already been structured in terms of the Financial Sector Charter since its inception in January 2004.

The last two Annual reports of the Financial Sector Charter Council have outlined in more detail the achievements and milestones of the Financial Sector Charter, and further identified succinctly the challenges faced by the FSC Council in putting together this important report that serves as a distinct barometer to gauge the pace of transformation in the financial sector. We continue to draw on the commitments and dedication of our financial sector players towards achieving the FSC targets.

It is worth singling out the fact that the presentation of this report, covering the period from 31 January 2007 to 31 December 2007, is a significant milestone for various reasons, and the following are worthy of mention:

- The gazetting of the Broad-Based Black Economic Empowerment Codes of Good Practice on the 09 February 2007, which allowed the transitional period for sector charters to be gazetted as sector codes;
- That the FSC is amongst other sector charters in line to be gazetted by the Department of Trade and Industry for 60-day public commentary, which process will lead to the final gazetting of the FSC as a sector code; and
- The fact that 2008 marks the end of the first phase of the FSC targets which are in line for the first comprehensive mid-term review.

As we approach this interesting period in the life of the FSC and as we further celebrate the achievements of the FSC process, as detailed in the last two reports of the FSC Council, we need to pay particular attention to those target areas that have either remained stagnant or improved steadily, as we will be embarking on a new journey to accelerate the pace of transformation. Despite some of the achievements of the FSC, there have been some criticisms leveled at the FSC Council from various interest groups and some stakeholders in the FSC process. Some of the criticisms have been misplaced and whereas others are not completely off the mark. Hopefully the review period will present an opportunity for such critics to raise and bring forth such issues of concern, moving forward.

I would like to also use this opportunity to thank all FSC Council participants, interest groups, the FSC Council staff, service providers, and funders of the FSC Council. It has been a difficult year, particularly in terms of internal operational processes, which were marked by deep and vigorous debates on the alignment of the FSC to **the dti**'s Codes of Good Practice. The FSC Council has achieved total alignment to the COGP, except for the black direct ownership target, which the FSC Council participants remain hopeful and positive that a common solution is within reach.

Nkosana Mashiya
Chairman: Financial Sector Charter Council

TABLE OF CONTENTS

INTRODUCTION AND EXECUTIVE SUMMARY

Introduction

The transformation of the South African economy is not exclusively devoted to redressing the wrongs of the past; it is also about creating an educated and skilled population with a competitive economy that can take its place amongst the great players in the world. The financial sector is perhaps the one private sector that touches the lives of the most South Africans. And it is for this reason that we take our transformation very seriously. It is vital for us to be able to extend our products and services to benefit the whole population. To achieve this, we need to ensure that we are able to serve the nation as a world class service. This means we must ensure that our staff represent the demographics of the population and that they are adequately skilled to best serve them. We need to ensure that we support and develop our communities through our CSI, enterprise development and procurement activities. In addition products need to be modified to suit the needs of our diverse population.

In a nutshell this is exactly what the Financial Sector Charter has set out to achieve. 2008 is our first milestone and we are proud to note that the sector is well on track to achieving its targets across the board.

Reporting

The table below shows the number of members and the number of reports per industry.

Industry	Total Number	Submissions	Percentage
Local Banking	17	14	82%
Debt Securities Trading	1	1	100%
Life Assurance	29	11	38%
Short Term Insurance	44	24	55%
Equity Trading	45	6	13%
Collective Investment Schemes	23	10	43%
International Banking	17	15	88%
Retirement Funds	unknown	2	
Asset Management	16	10	63%
Other*	unknown	14	

* Other refers to institutions that opted to report but are not registered members of the prescribed trade associations.

In spite of the relatively poor reporting levels we believe that we captured the statistics for about 80% of the sector.

With regard to process improvement, the Financial Sector Charter Council executive conducted practical workshops with submitting institutions to improve their inputs and submissions. This resulted in a slightly improved reporting process when compared to the previous year. The Guidance Notes are still open to varied interpretation resulting in inconsistent inputs across returns from different institutions.

The majority of reports submitted were of a standard that allowed for an accurate rating to be awarded. However, there were institutions who were not awarded any points for Empowerment Financing or Access as the information submitted was not of a standard that allowed for the information to be verified.

There were other institutions that did not respond to any of the qualitative questions, but did submit quantitative data. This resulted in a score being able to be calculated, but not a comprehensive overview of transformation in the institution being able to be determined.

Unfortunately, the issue of not being able to comprehensively determine the progress being made at an industry level, as opposed to a sector level, still remains. Not all institutions that report as a group, submit information for their subsidiaries. The situation has improved from 2006 with more holding companies submitting subsidiary reports.

Integrity of information

Another process improvement suggestion is a data verification process. Quantitative information submitted by institutions cannot be audited and reliance is placed on either the auditor/ verification agent or institution to confirm the accuracy of information. Institutions were not required to have their information audited and some institutions did submit unaudited data, with a CEO declaration stating that the information was correct.

Where institutions were audited this was either done by an auditing firm or by a verification agency. It was noted that some of the verification agencies used by institutions did not have sufficient information on the Charter, to be able to accurately assess the institution.

An ideal situation would be for institutions to not need to be audited before submitting reports and then to submit sufficient information for the Council to be able to conduct a comprehensive audit. This however, is not a practical situation as it would be time and resource intensive. Institutions need to therefore submit audited information to the Council. For this to happen the organisation auditing the institution needs to have sufficient knowledge and understanding of the Charter and its requirements.

The Charter Council requires reporting entities to attest on an annual basis as to the veracity of their submissions to the Council. The annual submissions contain some figures that are cumulative in nature and are aggregated from 1 January 2004 to the current submission date. This creates the unintended consequence that the scope of any annual attestation or verification would need to re-verify prior year submissions. The Council does not require reporting entities to re-attest or re-verify prior year submissions or prior year data already attested to or verified.

Executive summary

The 2007 reporting year was different to previous years. The most significant empowerment event of 2007 was the gazetting of the Financial Sector Charter under section 12 of the Broad-Based Black Economic Empowerment Act. The Charter was gazetted alongside the Department of Trade and Industry's (**the dti**'s) own Generic Codes of Good Practice (COGP) that were gazetted under section 9 of the Act. **The dti**'s generic codes have become the "empowerment benchmark" that all charters are to align themselves with. As such for this reporting period we recognised that certain elements of the generic codes were playing a role in the empowerment measurement within many of the sector members; this was especially prevalent in procurement.

We are pleased to note that on the whole the sector has performed very well against the 2008 targets set by the FSC and we should see the sector achieving its 2014 targets. Having noted that we should also observe that it is the Council's ambition to gazette the Charter under section 9 and have it recognised as a code of good practice. To this end the Charter has undergone numerous revisions to align itself with **the dti**'s COGP. At the time of this publication an unresolved dispute involving direct ownership targets between business and labour and community has put the gazetting on hold. We hope to have this resolved as soon as possible.

When we look at the performance of the sector over the last year we note that it has taken a very proactive stance in spreading the transformation message both internally and externally. As such it has shown that the Charter and the Charter Council have a continued responsibility to monitor and drive transformation throughout the sector. We look forward to the new challenges that the ultimate section 9 gazetting will pose.

Busi Dlamini
on behalf of the **Financial Sector Charter Council Executive**

SCORECARD FOR THE SECTOR

Element	Indicator	Target 2008	Percentage achieved
Human Resource Development			
Employment Equity			
	Senior management		
	Black people	Min 20% -25%	24.37%
	Black women	Min 4%	7.25%
	Middle management		
	Black people	Min 30%	35.99%
	Black women	Min 10%	15.69%
	Junior management		
	Black people	Min 40% -50%	49.69%
	Black women	Min 15%	27.88%
Skills Development			
	Skills spend % of payroll spent p.a. on skills development of black employees	1.5%	1.88%
	Learnership program learnerships as % of total staff	1.5%	1.51%
Procurement and enterprise development			
Procurement		50%	51.60%
	Procurement from black influenced companies, & companies rated "D" in terms of a charter		
	Procurement companies rated "C" in terms of a charter		
	Procurement from black empowered companies, & companies rated "B" in terms of a charter		
	Procurement from black SMEs, black companies, black women-empowered enterprises & companies rated "A" in terms of a charter		
Enterprise Development			
	Black influenced companies. Scored at 50% of Rand spend		
	Black empowered companies. Scored at 100% of Rand spend		
	Black SMEs, black companies & black women empowered enterprises. Scored at 125% of Rand spend		

Element	Indicator	Target 2008	Percentage achieved
Access to Financial Services			
Transactions savings products and services.	Effective access for LSM 1-5 (%)	80%	79.63%
Bank savings products and services.	Effective access for LSM 1-5 (%)	80%	79.27%
Life assurance products and services.	Effective access for LSM 1-5 (%)	23%	13%
Collective investments products and services.	Effective access for LSM 1-5 (%)	1%	0%
Short term risk insurance products.	Effective access for LSM 1-5 (%)	6%	0.99%
Origination	Origination of home loans		94.07%
	Origination of agriculture loans		98.23%
	Origination of black SME loans		196.42%
Consumer education	% of post tax operating profits spend p.a.	0.2%	0.17%
Empowerment Financing			
Targeted Investments	Targeted Investments Institution's annual investment in transformational infrastructure (R)		49.88%
	Institution's annual investment in low-income housing (R)		83.98%
	Institution's annual investment in agricultural development (R)		203.81%
	Institution's annual investment in black SMEs		176.03%
BEE Transaction Financing	Institution's target for BEE transaction financing (R)		156.5%

Element	Indicator	Target 2008	Percentage achieved
	Ownership and Control		
Ownership			
	Direct ownership	Min 10% by 2010	
	Direct or indirect ownership in excess of 10%	15% by 2010	
Control			
	Board		
	Black people as a % of board of directors	33%	36.39%
	Black women as a % of board of directors	Min 11%	11.65%
	Executive management		
	Black people as a % of executive management	Min 25%	28.01%
	Black women as a % of executive management	Min 4%	8.06%
	Corporate Social Investment		
	% of post tax operating profit directed p.a. to CSI	0.5%	0.57%

CONTEXT OF 2007 REVIEW

The Financial Sector Charter

The essence of what the Charter represents and requires of its signatories and stakeholders is captured in sections 1.2 and 1.3 thereof.

§1.2: We, the parties to this charter, therefore commit ourselves to actively promoting a transformed, vibrant, and globally competitive financial sector that reflects the demographics of South Africa, and contributes to the establishment of an equitable society by effectively providing accessible financial services to black people and by directing investment into targeted sectors of the economy.

§1.3: This financial sector charter

- was voluntarily developed by the sector;
- is a Transformation Charter as contemplated in the Broad-Based BEE legislation;
- constitutes a framework and establishes the principles upon which BEE will be implemented in the financial sector;
- represents a partnership programme as outlined in Government's Strategy for Broad-Based BEE;
- provides the basis for the sector's engagement with other stakeholders including Government and Labour;
- establishes targets and unquantified responsibilities in respect of each principle; and
- outlines processes for implementing the charter and mechanisms to monitor and report on progress.

The Financial Sector Charter Council

The Charter provides for the establishment of a Charter Council to oversee its implementation (§15). The Charter Council is made up of a board and an executive, headed by a Principal Officer.

The board of the Charter Council, as per the Constitution, has 21 members from five constituencies:

- Government: Four members from the Presidency, National Treasury (NT) and the Department of Trade and Industry (**the dti**),
- Business: Six members from financial sector trade industries,
- The Association of Black Securities and Investment Professionals: Three members of the Association of Black Securities and Investment Professionals (ABSip) on behalf of the Black Business Council,
- Community: Four members from the NEDLAC Community constituency on behalf of Disabled People South Africa (DPSA); Financial Sector Campaign Coalition (FSCC); National Co-operatives' Industry of SA (NCASA); SA National Civics' Organisation (SANCO); SA National Youth Council (SAYC); Women's National Coalition (WNC)
- Labour: Four members from the NEDLAC Labour constituency on behalf of the Congress of SA Trade Unions (Cosatu); National Council of Trade Unions (NACTU) and Federation of Unions of South Africa (FEDUSA).

Members of the Board as at 31 December 2007 were:

Constituency	Member Role	Name
1 The Industry of Black Securities and Investment Professionals; Three members of the Industry of Black Securities and Investment Professionals (ABSIP) on behalf of the Black Business Council	**Chairperson** (resigned as chairperson in April 2008) Principal Members	**Kennedy Bungane** Sello Moloko Nomkhita Nqweni
2 Government: ❖ National Treasury (NT) (two seats) ❖ Presidency ❖ Department of Trade and Industry (**the dti**)	**Chairperson** (appointed as chairperson in April 2008) Principal Members	**Nkosana Mashiya** Ismail Momoniat Vusi Gumede Polo Radebe (resigned)
3 Business: Six members from the financial sector	Principal Members	(IMASA) – Leon Campher (SAIA) – Barry Scott (LOA) – Gloria Serobe (BASA) - Sim Tshabalala (ACI) – Di Turpin (IBA) – Jon Zehner
4 Community: Four members from the NEDLAC Community constituency on behalf of the: ❖ Disabled People South Africa (DPSA) ❖ Financial Sector Campaign Coalition (FSCC) ❖ National Co-operatives' Association of South Africa (NCASA) ❖ SA National Civics' Organisation (SANCO) ❖ SA National Youth Council (SAYC) ❖ Woman's National Coalition (WNC)	Principal Members	Collette Caine David Masondo Tshepo Nkwe
5 Labour: Four members from the NEDLAC Labour constituency on behalf of the: ❖ Congress of SA Trade Unions (Cosatu) ❖ National Council of Trade Unions (NACTU) ❖ Federation of Unions of South Africa (FEDUSA)	Principal Members	Jan Mahlangu Isaac Ramputa George Strauss Moemedi Kepadisa

The Board meets bi-monthly. Between meetings its activities are coordinated by a Coordinating Committee, chaired by the board chairperson and made up of five board members. The Board also had 12 technical committees on which all Charter constituencies were represented. These were not as active in 2007, as they were previously. These technical committees included those dealing with:

- Access to financial services;
- Agriculture;
- BEE transactions;
- Black private equity funds;
- Human resources;
- Infrastructure;
- Low-income housing;
- Procurement; and
- Small and medium enterprises.

All powers of the Charter Council vest with the Board, which may delegate some of its activities to committees of the board or to the executive. Decisions of the Board are taken by consensus.

The Financial Charter Council executive, headed by the Charter Council Principal Officer, is responsible for the financial sector's annual reporting process and for preparing the annual transformation review. The Charter requires the executive to receive, consider and approve annual reports submitted by participating financial institutions and to confirm provisional scoring and institutions ratings.

The executive is also required to prepare annual reviews of progress in transforming the financial sector and identify new areas of intervention by the Charter Council. The Charter's allocation to the Charter Council Executive of exclusive responsibility for coordinating the reporting process and for assessing and reviewing transformation in the sector and by individual institutions ensures the credibility, integrity and independence of the resulting review and report.

LOOKING AHEAD: THE 2008 REVIEW

2007 was a landmark year in the empowerment arena. The Financial Sector Charter, having been in existence since 2003, was formally recognised as a transformation charter in terms of section 12 of the Broad-Based Black Economic Empowerment Act. [1]

12. The Minister must publish in the Gazette for general information and promote a transformation charter for a particular sector of the economy, if the Minister is satisfied that the charter -
    (a) has been developed by major stakeholders in that sector: and
    (b) advances the objectives of this Act.

At the same time the Minister of Trade and Industry, Mandisi Mphalwa, gazetted **the dti**'s generic BEE Codes Of Good Practice under section 9 of the act. The Codes Of Good Practice (COGP) are now regarded as the de facto empowerment standard and all other industry charters will have to align their targets and requirements to those of **the dti**'s generic codes before they can be gazetted under section 9. The upshot of this is that many of the companies within the sector have measured their empowerment in terms of both the FSC and the generic COGP. These measurements are especially reflected in the preferential procurement element.

At the time of publication of this report, the FSC has still not been gazetted under section 9, as there is still a dispute over the ownership targets. We can therefore expect that the measurements contained in the 2008 reporting period will be very similar to those in the 2007 reporting period.

This dispute however leaves the future of the FSC on uncertain ground. In spite of this uncertainty, the balance of the Charter has proven itself to be a critical ingredient in the sector's transformation. It is therefore, vital that the Charter is gazetted under section 9.

[1] Gazette number 29617 on 9th February, 2007

HUMAN RESOURCE DEVELOPMENT

Employment Equity

Employment equity looks at the management levels below executive management. The definition of a manager is based on a salary band. This differs from both the Employment Equity Act and **the dti**'s COGP that provide more leeway in the definition of each level. The alignment of the Charter to the COGP is expected to address this issue.

The Charter identifies the three management categories, junior, middle and senior, and stipulates the minimum salaries for each as at 31 December 2003. The Charter further specifies that the minimum income and salary bands will increase in line with CPIX on 1 January every year. These annual increases, calculated on the basis of average annual CPIX, are reflected in the table below. From 2006 onwards the annual CPI inflation rate as published by Stats SA should be used every year. The figures given for 2007 are the bottom of the salary band for each management category.

Average Annual CPIX	2002: n/a	2003: 6.8%	2004: 4.3%	2005: 3.9%	2006: 4.6%
Applicable Year	2003	2004	2005	2006	2007
Senior	R450 000+	R480 600+	R501 267+	R520 816+	R544 733+
Middle	R250 000+	R267 000+	R278 482+	R289 343+	R302 652+
Junior	R150 000+	R160 200+	R167 089+	R173 605+	R181 590+

Performance of the sector in 2007

As a general rule, the sector performed very well in this element exceeding the targets for both black people and black women[2]. The table below shows this performance (note the targets are minimums).

Management level	2008 targets	2007 performance
Senior management	Black (target 20-25%) Black women (target 4%)	24.37% 7.25%
Middle management	Black (target 30%) Black women (target 10%)	35.99% 15.69%
Junior management	Black (target 40-50%) Black women (target 15%)	49.69% 27.88%

[2] This is a marked improvement to the 2006 report that recommended: "in the area of employment equity, neither black senior managers nor black junior managers achieved the 2008 targets. Its is recommended that special attention is given to these elements as they tarnish generally satisfactory performance."

Number of managers per level

The table below shows that there was a decrease in the total number of senior and middle managers and a small increase in the number of junior managers. Overall there was an increase in the number of black and black women managers across the board. More detail follows in each management level.

Year	2005	2006	2007	% growth
Senior managers	10,796	10,919	10,852	-0.61%
Black senior managers	1,803	2,044	2,645	29.4%
Black women senior managers	452	564	787	39.54%
Middle managers	26,782	24,602	23,321	-5.21%
Black middle managers	7,599	7,409	8,393	13.28%
Black women middle managers	2,852	3,055	3,618	18.43%
Junior managers	38,284	33,789	35,306	4.49%
Black junior managers	15,201	14,482	17,542	21.13%
Black women junior managers	8,294	8,181	9,844	20.33%

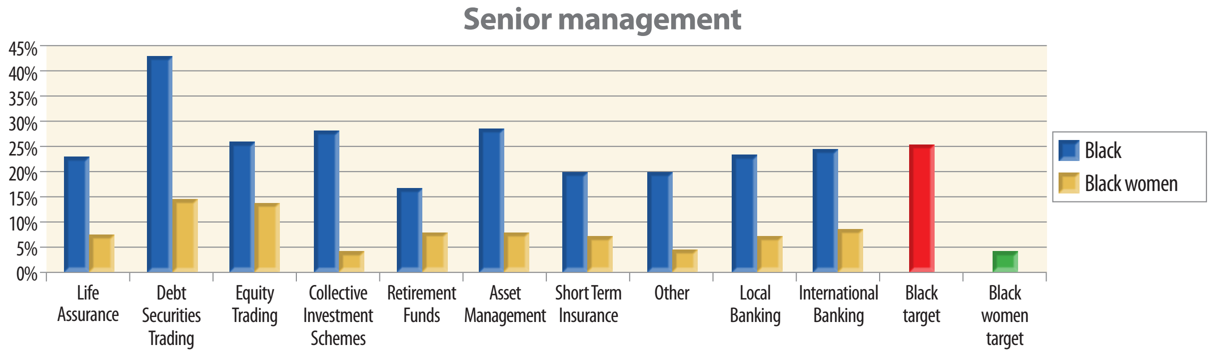
Senior management

Senior management refers to all employees with a package (excluding bonuses) in respect of which the cost to the employer is R544,733 (CPIX influenced) per annum or more, but excludes all employees who fall within the definition of executive management;

Black senior management within the sector falls within the minimum but does not exceed it (24.37%). The black women minimum of 4% has been exceeded.

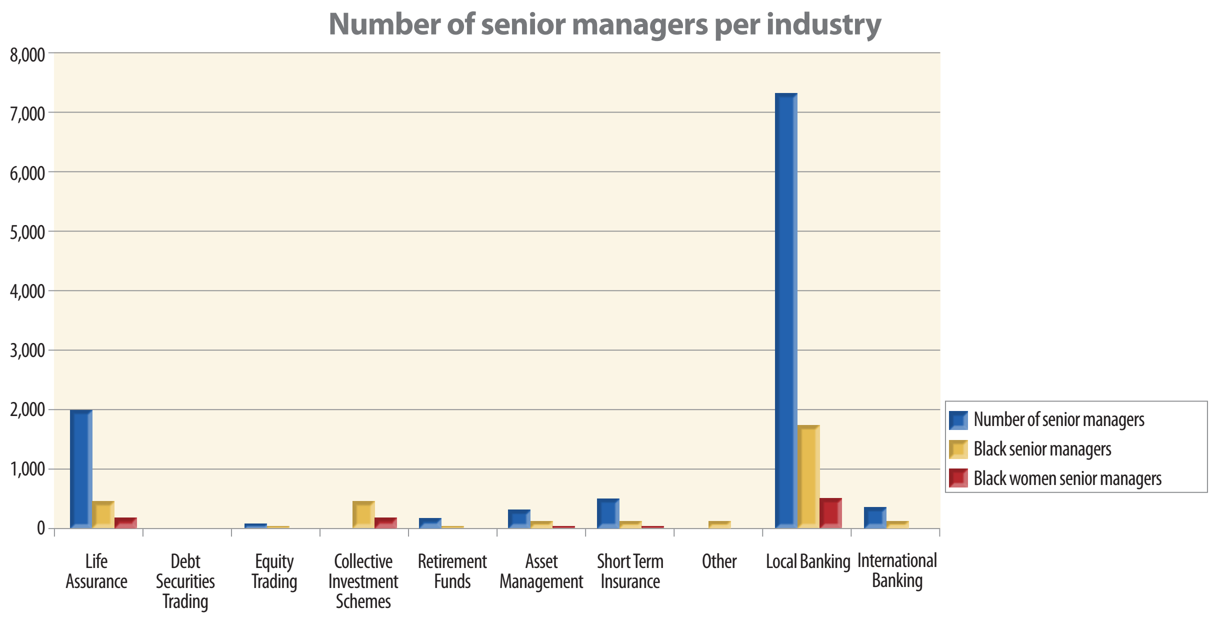
Senior management	Black (target 20-25%)	24.37%
	Black women (target 4%)	7.25%

Performance of senior management per industry



Percentages per industry

Industry	Black (target 20-25%)	Black women (target 4%)
Life Assurance	22.78%	7.29%
Debt Securities Trading	42.86%	14.29%
Equity Trading	25.76%	13.64%
Collective Investment Schemes	28.09%	3.93%
Retirement Funds	16.67%	7.74%
Asset Management	28.39%	7.74%
Short Term Insurance	20.00%	6.88%
Other	20.00%	4.17%
Local Banking	23.35%	6.86%
International Banking	24.50%	8.55%



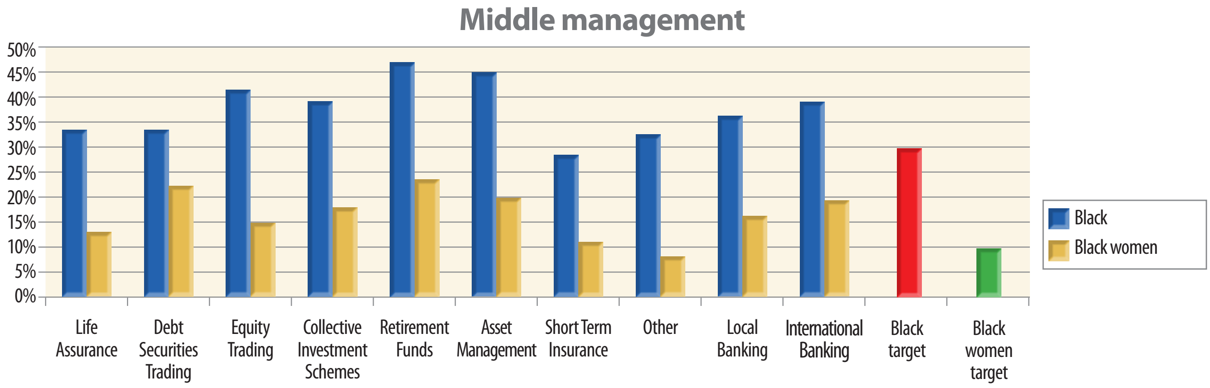
Middle management

Middle management means all employees with a package (excluding bonuses) in respect of which the cost to the employer is between R302 652 and R544 733 (CPIX influenced) per annum.

The minimum targets for middle management have been exceeded.

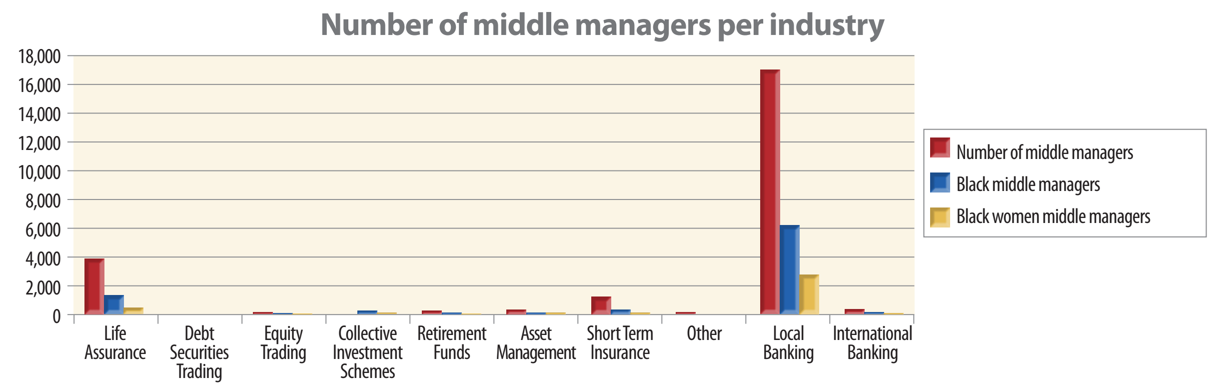
Middle management	Black (target 30%)	35.99%
	Black women (target 10%)	15.69%

Performance of middle management per industry



Percentages per industry

Industry	Black (target 30%)	Black women (target 10%)
Life Assurance	33.29%	12.75%
Debt Securities Trading	33.33%	22.22%
Equity Trading	41.67%	15.00%
Collective Investment Schemes	38.76%	17.83%
Retirement Funds	46.96%	23.48%
Asset Management	45.51%	19.87%
Short Term Insurance	28.13%	10.78%
Other	32.58%	7.87%
Local Banking	36.20%	16.01%
International Banking	38.81%	19.55%



Junior management

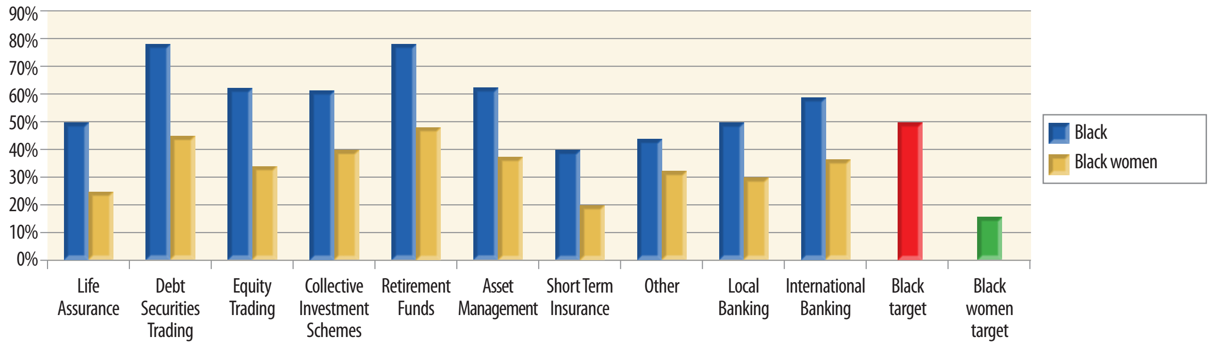
Junior management means all employees with a package (excluding bonuses) in respect of which the cost to the employer is between R181,590 and R302,652 (CPIX influenced) per annum.

The targets for junior management have been exceeded. It is also heartening to note there does seem to be a large pool of junior managers that could rise to middle management in time.

Junior management	Black (target 40-50%)	49.69%
	Black women (target 15%)	27.88%

Performance of junior management per industry

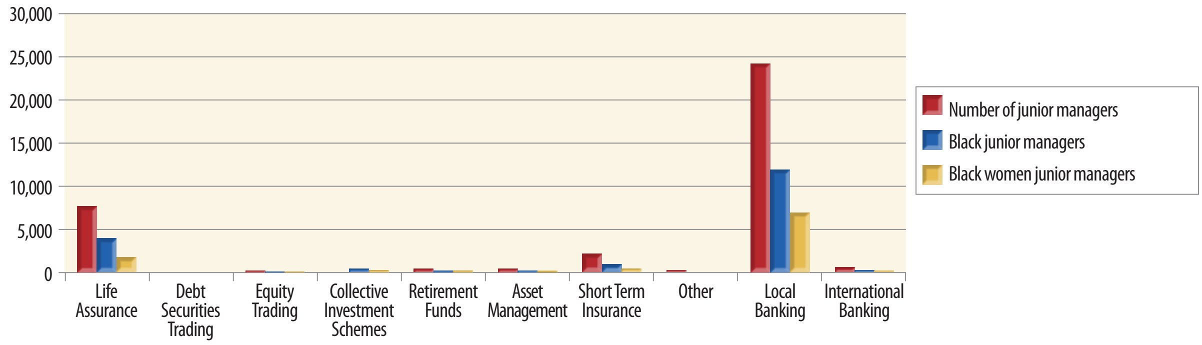
Junior management



Percentages per industry

Industry	Black (target 40-50%)	Black women (target 15%)
Life Assurance	50.21%	24.45%
Debt Securities Trading	77.78%	44.44%
Equity Trading	62.07%	33.62%
Collective Investment Schemes	60.81%	40.29%
Retirement Funds	77.52%	47.23
Asset Management	62.03%	36.81%
Short Term Insurance	40.48%	19.72%
Other	43.59%	32.05%
Local Banking	49.13%	28.84%
International Banking	58.31%	36.51%

Number of junior managers per industry



Conclusion and Recommendations

The FSC requirements for employment equity are relatively similar to those of the COGP although there is no measurement of black disabled people. The targets however are substantially different between the two. The generic COGP have also introduced the adjusted recognition for gender (ARFG) which combines black people and black women into the same measurement category.

It is expected that the aligned sector code will improve the current definition contained in the Charter as well as the targets.

It is recommended that financial institutions make additional efforts to increase the current performance in order to be able to meet the higher targets after the alignment with COGP.

		FSC target (2008)	COGP (first five years)
Senior management	Black Black women	20-25% 4%	43% (subject to the ARFG)
Middle management	Black Black women	30% 10%	63% (subject to the ARFG)
Junior management	Black Black women	40-50% 15%	68% (subject to the ARFG)

COGP employment equity scorecard

Description	Weighting points	Target Years 1-5	Target Years 6-10
Black disabled employees as a percentage of ALL employees using the ARFG	2	2%	3%
Black employees in senior management as a percentage of all such employees using the ARFG	5	43%	60%
Black employees in middle management as a percentage of all such employees using the ARFG	4	63%	75%
Black employees in junior management as a percentage of all such employees using the ARFG	2	68%	80%
Bonus Point for meeting or exceeding the Economically Active Population (EAP) targets in each category above	3		

Skills Development

The FSC has set two specific targets

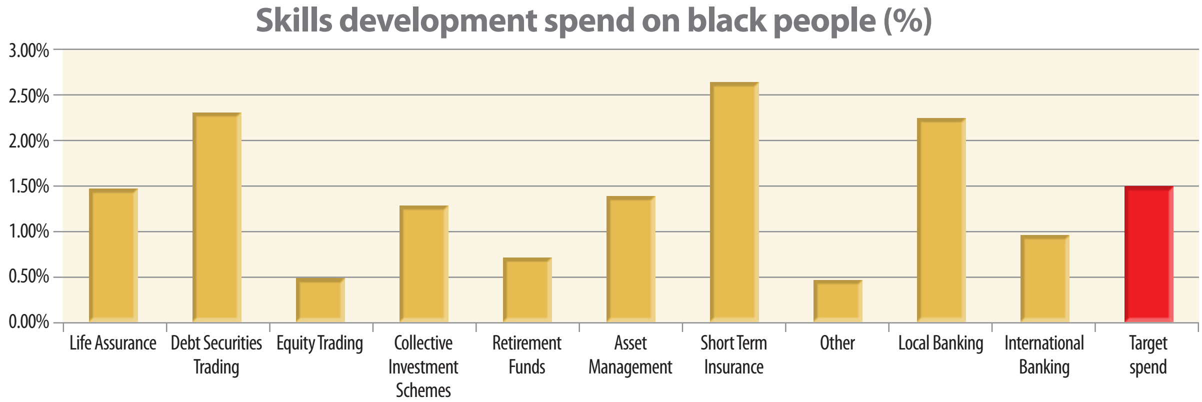
- allocate 1.5% of total basic payroll to the training of black personnel, and
- employ 1.5% of their total staff in the form of black matriculants, or the NQF Level Four equivalent, in learnerships

Training of black staff

There was a substantial increase in the amount of money invested in the training of black staff. The figure puts the amount ahead of the target of 1.5% of payroll – 1.88%[3]

Year	2005	2006	2007	% Growth
Total payroll (millions)	R 32,144	R 41,573	R 48,369	16%
Spending on black staff training (millions)	R 533	R 583	R 908	55%
Achievement **(Target 1.5%)**	1.66%	1.40%	1.88%	36%

Spend per industry



Rand spend per industry

Industry	Spend 2006	Spend 2007	Increase/decline
Life Assurance	138,748,283.00	130,048,929.64	-8,699,353.36
Debt Securities Trading	31,005.00	382,189.00	351,184.00
Equity Trading	1,930,711.00	1,781,513.51	-149,193.00
Collective Investment Schemes	13,277,530.00	5,375,575.87	-7,901,954.13
Retirement Funds	10,829,654.00	42,282,038.93	31,452,384.93
Asset Management	8,237,691.00	9,366,013.90	1,128,322.90
Short Term Insurance	31,489,414.00	60,684,662.20	29,195,248.20
Other	n/a*	1,190,519.86	
Local Banking	369,586,679.00	648,794,957.71	279,208,278.71
International Banking	8,467,742.00	8,246,026.15	-221,715.85

* The Other category reported for the first time in 2007

[3] Reporting entities were requested to exclude any skill levies paid by the financial entity and funds recovered from the SETA or from the government with respect to skills development but may include spending on learnership programmes. The actual figure spent on skills development could be higher than 1.88%.

Learnerships: Graduates and Matriculants

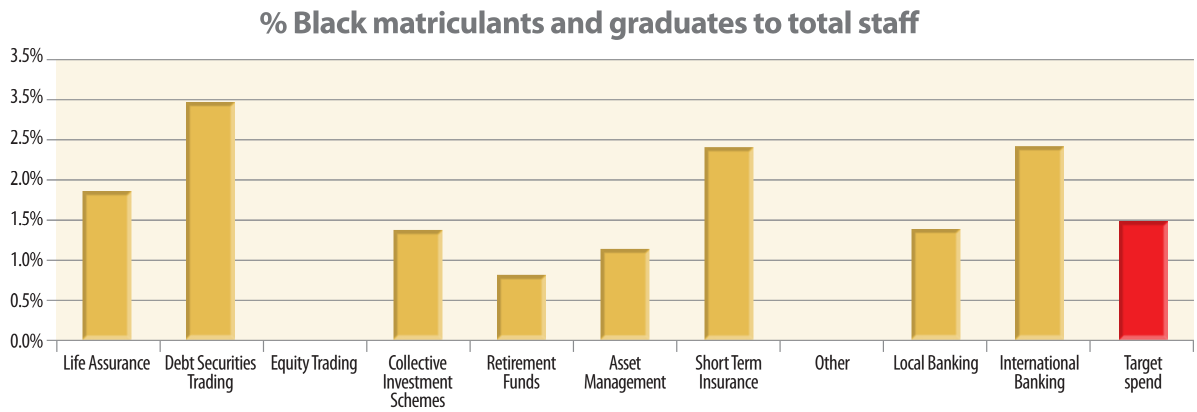
62.4% of the respondents implemented a learnership programme in 2007, bringing the total up to 89% of respondents who had implemented such a programme in the last four years. There was however a general decline in the number of staff and a corresponding decline in the number of learnerships. The number of black graduates was not measured in 2006.

Year	2005	2006	2007	% Growth
Total number of staff	181,004	195,377	192,409	-1.52%
Black matriculants	2,696	3,463	2,513	-27.4%
Achievement **(Target 1.5%)**	1.49%	1.77%	1.31%	-26%
Black graduates	n/a	n/a	392	
Achievement including graduates	1.49%	1.77%	1.51%	-14%

The statistics show that the sector performed adequately in this category. The total number of matriculants and graduates on learnerships amounted to 1.51% against a target of 1.5%. The Charter requirement is to have black matriculants on learnerships, with graduates not counting towards Charter scoring. This has seen sector learnerships geared towards matriculants.

Learnerships per industry

Industry	Number of matriculants	Number of graduates
Life Assurance	505	239
Debt Securities Trading	0	1
Equity Trading	0	1
Collective Investment Schemes	3	16
Retirement Funds	13	2
Asset Management	3	8
Short Term Insurance	215	11
Other	0	0
Local Banking	1748	113
International Banking	26	2



Conclusion and Recommendations

While the sector has in total exceeded the target on skills development, it must be highlighted that most of the industries within the sector performed below target. This challenge will be aggravated when the aligned Charter becomes effective. It is therefore imperative that financial institutions triple their effort in developing black employees more so those institutions still performing below Charter targets.

Previous recommendations have alluded to the need for the Charter to include graduates and a broader definition for learnership in order to meet the needs of those industries in the sector that require tertiary skills at entry level. It is envisaged that this will be taken into consideration in the new Charter.

Below is an indication of the measurements and targets per the COGP.

Description	Weighting points	Compliance Target
Skills development expenditure on learning programmes specified in the Learning Programmes Matrix		
Skills development expenditure on learning programmes specified in the Learning Programmes Matrix for black employees as a percentage of leviable amount using the ARFG	6	3%
Skills development expenditure on learning programmes specified in the Learning Programmes Matrix for black employees with disabilities as a percentage of leviable amount using the ARFG	3	0.3%
Learnerships		
Number of black employees participating in learnerships, or category B, C and D programmes as a percentage of total employees using the ARFG	6	5%

PROCUREMENT AND ENTERPRISE DEVELOPMENT

Procurement

For the 2007 reporting period, procurement and enterprise development continue to be scored as a single element carrying a maximum score of 15. Separation of the two sub-elements in the guidance notes is for convenience only.

Some observations of the procurement spend for 2007.

1. The gazetting of **the dti**'s Codes of Good Practice (COGP) had a marked impact on the measurement of procurement as companies could measure suppliers on both a narrow and broad based methodology.
2. The sector has performed well with an increase of 166% in the BEE procurement spend; with R48 billion having been spent on BEE compliant companies.
3. The sector has exceeded the 2008 target and should have no difficulties meeting the 2014 target.
4. This has been a result of both the gazetting of the COGP (and thus an increased number of suppliers obtaining BEE scorecards) and companies, and certain sector industries, implementing focused procurement strategies.
5. With the move from a narrow-based measurement of suppliers to a broad-based measurement, and the reporting regime for 2007, it has not been possible to comprehensively measure the spend with black owned business, as was done in the past.

Financial overview of procurement

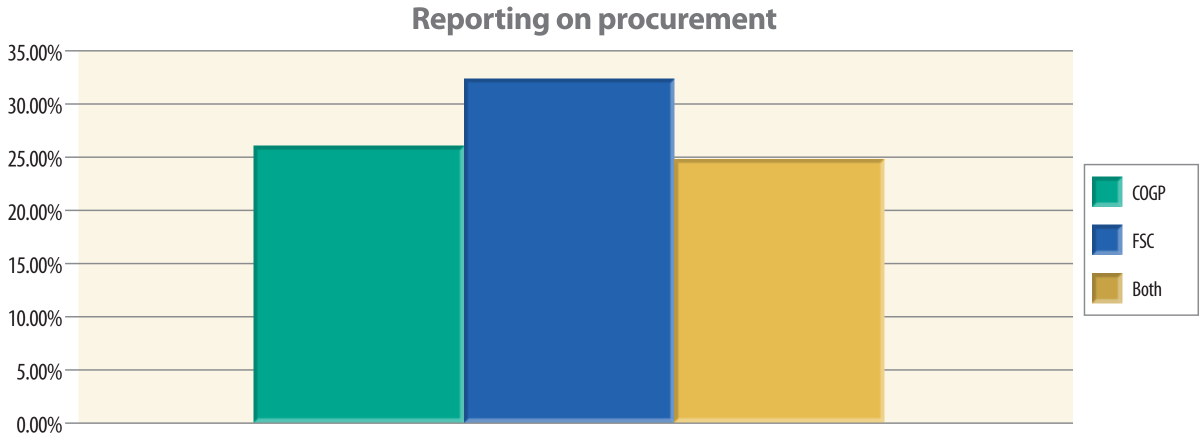
Year	2005	2006	2007	% Growth
Total procurement spend (millions)	R 38,425	R 54,071	R 92,736	72%
Total eligible BEE spend (millions)	R 14,764	R 17,958	R 47,846	166%
% BEE procurement spend	38.42%	33.21%	51.6%	18.4%

Exclusions from procurement

Discretionary procurement is the total procurement less allowable exclusions. The exclusions applied by companies are those that are defined in the FSC. The FSC exclusions are more comprehensive than those of the COGP. With the alignment to the COGP, fewer exclusions may be allowed and this could see a decrease in the sectors performance in the future.

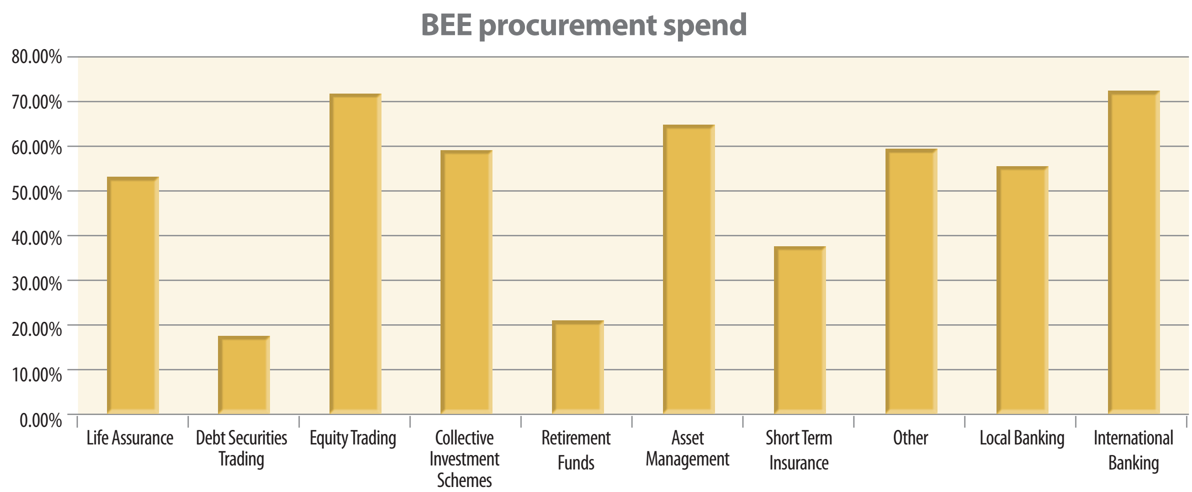
Reporting regime

The graph below shows the move from a narrow based rating to a broad based rating of suppliers in the calculation of preferential procurement.



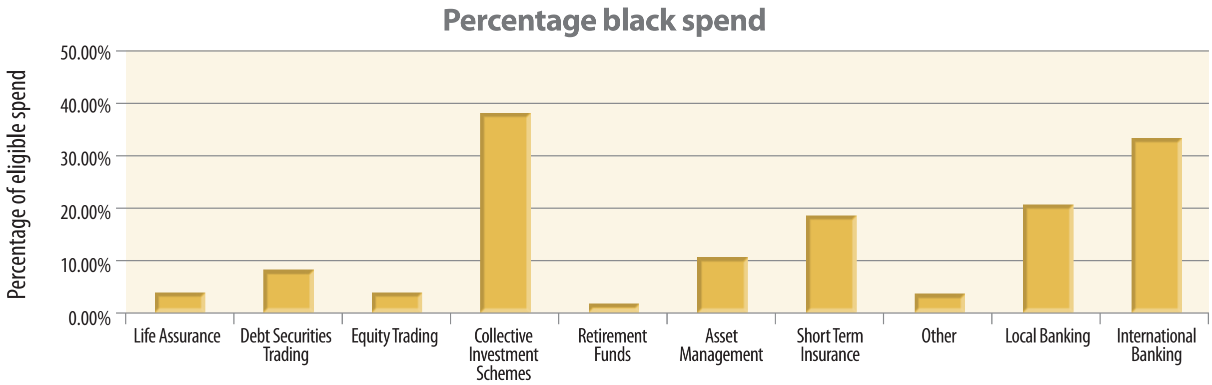
The table below shows the performance per industry.

Industry	Black (target 40-50%)
Life Assurance	51.83%
Debt Securities Trading	17.12%
Equity Trading	70.39%
Collective Investment Schemes	57.97%
Retirement Funds	20.51%
Asset Management	63.36%
Short Term Insurance	36.75%
Other	58.11%
Local Banking	54.40%
International Banking	70.68%



Spend on black owned, black empowered and black SMEs (100c and 125c rated in the FSC categories)

It is difficult to draw a comparison of this spend to the years before because of the different measurement categories. However we can say that narrow-based measurement is still a feature in the COGP and as such will still be relevant, as every company would need to continue to measure their spend with Black Owned and Black Women Owned businesses.



Conclusion and Recommendations

At the time of writing this report the Financial Sector Charter still hangs in limbo – it is still effectively a charter gazetted under section 12 of the B-BBEE Act. We can therefore expect that the measurements that we saw for the 2007 reporting period to remain until the revised charter is aligned with **the dti**'s Codes Of Good Practice (COGP) and gazetted as a COGP under section 9. Once this happens the measurements are expected to be refined to model **the dti**'s preferential procurement code, namely:

Description	Weighting points	Target Years 1-5	Target Years 6-10
B-BBEE procurement spend from all suppliers based on the B-BBEE procurement recognition levels as a percentage of total measured procurement spend	12	50%	70%
B-BBEE procurement spend from all Qualifying Small Enterprises (QSEs) or from Exempted Micro-Enterprises (EMEs) based on the applicable B-BBEE procurement recognition levels as a percentage of total measured procurement spend	3	10%	15%
B-BBEE procurement spend from any of the following suppliers as a percentage of total measured procurement spend: suppliers that are 50% black owned (3 out of 5 points); or suppliers that are 30 % black women owned (2 out of 5 points)	5	15%	20%

Note – it is not clear whether the same weighting points will be used.

Using **the dti**'s model it follows that companies will still need to measure their spend with Black Owned, Black Women Owned and companies with a turnover under R35 million per annum.

Enterprise development

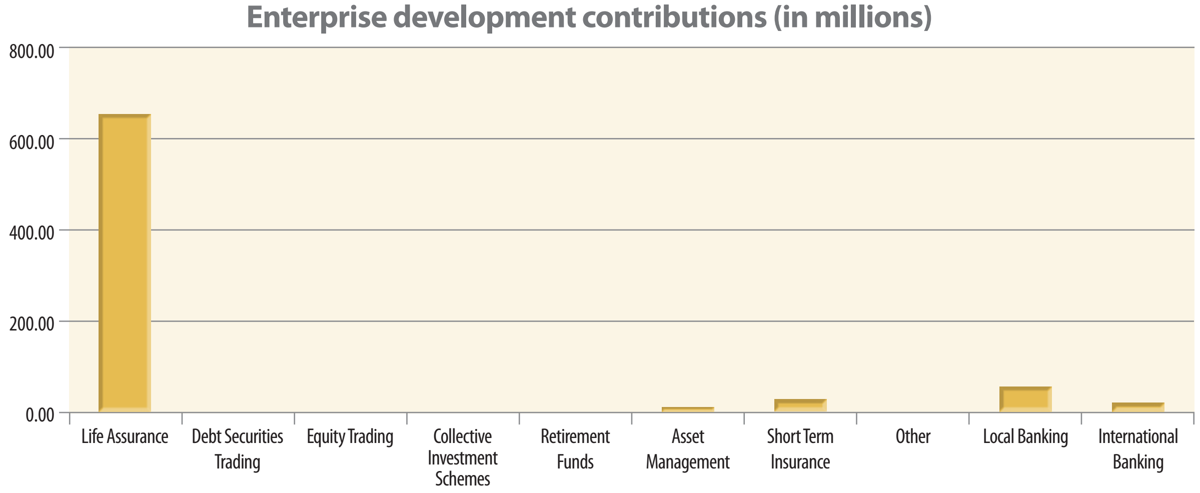
The FSC defines enterprise development as 'fostering new, and developing existing, BEE accredited companies through improving the levels of assistance provided to BEE accredited companies/suppliers in the financial sector and other sectors of the economy through skills transfer, secondment of staff, infrastructure support, and the giving of technical and administrative support assistance, and supporting the establishment and growth of BEE accredited companies/suppliers as broking agencies and/or enterprises in the financial sector through which the sector sells its products and services.'

Enterprise development targets

The Charter does not set a separate target for enterprise development. It has been included in the procurement target. **The dti**'s COGP's target is 3% of NPAT.[4]

The sector reported a total of R 767.79 million as spend on enterprise development during the measured period. The graph below shows the contributions per industry.

Enterprise development per industry



[4] Monetary or non-monetary contributions to beneficiaries, with the objective of contributing to the development, sustainability and financial and operational independence of those beneficiaries.

Types of beneficiaries

Category A - involves enterprise development contributions to EMEs or QSEs which are 50% black-owned or black-women owned. Contributions to these entities attract R1.25 per R1 contributed.

Category B - involves enterprise development contributions to any other entity that is 50% black-owned or black-women owned; or 25% black-owned or black-women owned with a BEE status of between level 1 and level 6.

The figures supporting the graph need to be shown as the graph does not adequately represent the actual enterprise development contributions.

Industry	Enterprise Development Contributions (in millions)	% of procurement	% of NPAT
Life Assurance	654.32	6.68%	7.57%
Debt Securities Trading	0.00	0.00%	0.00%
Equity Trading	0.00	0.00%	0.00%
Collective Investment Schemes	1.17	0.26%	0.02%
Retirement Funds	0.00	0.00%	0.00%
Asset Management	10.97	1.53%	0.67%
Short Term Insurance	27.95	0.59%	0.23%
Other	0.00	0.00%	0.00%
Local Banking	55.82	0.11%	0.24%
International Banking	17.56	0.42%	0.80%
TOTAL	767.79	1.08%	1.36%

Conclusion and Recommendations

The measurement of enterprise development is not as cut and dried within the FSC as it is in the COGP. It would appear that there is too much discretion in determining where a contribution may lie on the scorecard. In addition there is no points incentive to engage in specific enterprise development activities. Without a more concrete and definite approach it is not possible to say for certain whether this enterprise development score will improve over time.

ACCESS TO FINANCIAL SERVICES

Access to financial services is one of the directly articulated primary objectives of the Charter, and commits financial entities to 'substantially increase effective access to first-order retail financial services to a greater segment of the population, within LSM 1-5.' (Clause 8.3).

The widely differing nature of products and services offered by different industries in the financial sector means that the targets, measurement mechanisms and maximum possible scores differ significantly by industry. This directly affects the totals achievable in the scorecard as a whole.

Only the commitment to contribute to consumer education is common to all industries not entitled to exemption from Paragraph 8 of the Charter. All entities not exempted in writing by the Charter Council from doing so for 2007 are required to comply with the Charter consumer education requirements and to report on their performance with respect to consumer education. This includes reporting entities exempted by the Charter Council from the access and loan origination requirements of the Charter, and from reporting on these requirements.

Access to first-order products and services

This section is applicable to domestic banks, long term insurers, short term insurers and the collective investments industry.

The Charter defines first order retail products and services as (section 2.27)[5]

- transaction products and services, being a first order basic and secure means of accessing and transferring cash for day-to-day purposes;
- savings products and services, being a first order basic and secure means of accumulating funds over time. (e.g. savings accounts, contractual savings products such as endowment policies, collective investments and community-based savings schemes);
- insurance products and services being the mitigation of impact of defined first order basic risks. (e.g. life insurance, funeral insurance, burial society, household insurance and health insurance).

Allocation of points

The table below shows how the points are allocated for different industries for this access to financial services section.

Industries that reported	Allocation of points
Banking Industry	18
Long term insurers	14
Short term insurers and entities in the collective investments' industry	6 (total target for the scorecard is reduced accordingly)

[5] The definition also includes credit for low-income housing. This section is dealt with under empowerment financing.

Access to transaction savings products and services

This section only applies to retail banks.

This is a measure of coverage as a demonstration of effective access and is measured by the number of bank savings transaction points countrywide.

Effective physical access to transaction savings products and services is defined as having a service point at which first-order retail financial services can be undertaken, including ATM and other origination points, within a distance of 10km of all people living in previously un- or underserved areas, with the target population defined as all people in LSM 1-5.

Physical access targets (to be achieved by 2008)

- A point of transaction within 10 km of 80% of LSM 1-5
- A point of service within 15km of 80% of LSM 1-5
- A maximum number of people per bank branch or point of service and per point of transaction was not determined in time to apply to the 2007 reporting period and will therefore apply only from the 2008 reporting period onwards.

Performance of the sector

	Physical Access	Achieved physical access
Service Points	80%	79.63%
Full Service Points	80%	79.27%

Bank savings products and services

This measures availability of appropriate and appropriately priced first-order products and services.

Providing effective access to bank savings products and services is defined as the availability of a sufficiently wide range of first-order retail financial products and services to meet first order market needs and which are:

- Aimed at and are appropriate for individuals who fall into the LSM 1-5;
- Appropriate and affordably priced for effective take up by LSM 1-5; and
- Structured and described in a simple and easy-to-understand manner.

The 2008 industry target, which forms the basis of the measurement of 2007 performance, is to achieve reach of first order banking goods and services by 80% of people in LSM 1-5.

Entities are required to perform in proportion to their market share on the effective date.

Performance of the sector

Target accounts	Achieved accounts	% of target
2 905 775	2 603 930	89.61%

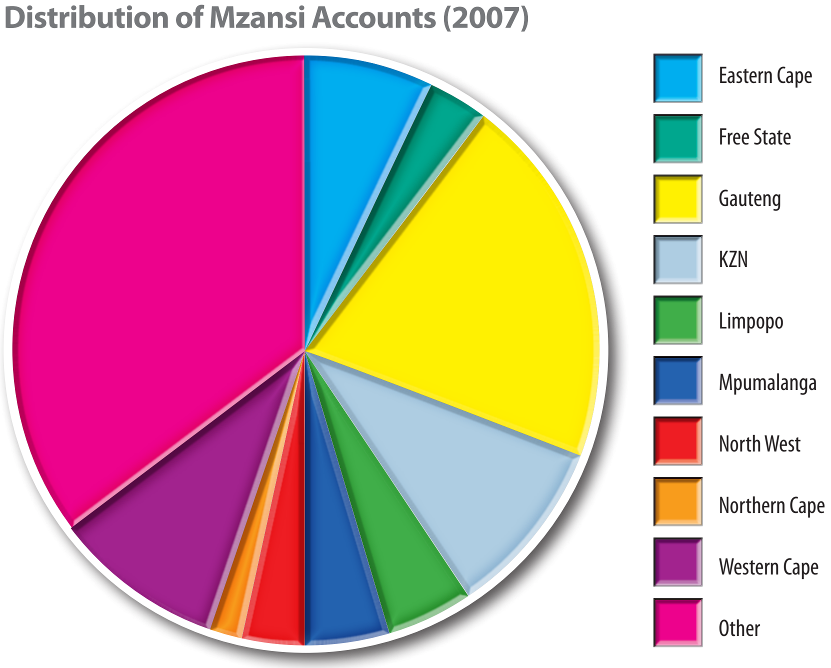
These figures do not only reflect the Mzansi account, but all qualifying bank products.

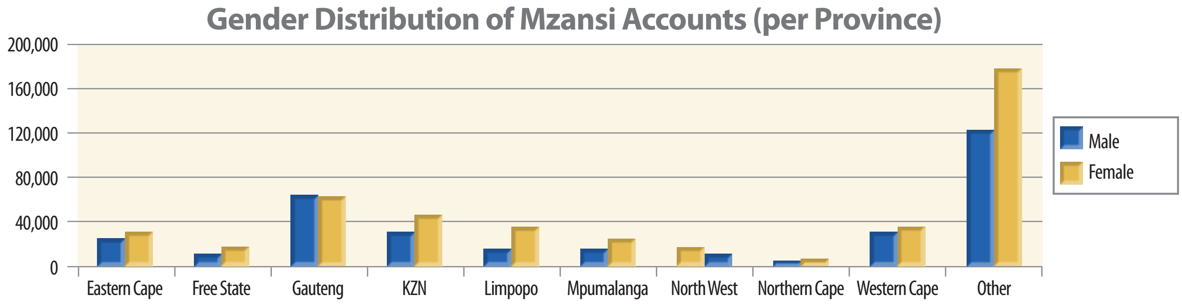
Mzansi accounts

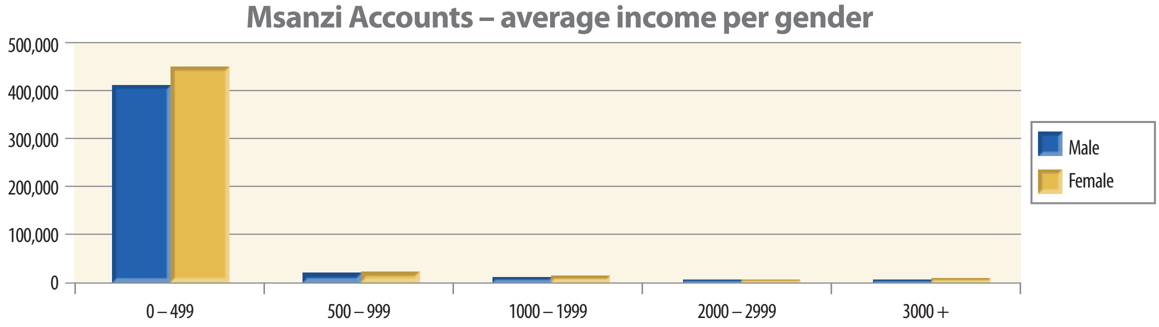
Mzansi accounts are offered by the 4 big retail banks and the Post Office. FSC reporting does not include the Post Office. Institutions reported on both active and inactive accounts. Only active accounts were used for scoring purposes. The number of active Mzansi accounts as at 31 December 2007 was 1 905 346.

Demographic distribution of Mzansi accounts

Some of the reporting institutions have indicated that it is not possible for them to specify the demographic distributions of the Mzansi accounts because of the way the information was initially collected. All such accounts have been reported under the "other" category.







Life assurance products and services

This section only applies to the Life Assurance.

For the 2007 reporting period, entities are required to report on three aspects:

- The appropriateness of products offered (2 points);
- Their initiatives ensuring physical transactional access (3 points); and
- The usage of life assurance products and services (7 points).

Qualifying products and access to products

The Charter undertakes 'by 2008 to make available appropriate first-order retail financial services, affordably priced and through appropriate and accessible physical and electronic infrastructure such that 80% of LSM 1-5 have effective access to transaction products and services'.

For the 2007 performance period onwards, the Council has interpreted this as meaning:

A person within the LSM 1-5 adult grouping (i.e. age 18+) will be deemed to have transactional access to a life insurance product if that person has the opportunity because of the existence of a servicing point[6]:

- on at least one occasion per month, to purchase the product, pay the premiums due and make amendments to the policy within 40km of that person's residence or place of work; and
- at least once every two working days, to lodge a claim and receive payment of the claim within 80km of that person's residence or place of work.

To achieve transactional access by 80% of LSM 1-5, a grid of equal-sized regular squares with sides of 40km has been developed and overlaid on a socio-economic mapping of the country in such a way that 80% of the adult population of LSM 1-5 spend most of their time living and/or working within such squares i.e. within that defined geographical area, utilising the least possible number of squares to achieve this.

Transactional Access will be achieved in any square if a company:

- makes at least 12 sales of approved products per annum within the area defined by that square , i.e. where the policyholder resides and/or works; and
- is able to collect premiums and service the policy within the area defined by that square at least monthly; and
- is able to process a claim in that square or any adjacent square (i.e. within a maximum of 80km) at least every second day because of the existing servicing point i.e. a location where life insurance services are available, or the existence of a suitable electronic transaction or communication infrastructure e.g. a bank branch or ATM or postal and phone/fax facilities, or the presence of an intermediary or representative.

[6] a physical location where life insurance services are available, or the existence of a suitable electronic transaction or communication infrastructure, e.g. a bank branch or ATM or postal and phone/fax facilities, or the presence of an intermediary or representative.

Performance of the sector

The Life Assurance was the only industry to report on this section. No data existed from previous years for comparison purposes.

Description	Target and achieved figure	Percentage of target
Target Life qualifying products	4	
Achieved Life qualifying products	4	100%
Target Life Transactional access	80%	
Achieved Life Transactional access	74.62%	93.28%

The usage of life assurance products and services

The Life Assurance was the only industry to report on this section. No data existed from previous years for comparison purposes.

Description	Target and achieved figure	Percentage of target
Target Life market penetration	23%	56.52%
Achieved Life market penetration	13%	

Short term insurance products

This only applies to short-term insurers.

The Charter defines a performance target for 2008 as: "a specific undertaking by the sector (that) 6% of LSM 1-5 have effective access to short term risk insurance products and services." Individual entities are required to perform in proportion to their 2004 market share.

The target for short-term insurance products is 6%. This is a household target, as the FSC stipulates housing related insurance for this area.

Description	Target and achieved figure	Percentage
Target Short Term qualifying products	262 500	0.99%
Achieved Short Term qualifying products	2,502	

Origination

This section considers the number of qualifying loans originated, specifying the geographic location, loan size, loan type and household income (in the case of low-income housing loans) or annual turnover (in the case of Black SME loans and agricultural development loans) for each of the loans granted.

The sector target is R42 billion (R32 billion)[1] in originated home loans to low-income households in the 2004-2008 period. Entities are required to perform in proportion to their market share on the effective date.

[1] *See explanation of R42bn vs R32bn under the Empowerment Financing: Low-Income Housing section, to follow*

Low-income housing loans

The sector's objective is to originate R40-billion in home loans for low-income housing from the effective date to 2008, increasing proportionately year-on-year. For 2007, the measure is the number of low-income home loans originated since the effective date.

The following areas are covered for the 2007 reporting period:

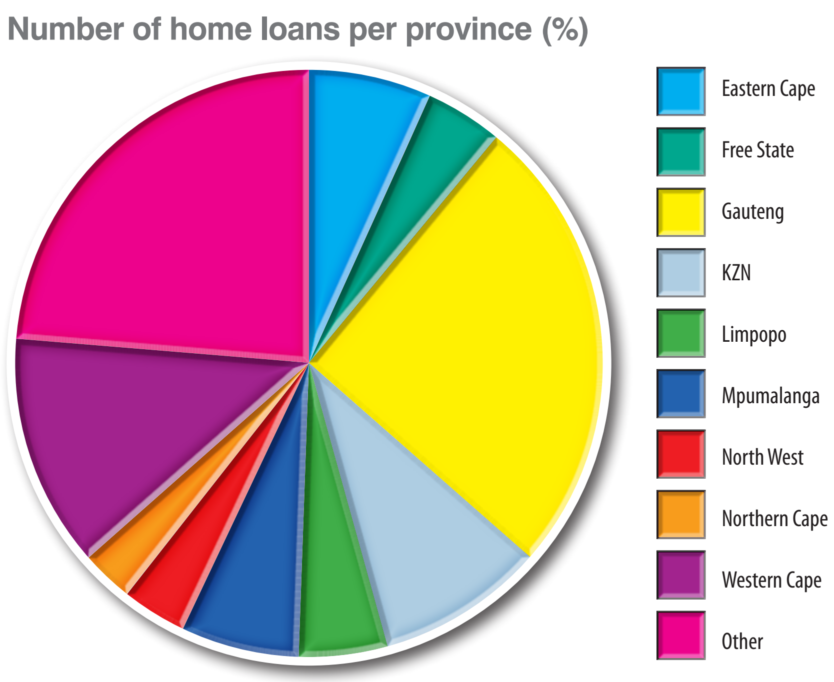
- Mortgages
- Pension backed loans
- Personal loans
- Wholesale loans to intermediaries
- Residential development loans
- Social Housing

Loans were provided to black people with annual income levels of between R1,810 and R9,050.

Geographical spread of loans

The supporting information that the graph below was drawn from comes from two reporting institutions, both from Local Banking.

The graph shows the geographical spread of the loans.



Description	Target and achieved figure	Percentage
Target Origination low-income housing loans	40 000 000 000	94.07%
Achieved Origination low-income housing loans	37 627 562 215	

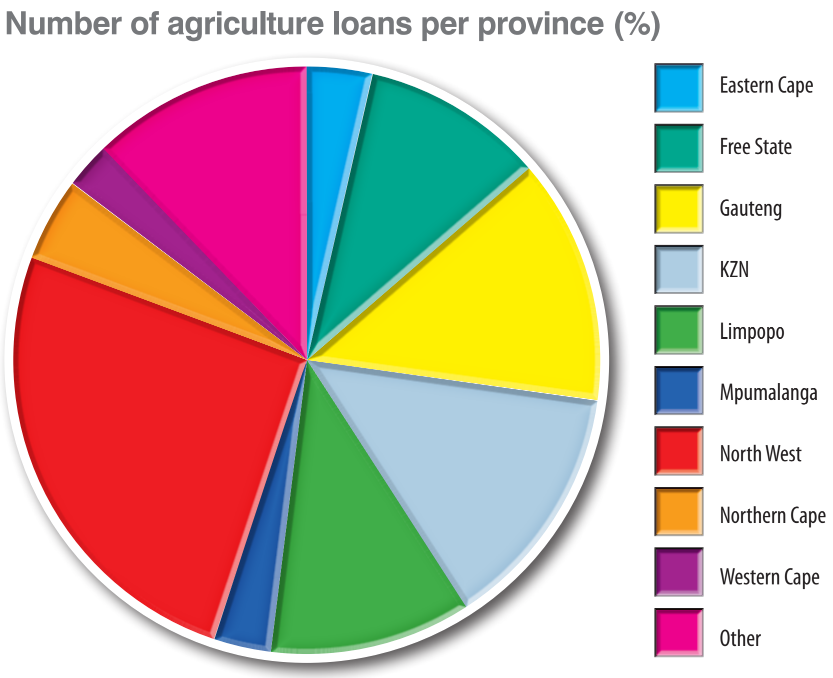
Origination of agriculture loans

According to the Charter, the origination of agricultural loans is the support offered to resource-poor farmers, through enabling access to and the sustainable use of resources. The industry target is a R1,5-billion increase in agriculture development loans over the 2004-2008 period.

Geographical spread of loans

The supporting information that the graph below was drawn from comes from two reporting institutions, also both from Local Banking.

The graph shows the geographical spread of the loans.



Performance of the sector

Description	Target and achieved figure	Percentage
Target Origination agriculture loans	1 500 000 000	98.23%
Achieved Origination agriculture loans	1 473 437 386	

Origination of black SME loans

Black SME loans include all term loans of any length advanced to Black SMEs recognising the average exposure over a 12-month period, including:

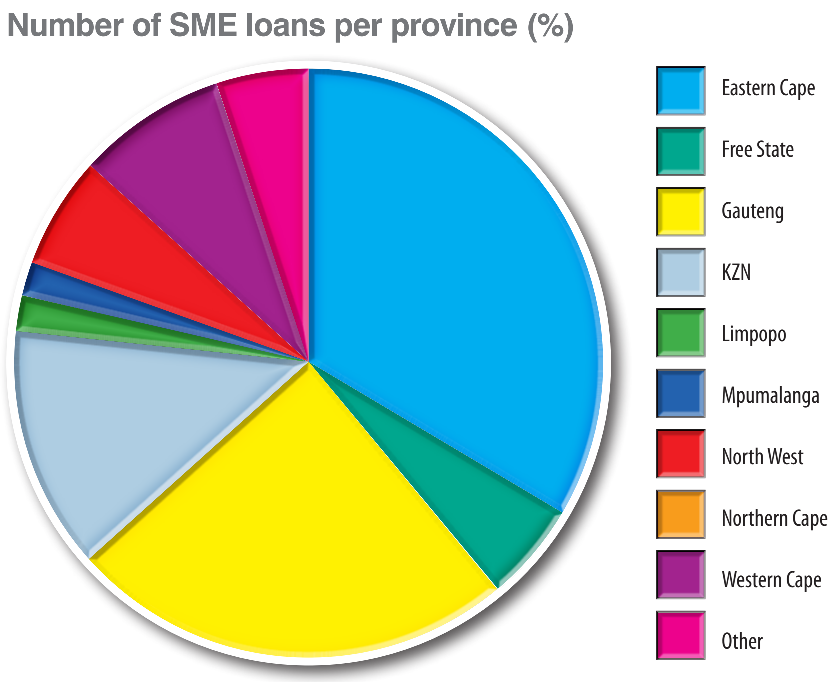
- Lease and rentals;
- Overdraft facilities (measurement to be based on average utilisation over the reporting period);
- Equity investments (valued at cost);
- Property finance including commercial mortgages (measure only commercial property finance that is registered in the name of the business in question and is 100% reserved on the bank's balance sheet);
- Invoice discounting measurement to be based on average utilisation over the reporting period); and
- Guarantees.

The industry target is a R5 billion increase in loans to black SMEs over the 2004-2008 period. Entities are required to perform in proportion to their market share on the effective date.

Geographical spread of loans

The supporting information that the graph below was drawn from comes from two Local Banking reporting institutions.

The graph shows the geographical spread of the loans.



Performance of the sector

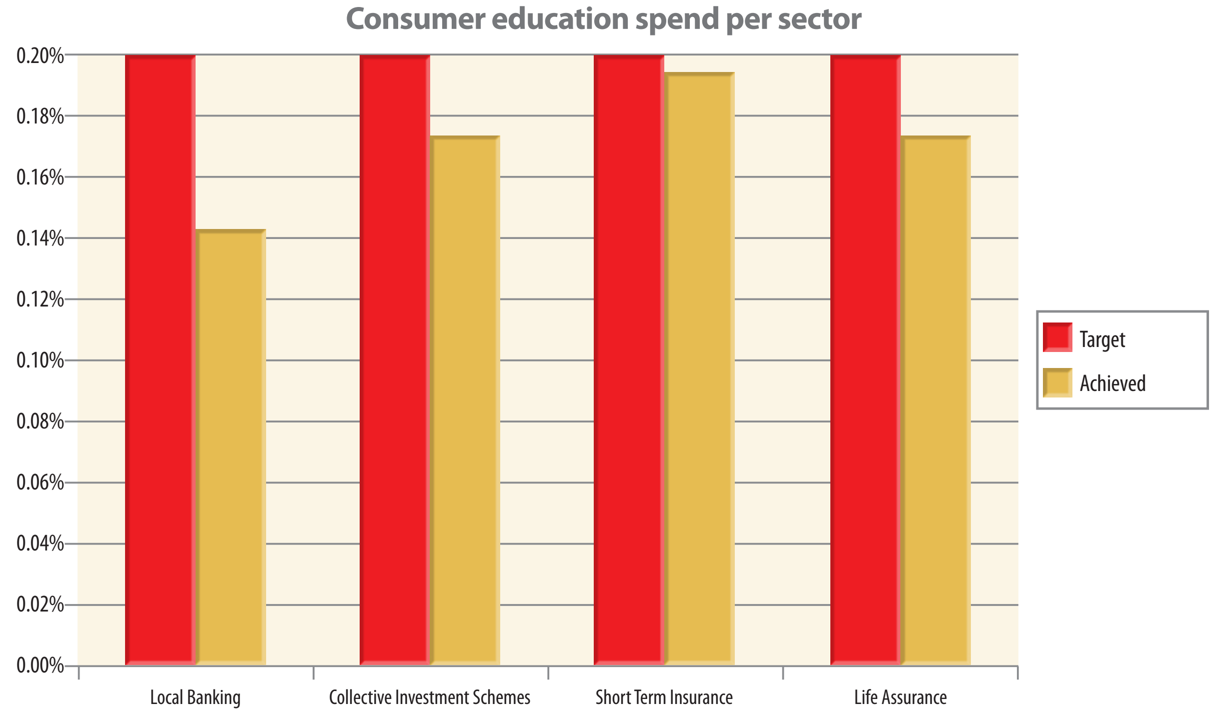
Description	Target and achieved figure	Percentage
Target Origination black SME loans	5 000 000 000	196.42%
Achieved Origination agriculture loans	9 821 225 123	

Consumer Education

Consumer education is the process of gaining knowledge and skills to manage personal resources and to participate in decisions that affect individual well-being and the public good. The outcome of the consumer education process is the development of the consumer's skills, attitudes, knowledge and understanding of the financial sector and its products and services.

Paragraph 8.4 of the Charter states: 'Each financial entity commits, from the effective date of the Charter to 2008, to annually invest a minimum of 0,2% of net operating profits after tax in consumer education. Consumer education will include programmes that are aimed at empowering consumers with knowledge to enable them to make more informed decisions about their finances and lifestyles.

It follows therefore that every reporting entity would make a contribution to consumer education.



Performance of the sector

The sector has not reached the target.

Description	Target and achieved figure (ZAR)	Percentage of NPAT
Relevant industries post tax operating profit	47 856 991 576	
Target consumer education spend	95 713 983	
Consumer education spend	81 198 274	0.17%

EMPOWERMENT FINANCING

Empowerment Financing contributes 22% to the overall FSC BEE Scorecard. According to the Charter, Empowerment Financing is "the provision of finance for or investment in targeted investment and Black Economic Empowerment transaction". Targeted investment means debt financing of, other form of credit extension to, or equity investment in, South African projects in areas where gaps or backlogs in economic development and job creation have not been adequately addressed by financial institutions (Charter: Section 2.34).

Targeted Investments

There are four categories of targeted investments with a combined sectoral target of R63,5-billion to be invested between the effective date and 2008:

1. Transformational infrastructure (target R25-billion)

The Charter defines transformational infrastructure projects as those that support economic development in underdeveloped areas and contribute towards equitable access to economic resources. Such infrastructure projects could be in the following sectors:

- Transport
- Telecommunications
- Water, waste water and solid waste
- Energy
- Social infrastructure such as health, education and correctional services facilities
- Municipal infrastructure and services

2. Low-income housing (target R31,8 billion)

Qualifying investments in low-income housing have beneficiaries that fit into the household income bands in the table below.

3. Agricultural development (target R1,5-billion)

Measurement Period	2003	2004	2005	2006	2007
CPIX		124.4	129.8	134.9	141.1
CPIX adjustment (from previous year)		6.8%	4.29%	3.90%	4.60%
Upper limit	R7,500	R8,010	R8,190	R8,440	R9,080
Lower limit	R1,500	R1,610	R1,680	R1,730	R1,810

Targeted investment in low-income housing has a target of R41,8-billion to be achieved by 2008 as the balance on the books as a sector. This target will only be achieved if there is a partnership between the financial sector and government to effect risk-sharing between government and banks to facilitate the transformation of the low-income housing market, as well as risk mitigation in areas of non-commercial risk. Failing this, the target to be achieved is R32-billion.

The financial sector commits to granting R1.5 billion for agricultural development involving integrated support for resource-poor farmers, through enabling access to and the sustainable use of resources. They also made specific commitments to ensure that the target is achieved. These included:

- Creating funding products and stimulating access;
- Land reform involvement and support
- Creation of enabling structures for transformation
- Policy and programme contribution
- Infrastructure and BEE financing

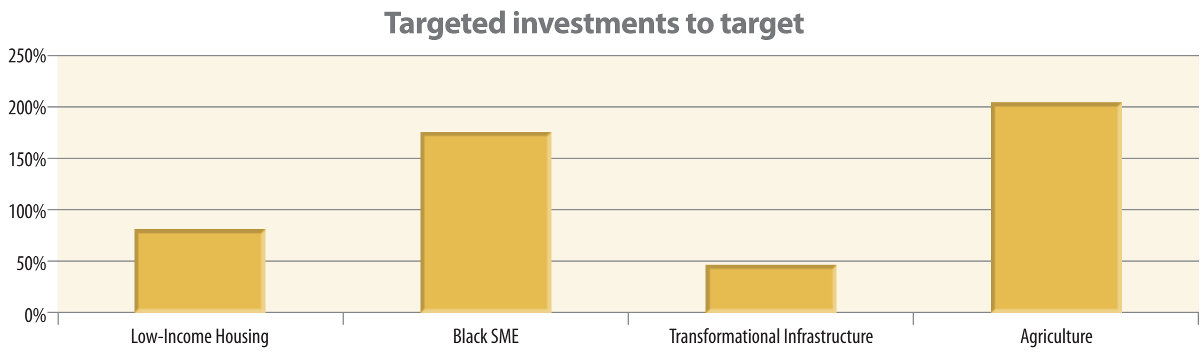
4. Black SMEs (target R5-billion)

Black SME means a small or medium enterprise (with a turnover ranging from R500,000 per annum to R20 million per annum) which is a black company or a black empowered company[7] .

Performance Review – Targeted Investments

The overall performance of the sector was generally very impressive and suggests that it is on target to meet its 2008 requirements.

	Total	Target 2008	% achieved
Low-income housing	26 874 486 511	32,000,000,000.00	83.98%
Black SME	8,801,620,260.22	5,000,000,000.00	176.03%
Transformational Infrastructure	12,468,990,083.00	25,000,000,000.00	49.88%
Agriculture	3,057,100,000.00	1,500,000,000.00	203.81%

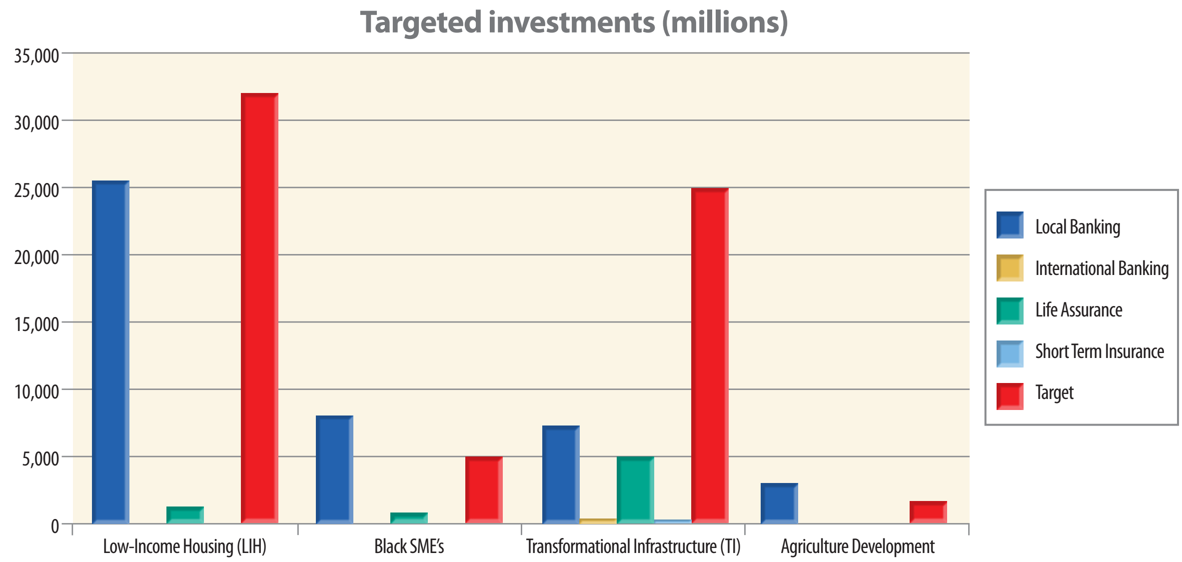


[7] Black companies are more than 50% owned and are controlled by black people. Black empowered companies are more than 25% owned by black people and where substantial participation in control is vested in black people.

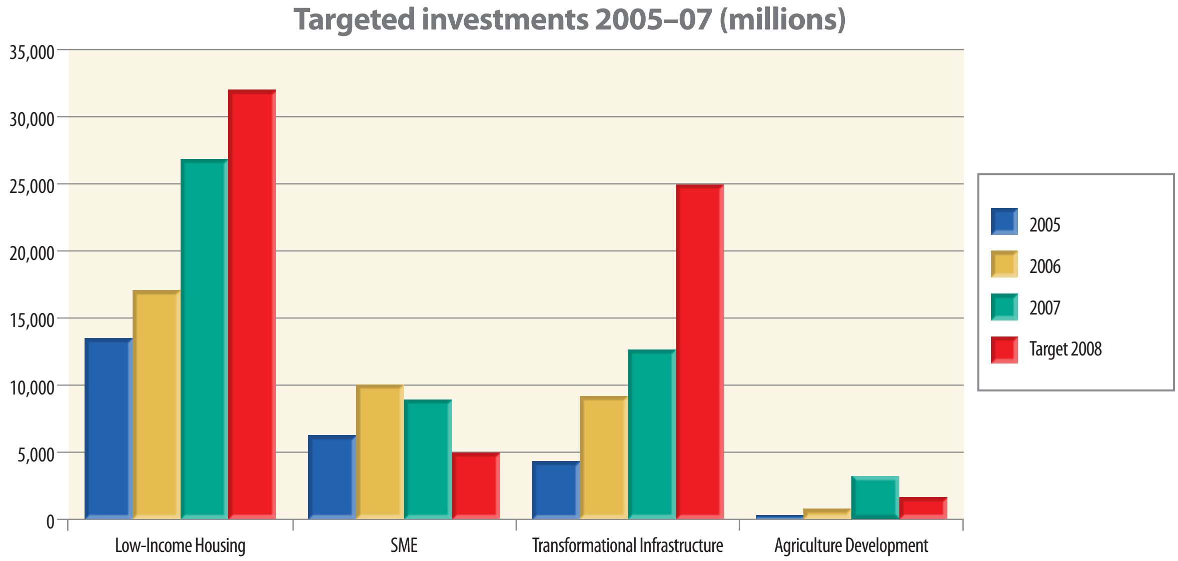
Four industries reported on the targeted financing requirement.

Industry		Total	Target 2008	% Achieved
Local Banking	Low-income housing	25 645 905 400	32,000,000,000	80.14%
	Black SME	7,926,614,488	5,000,000,000	158.53%
	Transformational Infrastructure	7,313,310,126	25,000,000,000	29.25%
	Agriculture	3,042,100,000	1,500,000,000	202.81%
International Banking	Low-income housing	27,300,000	32,000,000,000	0.09%
	Black SME	21,444,696	5,000,000,000	0.43%
	Transformational Infrastructure	301,270,000	25,000,000,000.00	1.21%
	Agriculture		1,500,000,000	0.00%
Life Assurance	Low-income housing	1,191,281,111	32,000,000,000	3.72%
	Black SME	778,352,076	5,000,000,000	15.57%
	Transformational Infrastructure	4,826,906,202	25,000,000,000.00	19.31%
	Agriculture	15,000,000	1,500,000,000	1.00%
Short Term Insurance	Low-income housing	10,000,000	32,000,000,000	0.03%
	Black SME	75,209,000	5,000,000,000	1.50%
	Transformational Infrastructure	27,503,755	25,000,000,000.00	0.11%
	Agriculture		1,500,000,000	0.00%

The graph below shows the performance of the sector in 2007



Targeted Investments – performance to date



The graph shows a definite improvement in all four areas. It is important to note that the actual contribution made to SME financing has dropped by R1,039 million but it still exceeds the target. This is a clear sign of the institutions' willingness to make a positive contribution to this requirement way over the required target.

BEE transaction financing

All reporting institutions are required to complete this sub-section in full. It contributes a maximum of five points to a possible total of 22 for empowerment financing. Scores are calculated separately from targeted investments.

The Charter recognises BEE transactions as encompassing all transactions for the acquisition, by black people, of direct ownership in an existing or new entity, other than an SME, in any sector of the economy; and joint ventures with, debt financing of, other form of credit extension to, or equity investments in BEE companies, other than SMEs. Facilities that represent financing risk, but that do not involve a flow of funds to BEE entities, such as guarantees, are not counted towards BEE transaction financing credits.

Transactions for the acquisition, by black people, of direct ownership in an existing or new entity, other than an SME, are scored in full. Transactions that are joint ventures with, debt financing of, other form of credit extension to or equity investments in, BEE companies, other than SMEs should be scored in proportion to the level of black ownership proportional recognition which will depend on the level of black ownership in the entity receiving financing. The application of this proportional recognition is:

- A threshold of 25% applies: financing of entities with 25% black ownership or less contribute nothing to the score.
- Institutions financing entities with black ownership of between 25% and 50% score at the rate of twice the percentage of black ownership per Rand of financing. An institution providing finance to a 25% black-owned company should score 50% of possible points.

For the financing of entities with black ownership of 50% or more, institutions score in full.

For 2007, vendor financing may be included in the calculation of BEE transactions financed in the reporting period.

For reporting purposes, scoring does not distinguish between broad-based and narrow-based ownership, although if institutions wish to score on the basis of the Council's standards or other methodology taking account of broad-based ownership they may do so, provided they give details and an explanation of the methodology and scoring formulae used.

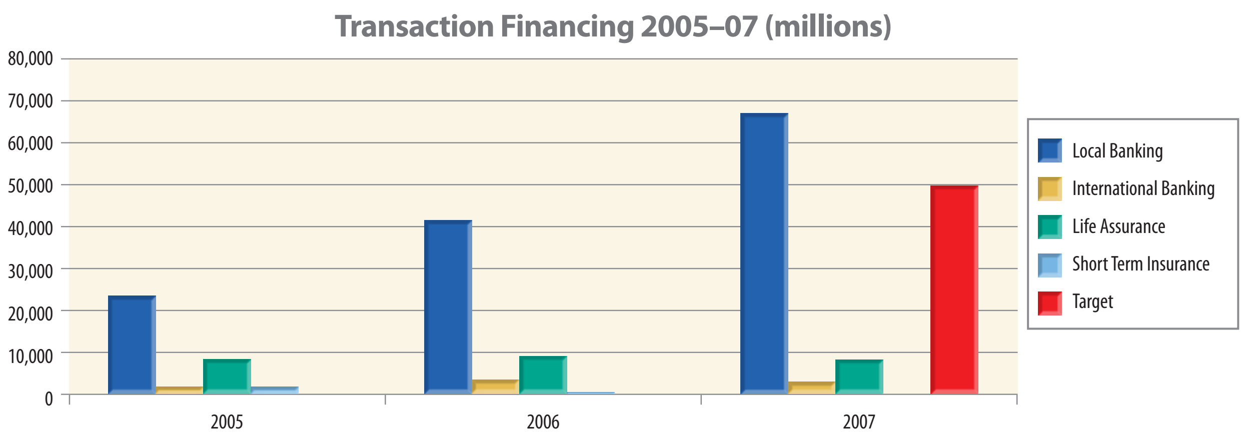
Target

The sector's BEE transaction target to 2008 is R50-billion. Each institution's individual target is in proportion to the institution's percentage share of total designated investments as at the effective date.

Transaction Financing – Performance to date

The Banking Industry alone has exceeded the target of R50 billion. It is the only industry that has consistently improved in this sector.

Industry	2005 (R ml)	2006 (R ml)	2007 (R ml)
Local Banking	23,371	41,178	66,984
International Banking	1,494	3,196	2,947
Life Assurance	8,083	8,950	8 123
Short Term Insurance	1,431	233	181
TOTAL	34,379	53,557	78 235



OWNERSHIP & CONTROL

Ownership

Ownership and control carries a maximum combined score of 22 plus two bonus points, with 14 allocated to ownership and 8 to control. The ownership targets of 10% direct black ownership, and 25% direct black ownership and indirect black ownership combined, are to be achieved by 2010 rather than by 2008.

Ownership in 2007

The previous report stated that:

> "Ownership is an area which is still beset with measurement reporting data challenges. It is anticipated that there will be a much improved story-line to assess transformation progress in the forthcoming measurement period."

Unfortunately the same measurement reporting data challenges still exist. It is a false economy to take the average ownership across the board and attribute this percentage to the sector as a whole (as we have in the scorecard at the beginning of the report). To be consistent with the previous report the table below shows the average change in ownership.

Description	2005	2006	2007	% change
Average direct ownership percentage	16%	17. 8%	18.8%	1%

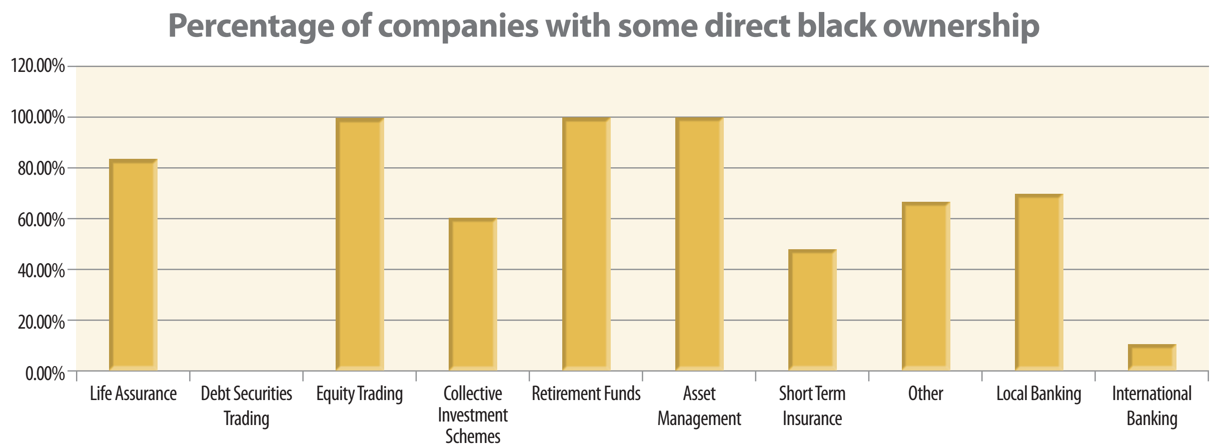
Of the total number of companies 24.2% reported a positive increase in direct ownership with 8.4% showing a decline in ownership[8].

Direct ownership

Direct ownership is measured by the ownership of an equity interest plus the shareholder's control over all of the voting rights obtained as a result of the equity interest.

Industries performance in terms of ownership

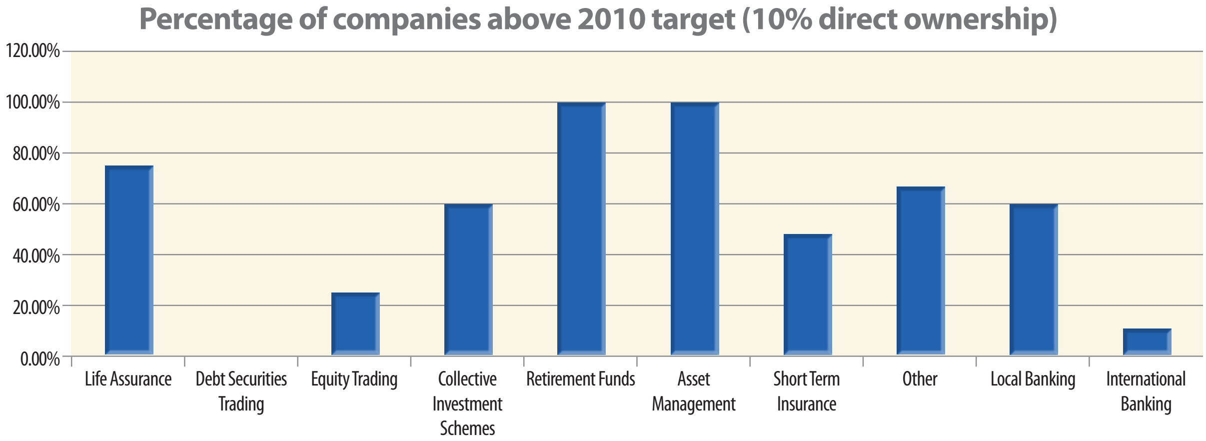
The graph below shows the percentage of companies within each industry that have claimed a percentage of direct ownership. The levels of ownership vary from below 1% to 100%.



[8] Reasons for the decline in shareholding range from the physical sale of shares by an institutional investor to a change in issued shares resulting in a dilution of the BEE shareholding to a merger with a larger company.

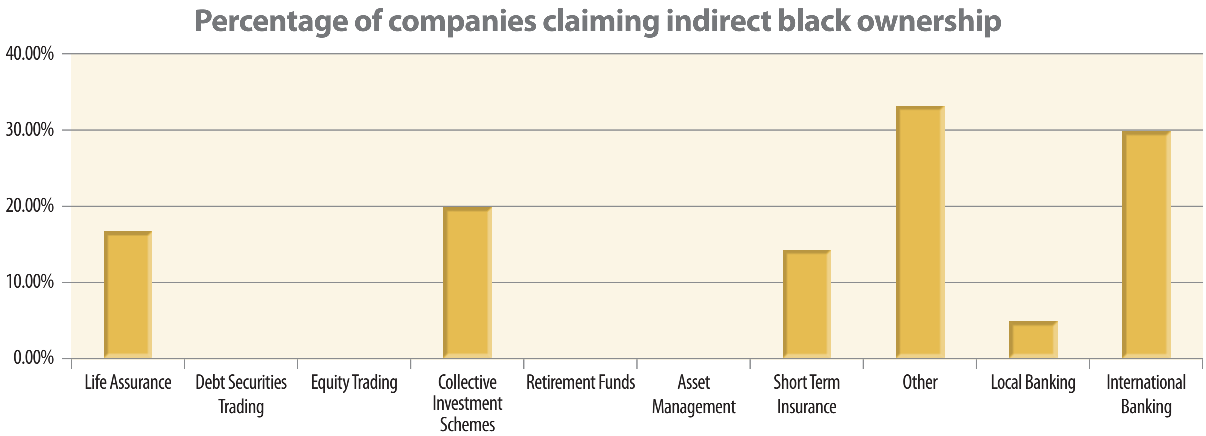
Industries performance in terms of the 2010 target – 10%

57% of reporting companies (this includes those who have applied for exemption in terms of section 4.6.4) are either on target or have exceeded it.



Indirect ownership

Indirect ownership occurs where an institution or other investor owns equity in a company on behalf of beneficiaries where there is no direct participation by the beneficiaries in the voting rights.
Companies were not required to report on their indirect ownership for 2007, as the measurement criteria had not been finalised.



The International Banking ownership does not indicate actual ownership, but rather the "equity equivalent" undertaken by the international banks.

Conclusion and Recommendations

A major debate still rages as to whether the percentage of direct ownership can be increased to that of the COGP (15%). This issue is still unresolved as of October 2008. The ownership category within the FSC is very different to that of **the dti**'s COGP. The FSC only measures direct and indirect ownership whereas the COGP attempts to determine the actual shareholder's involvement in the ownership of the entity by calculating the percentage of voting rights and entitlement to economic interest. Just how the sector is going to align itself to this requirement has yet to be agreed upon.

Control

Control centres on the authority and power to manage assets, the determination of policies and the direction of business operations. Indicators of control may include:

- participation in control structures of a business unit or of the company (such as shareholder meetings, the Board of directors, board subcommittees, and divisional boards), the exercise of voting rights on the board of directors and committees thereof, and controlling equity;
- participation in executive management.

Black Directors and Black Women Directors

The Charter has set a target of 33% for black directors and 11% for black women directors. It is however, silent as to the ratio of executive and non-executive directors, something that the COGP emphasises.

The table below shows that despite the decline in the number of black directors and directors in general, the targets for 2008 have been achieved.

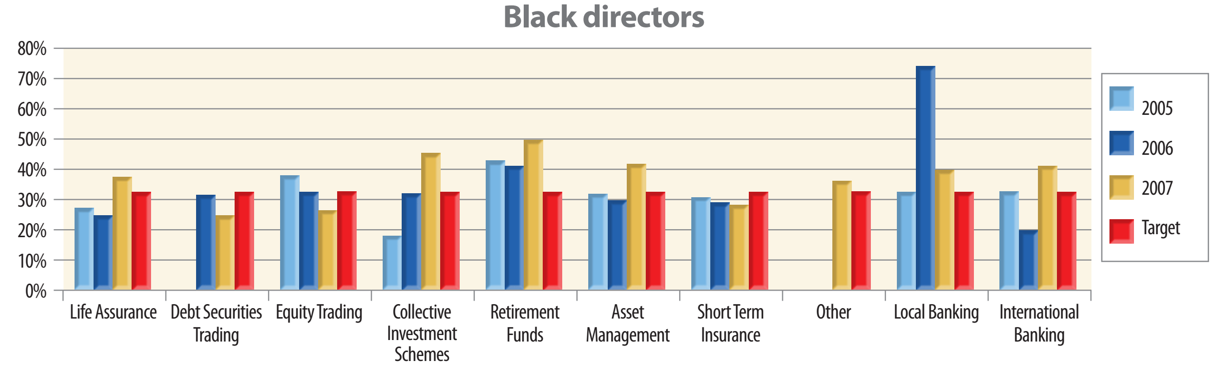
	2005	2006	2007	% Growth
Total Directors	841	988	790	-20%
Black Directors	258	367	287	-21.8%
Percentage	31%	37%	**36.33%**	
Black Woman Directors	74	98	92	-6.1%
Percentage	9%	10%	**11.65%**	

Performance per Industry: Black Directors 2005 - 2007

Industry	2005	2006	2007
Life Assurance	27%	25%	38%
Debt Securities Trading	–	33%	25%
Equity Trading	38%	33%	27%
Collective Investment Schemes	18%	32%	45%
Retirement Funds	43%	41%	50%
Asset Management	32%	30%	42%
Short Term Insurance	31%	29%	28%
Other *	–	–	36%
Local Banking	33%	74%	39%
International Banking	33%	20%	41%

* – these institutions were not included before 2007

Black directors per industry

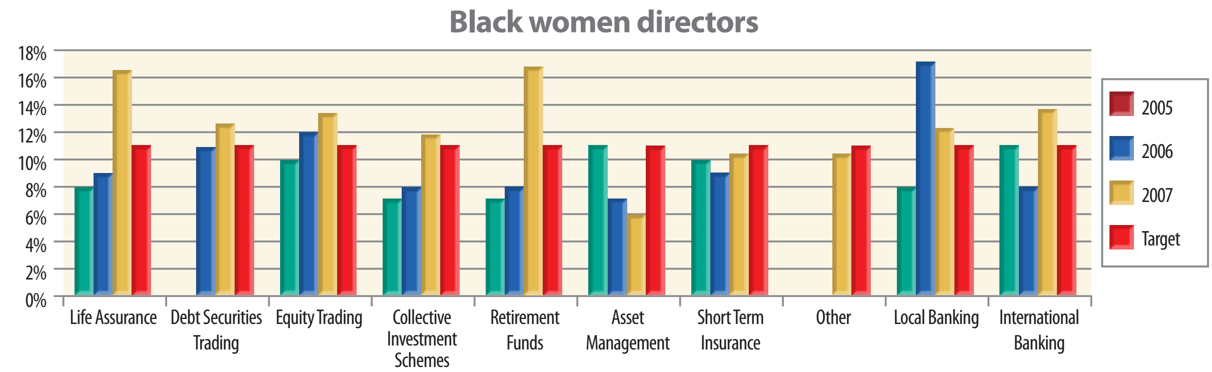


Performance: Black Women Directors 2005 - 2007

Industry	2005	2006	2007
Life Assurance	8%	9%	16%
Debt Securities Trading	–	11%	13%
Equity Trading	10%	12%	13%
Collective Investment Schemes	7%	8%	12%
Retirement Funds	7%	8%	17%
Asset Management	11%	7%	4%
Short Term Insurance	10%	9%	10%
Other *	–	–	10%
Local Banking	8%	17%	12%
IBA	11%	8%	14%

* – these institutions were not included before 2007

Black women directors per industry



Black executives and black women executives

The Charter specifies that "executive management means X number of people identified by the Board of Directors by name and position as the top managers of that financial institution, where X = 0.4% of the total staff of the financial institution employed in South Africa, with a minimum of 9 people and a maximum of 50. "

The target for black executives is a 25% minimum with black women executives being a minimum of 4%.

As with directors above the table below shows that despite the decline in the number of black executives and executives in general, the targets for 2008 have been achieved.

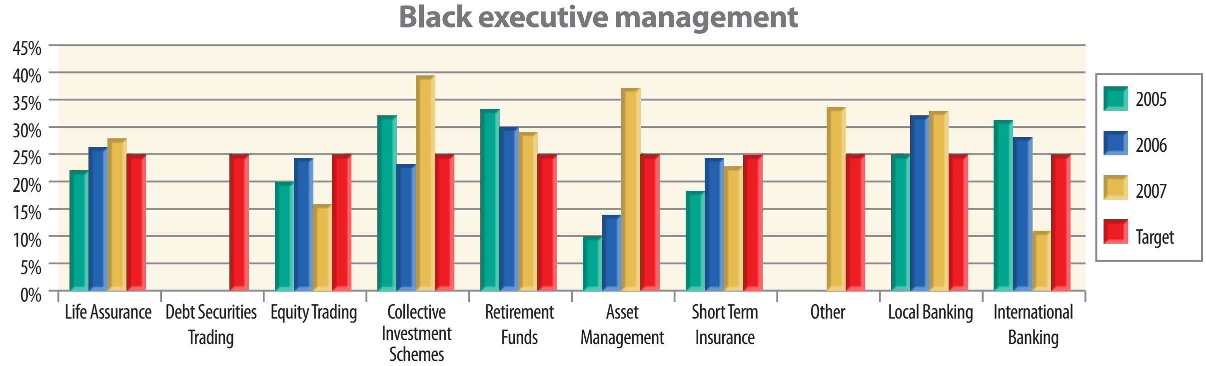
	2005	2006	2007	% Growth
Total Executives	1048	987	757	-23.3%
Black Executives	249	259	212	-18.15%
Percentage	24%	26%	28%	
Black Woman Executives	63	81	61	-24.7%
Percentage	6%	8%	8%	

Performance: All black executives per industry to target 2005 - 2007

Industry	2005	2006	2007
Life Assurance	22%	26%	27%
Debt Securities Trading	–	0%	0%
Equity Trading	20%	24%	16%
Collective Investment Schemes	32%	23%	39%
Retirement Funds	33%	30%	29%
Asset Management	10%	14%	37%
Short Term Insurance	18%	24%	23%
Other *	–	–	33%
Local Banking	25%	32%	33%
International Banking	31%	28%	11%

* – these institutions were not included before 2007

Black executive management per industry

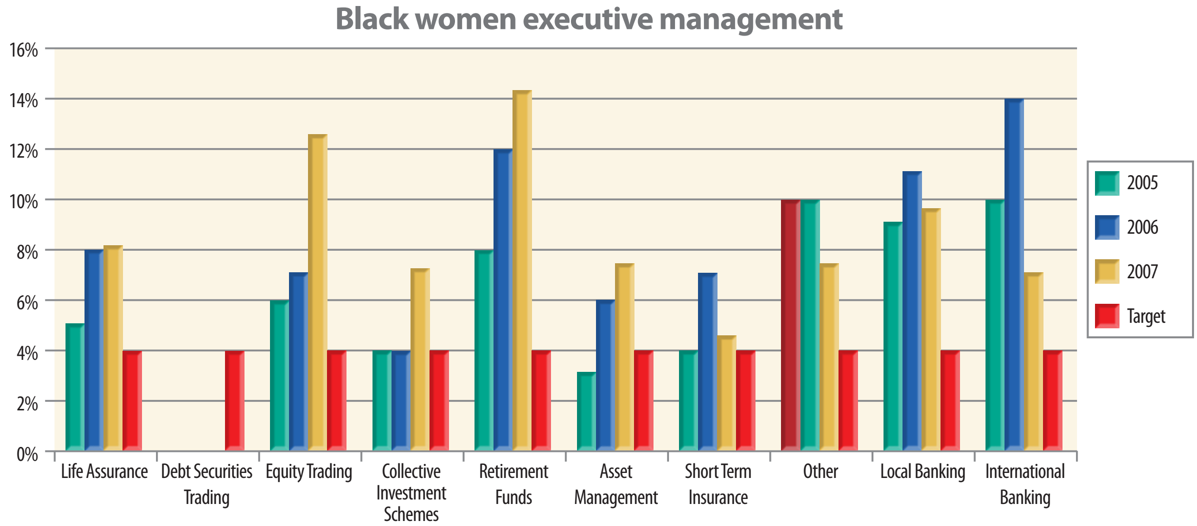


Performance: Black women executives per industry to target 2005 - 2007

Industry	2005	2006	2007
Life Assurance	5%	8%	8%
Debt Securities Trading	–	0%	0%
Equity Trading	6%	7%	13%
Collective Investment Schemes	4%	4%	7%
Retirement Funds	8%	12%	14%
Asset Management	3%	6%	7%
Short Term Insurance	4%	7%	5%
Other *	0%	0%	7%
Local Banking	9%	11%	10%
International Banking	10%	14%	7%

* – these institutions were not included before 2007

Black women executives per industry



Conclusion and Recommendations

As with employment equity above, the targets set by the FSC fall below those of the COGP. The aligned FSC code will need to consider issues such as voting rights on the board, as well as the number of black men and black women on the board. In addition the sector needs to decide whether it includes senior top and other top management in the scorecard. The latter requirement will result in a modification of the definition of top management.[9]

Description	Weighting points	Compliance Target
Board participation		
Exercisable voting rights of black board members using the adjusted recognition for gender (ARFG)	3	50%
Black executive directors using the adjusted recognition for gender (ARFG)	2	50%
Top management participation		
Black senior top management using the adjusted recognition for gender (ARFG)	3	40%
Black other top management using the adjusted recognition for gender (ARFG)	2	40%
Bonus point		
Black independent non-executive board members	1	40%

[9] The COGP define top management as employees who hold rights of ownership, serve on the board, undertake the day to day management, have overall responsibility for the overall financial management and are actively involved in developing and implementing the overall strategy of the company.

CORPORATE SOCIAL INVESTMENT

The Charter defines CSI as "projects aimed primarily at black groups, communities and individuals that have a strong developmental approach and contribute towards transformation." [10] A list of non-prescriptive examples of CSI initiative is also specified. As a result of this definition, the questions asked each respondent to report their spend on those examples; an "other" category is offered for those contributions that fall outside of those examples.

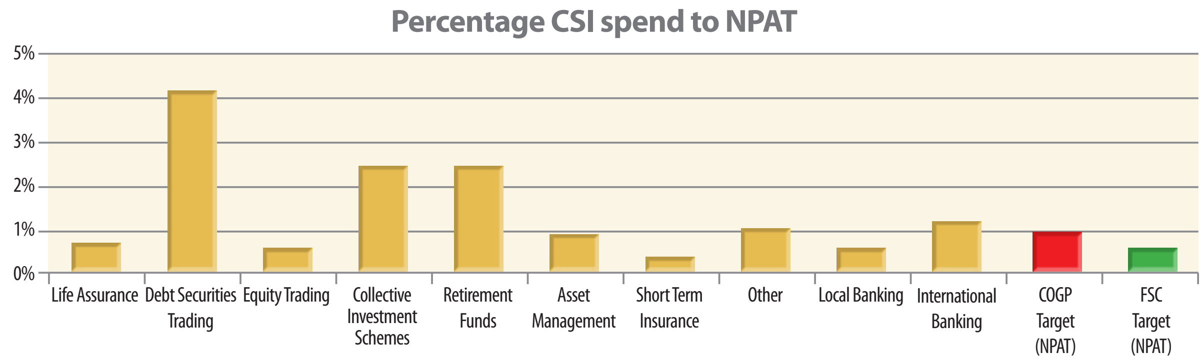
Corporate Social Investment for the Sector

The table shows that the amount of CSI spend decreased in real terms and as a percentage.

Year	2005	2006	2007	% Growth
Net profit after tax (millions)	R 47,914	R 50,248	R 68,790 [11]	37%
CSI spend (millions)	R 308	R 592	R 389	-34%

Spend measured against the target

The actual spend was less than the 2006 period, although the average spend across the sector comes to **0.57%** of NPAT, ahead of the FSC target although below the COGP target of 1%. The graph below shows the performance of each industry. It is deceptive to suggest that certain industries performed better than others, as the graph indicates only the percentage of CSI spend to NPAT and not actual spend in rands.



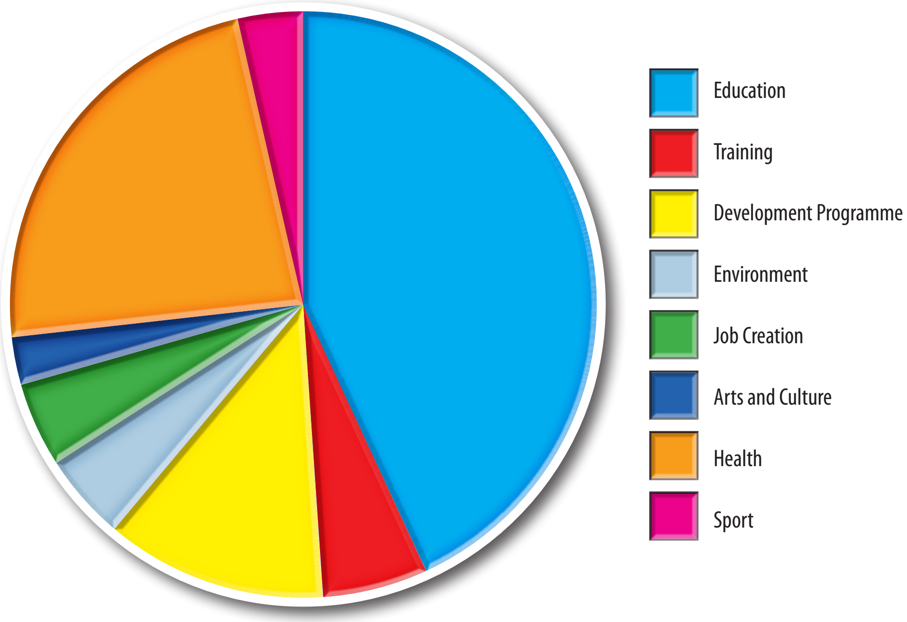
Spend and causes

It is heartening to see that the majority of spend is concentrated on communities and individuals, namely education, health and development programmes.

[10] **The dti**'s COGP CSI category is now known as Socio-Economic Development (SED). SED contributions are monetary or non-monetary contributions in favour of beneficiaries with the specific objective of facilitating sustainable access to the economy for those beneficiaries.

[11] This figure is different to the R24,922 figure reported in Consumer Education under Access to Financial Services above as some of the institutions that reported CSI were exempted from access – consumer education.

CSI causes



Conclusion and Recommendations

There might be an issue with the data that was received for this element. 25.7% of all respondents did not submit a figure for their CSI spend; and 20.4% did not include a NPAT figure. We are therefore not in a position to draw any real conclusions about the status of CSI in the sector.

GENERAL CONCLUSIONS & RECOMMENDATIONS: 2007

The report for 2007 shows that the sector has performed very well and is on track to meeting the 2008 targets contained within the FSC. The steady year-on-year improvement is as a result of the Charter being part and parcel of the everyday life of all those companies that have reported.

The importance of the Financial Sector Charter Council cannot be understated in this process. Whilst the actual transformation, targeted investments and other requirements are the domain of each entity, the methodologies and minutiae of the Charter are interpreted and driven by the Council.

Looking ahead to 2008

The annual report has deliberately refrained from making any specific Conclusion and Recommendations other than alignment with **the dti**'s COGP. This alignment can only logically happen with those elements that can apply to all entities operating within South Africa, namely Management, Employment Equity, Skills Development, Preferential Procurement, Enterprise Development and Socio-Economic Development. The elements that are specific to the Financial Sector like Empowerment Financing which includes Targeted Investments, and Access to Financial Services do not comfortably fit within **the dti**'s generic Codes Of Good Practice and as such must remain part of the sector's own transformation process.

Though the Charter has had a powerful effect, ensuring a lot more people are included in SA's formal financial market, the sector still has a long way to go to meet its self-imposed targets. The access challenges for the insurance industry are even more formidable. But many people still can't afford even these low-cost accounts. And much of this is extremely low-level banking, with many low-income households doing no more than drawing out the salary or social grant deposited in their account each month. So the banks still have much work to do, and there's a need to look again at what poor people need and what they can afford.

Also, the 2008 targets are well on the way to being achieved in all these elements. It is however, not clear what the actual efficacy of these numerous products and initiatives are.

Vuyo Jack in his weekly **Black Jack Column** made the following observation:

> *"On the surface, the benefits of having small black business brought into the formal space of the economy is good for the government in accounting for its delivery, but it may not necessarily be seen by the intended beneficiaries as being good. This also applies to the BEE arena, where the interventions try to bring black people into the mainstream of the economy, but there may be black people who prefer to operate in the second economy."*

Jack hints that perhaps the various products that are available to this category of consumer might not be adequately meeting their needs, and as such they are not being adopted.

It is recommended that the Charter Council find ways of better measuring the actual usage of the various products and engaging with numerous stakeholders to look at types of engagements or partnerships to extend the reach of the sector.

Another recommendation is the finalization of performance standards in certain areas, ensuring a common understanding of what data and information should be submitted and the rapid and effective processing of such data and information.

The sector has achieved a great deal this year, but there is no room for complacency. There are still huge challenges ahead. These challenges require visionaries as well as an investment in an advanced range of capabilities for the tasks of tomorrow.

APPENDICES

Reporting Entities

SA's Financial Sector consists of ten industries. The industries and their respective trade associations are listed below:

	Industry	Trade Association	
1	Asset Management	IMASA	Investment Managers' Association of South Africa
2	Local Banking	BASA	Banking Association of South Africa
3	Debt Securities Trading	Bond Exchange	Bond Exchange of South Africa
4	Collective Investment Schemes	ACI	Association of Collective Investments
5	International Banking	IBA	International Banker's Association of South Africa
6	Equity Trading	JSE	JSE Security Exchange
7	Life Assurance	LOA	Life Offices' Association of South Africa
8	Retirement Funds	IRF	Institute of Retirement Funds
9	Short Term Insurance	SAIA	South African Insurance Association

GLOSSARY

ACI	Association of Collective Investments, a trade association signatory to the Financial Sector Charter representing the collective investments industry
ARFG	Adjusted recognition for gender – a calculation that takes into account the number of black women in certain elements of **the dti**'s codes of good practice.
BASA	Banking Association of South Africa, a trade association signatory to the Financial Sector Charter representing the domestic banks
B-BBEE Act (or the Act)	Broad-Based Black Economic Empowerment Act (Act 53 of 2003)
B-BBEE	Means the economic empowerment of all black people including women, workers, youth, people with disabilities and people living in rural areas, through diverse but integrated socio-economic strategies, that include, but are not limited to: a) Increasing the number of black people who manage, own and control enterprises and productive assets, b) Facilitating ownership and management of enterprises and productive assets by communities, workers, co-operatives and other collective enterprises, c) Human resource and skills development d) Achieving equitable representation in all occupational categories and levels in the workforce, e) Preferential procurement, and f) Investment in enterprises that are owned or managed by black people.
BEE Advisory Council	The Council established under the BBBEE Act to: review progress in achieving black economic empowerment; advise on draft codes of good practice which the Minister intends publishing; advise on the development or amendment or replacement of BEE strategies; advise on draft transformation charters; and facilitate partnerships between organs of state and the private sector.
BESA	Bond Exchange of South Africa, a trade association signatory to the Financial Sector Charter
Charter Council	The Council established in terms of 15.1 of the Financial Sector Charter to oversee implementation of the Charter
COGP	Codes of Good Practice – refers to any charter gazetted under section 9 of the B-BBEE Act. Currently only **the dti**'s generic codes have been gazetted under section 9.
Designated investments	Any statutory or voluntary deposit, saving, investment or risk insurance placed or made by the South African public, whether of a wholesale or retail nature, but not by one financial institution in another.
Financial institutions	Banks, long-term insurers, short-term insurers, re-insurers, managers of formal collective investment schemes in securities, investment managers and other entities that manage funds on behalf of the public, including retirement funds and members of any exchange licensed to trade equities or financial instruments in this country and entities listed as part of the financial index of a licensed exchange

FSC	Financial Sector Charter. The sectoral charter which is the negotiated outcome of a process whereby members of the financial sector, government, social partners and other stakeholders agreed to sector transformation through a formal course of action
IBA (SA)	International Bankers Association of South Africa, a trade association signatory to the Financial Sector Charter representing the international banks
IMASA	Investment Managers Association of South Africa, a trade association signatory to the Financial Sector Charter representing asset managers
IRF	Institute of Retirement Funds, a trade association signatory to the Financial Sector Charter
JSE	JSE Securities Exchange, a trade association signatory to the Financial Sector Charter
LOA	Life Officers' Association of South Africa, a trade association signatory to the Financial Sector Charter representing long-term insurers
LSM	Living Standard Measure, a 10-tier category system of demographic segmentation. It is primarily used in this review to identify people in LSM 1-5. Unless the context indicates otherwise, it means people in households with a combined income of R2 500 a month or below.
Nedlac	National Economic Development and Labour Council
Principal Officer	The official appointed by the Board of the Financial Sector Charter Council in terms of Section 11 of the Constitution of the Charter Council to head the executive of the Charter Council
SAARF®	The South African Advertising Research Foundation
SAIA	South African Insurance Association, a trade association signatory to the Financial Sector Charter
SAROA	South African Reinsurance Association, a trade association signatory to the Financial Sector Charter, re-insurers now belong to short-term insurers and long-term insurers
SETA	Sector education and training authority
The Charter	The Financial Sector Charter, effective from 1 January 2004 to 31 December 2014
The Scorecard	The Sector scoring framework as set out in the Charter

NOTES

Financial Sector
Charter Council

NOTES

The Financial Sector Charter Council

4th Floor
Hollard Building
66 Marshall Street
Marshalltown
2107

P.O. Box 62542
Marshalltown
2107

Tel: +27 (0) 11 838 6966
Fax: +27 (0) 11 838 6965
Email: info@fscharter.co.za
Web: www.fscharter.co.za