Financial Sector Charter Council

2016 Annual Report Summary

Transformation of the South African Financial Sector

CONTENTS

Abbreviations and Acronyms

ABSIP	Association of Black Securities and Investment Professionals
ASISA	Association of Savings and Investment South Africa
BASA	Banking Association South Africa
B-BBEE	Broad-Based Black Economic Empowerment
CoGP	Codes of Good Practice
CIS	Collective Investment Schemes
DTI	Department of Trade and Industry
EE	Employment Equity
FS	Financial Sector
IBA	International Banking Association
NPAT	Net Profit After Tax .
QSE	Qualifying Small Enterprise
QSFI	Qualifying Small Financial Institution
SAIA	South African Insurance Association
SED	Socio-Economic Development
TMPS	Total Measured Procurement Spend

Tables

The list of tables is extensive and appears at the end of this report.

Figures

The list of figures is extensive and appears at the end of this report.

This report is dedicated to the memory of

Ms Leila Moonda, who passed away suddenly in May 2017 as it was being prepared.

Leila represented the Short-term Insurance Industry Association in the Charter Council, and was genuinely committed to transforming the financial sector so that it would serve the needs of all South Africans.

Leila was a friend and colleague to all of the Council participants and staff members. We miss her industry knowledge, hard work and support; we remember her enthusiasm, kindness and laughter.

1 CHAIRPERSON'S STATEMENT

The 2016 Financial Sector Charter Council Annual report presents an overview of financial sector transformation performance between 2014 and 2016. During 2014 and 2015, the Council prioritised the revision of the 2012 Financial Sector Code to align it with the amended Broad-Based Black Economic Empowerment (B-BBEE) Act and its revised Codes of Good Practice (CoGP) and did not publish performance reports during this period.

This report records the industry's consolidated achievements and assesses performance by the banking, insurance, asset management and other sub-sectors in working towards the Council's goal of being *"the most powerful driving force behind a transformed, transparent and accessible financial services sector in South Africa*." The report also sets out the FS Code's goals in mobilising the financial sector to implement transformation initiatives that will enable it to play a meaningful role in addressing our country's challenges of poverty, unemployment and inequality.

A number of changes to the B-BBEE legislative and regulatory landscape have taken place in the period since the last report. Amendments to the B-BBEE Act became effective from October 2014 and amendments to the generic CoGP were enforceable from May 2015. Government also issued regulations in terms of the B-BBEE Act and launched the Black Industrialists Programme, which requires financial sector support. Regulations to the Preferential Procurement Policy Framework Act were drafted and are expected to come into effect in 2017.

These changes have complicated the Council's efforts to collect reports and analyse data and transformation performance trends. However, I am pleased to report that the Council has completed its work on aligning the FS Code with the revised CoGP. This review was extensive and characterised by vigorous negotiations and robust debates. Once gazetted, the new Code will be the benchmark against which future transformation performance by financial entities will be measured.

I wish to express my gratitude to all Charter Council members for their commitment to the process of finalising the new FS Code, and look forward to working with all participants to implement its provisions. I trust that all stakeholders will continue to strive for transformation of the sector so that it can play a meaningful role in meeting the needs of South African society.

Kgomotso Makhupola,
Chairperson

1.1 CHIEF EXECUTIVE OFFICER'S REPORT

As the financial sector was preparing 2016 performance reviews for this report in early 2017, Financial Sector Charter Council members were participating in the Parliamentary public hearings on financial sector transformation, and preparing for the second National Economic Development and Labour Council (Nedlac) Financial Sector Summit, scheduled to take place in early 2018.

The Summit will mark the 16th anniversary of the inaugural Nedlac Financial Sector Summit of 2002, and will take place 14 years after the voluntary FS Charter came into effect in 2004. While definite progress has been made in achieving the transformation targets set first in the FS Charter, and later in the 2012 FS Code, this report shows that a number of targets have not yet been achieved.

During this period, the Council was engaged in the extensive process of revising and aligning the FS Code with the 2014 B-BBEE Amendment Act and its revised generic Codes. This required changes to definitions, indicators and measurements of financial sector performance and was a lengthy and complex process that had a negative impact on reporting compliance. While it is mandatory for organisations governed by a sector code to submit their B-BBEE certificates and B-BBEE verification scorecard results annually to the Council, reporting dropped to 13% in 2014-15 during the alignment process.

It is encouraging that in 2016, reporting compliance rose to 42% and included reports by all of the large financial entities in the sector. The Council will be engaging the sector during 2018, to ensure that emerging and qualifying small entities are included in future reports.

One of the positive effects of the alignment process is that it broadened participation in the reporting process by including financial industry sub-sectors that were previously excluded, namely financial intermediaries, private equity and venture capital funders, micro-lenders and larger non-bank lenders. In addition to these are the national and international banks, long-term assurers, short-term insurers, asset and collective investment scheme managers and security exchange companies that previously participated in the Financial Sector Charter Council.

Other changes that have been introduced with the advent of the 2012 FS Code include alignment with the measurements stipulated in all industry codes. Some adjustments, such as those in the targets for Management Control and Employment Equity, have resulted in lower performance measures than were previously achieved in terms of the Charter targets. This decline will be addressed as entities incorporate the Codes' definitions and more stringent transformation measures into their performance targets.

In some cases, elements that were combined for scoring purposes in the Charter have been separated in the Code, while new scorecard elements have been introduced. The two elements that are unique to the financial sector, namely Access to Financial Services and Empowerment Financing, have been incorporated into the FS Code. Standards for these elements were not finalised at the time that the FS Code was gazetted and therefore reporting entities were granted a transitional period for applying the targets. This resulted in some entities not reporting on one or both elements. Long-term and short-term insurance companies were also allowed to phase in their 2017 market penetration targets over four years from 2014.

Now that the long and sometimes difficult process of producing the amended and aligned FS Code has been completed and agreed by all Council participants, I would like to thank our Chairperson, Ms Kgomotso Makhupola, and other Council members, as well as my fellow Board members and Council employees, for their support in reaching this milestone.

The 2018 Financial Sector Summit will enable the sector and the country to measure progress towards the transformation goals agreed since 2002. As we approach this watershed, the Council will be actively participating in the process to set the industry on a new transformation trajectory with updated, improved and ambitious objectives.

Ramotshudi Ramputa
Chief Executive Officer

2. EXECUTIVE SUMMARY

This report reviews financial sector transformation performance from 2014 to 2016. The previous annual report was published in 2014, showing performance in 2013. In 2014 the Council was engaged in aligning the 2012 FS Code with the CoGP, and the reporting requirements and guidelines had not been finalised, which resulted in only 13% of entities submitting reports to the Council in 2014.

The alignment process continued in 2015 and reporting remained at 13%, reflecting the instability and uncertainty caused in the process of revising the FS Code and aligning it with the amended CoGP. The Council decided to wait for the finalisation of the alignment process in order to produce credible reports on transformation performance going forward.

In 2016, 42% of eligible financial sector entities submitted reports to the Council. Across the 10 sub-sectors and 431 entities that notified the Council of their intention to report, 181 submitted reports. This total includes reporting by all of the large entities with the greatest market share in each sub-sector and in the financial sector as a whole. Some Council members are of the view that the reporting rate is disappointing and reflects the slow rate of financial sector transformation. Others hold the view that because all of the large entities reported, the absence of reports from small entities is insignificant and that the application of weighted averages provides an accurate picture of transformation.

Notwithstanding the limitations of the 2014-15 data, it will be useful in analysing transformation trends in future reporting cycles. For example, the number of foreign and local banks that reported in 2014-15 held more than 90% of the total R3,843 billion in assets managed by the South African banking sector as at the end of December 2015. Similarly, reporting entities in the long-term assurers, asset and collective investment scheme management sub-sectors, contributed about 87% of the R5,305 billion in assets. Together they also held a 92% share of the market. These entities also reported in 2016.

This report contains information on the additional financial sector sub-sectors represented in the FS Charter Council. These include financial intermediaries and private equity and venture capital funders as well as micro-lenders and larger non-bank lenders. They join the entities that reported in terms of the voluntary FS Charter, namely the national and international banks, long-term assurers, short-term insurers, asset and collective investment scheme managers and security exchange companies.

The sector has achieved its 25% Ownership target and delivers good performance on Empowerment Financing targets. While financial entities spend in excess of the sector's Skills Development target, the Council is concerned at its underperformance in terms of the FS Code Management Control targets, which increased significantly from the FS Charter targets. The Charter definition of management categories was based on remuneration levels whereas the FS Code follows the CoGP definition of job titles. These adjustments resulted in an overall drop in performance. The average weighted achievement for Management Control over the three years under review is 66%, which highlights the need for financial institutions to develop and promote black decision makers.

The FS Code also introduced adjustments in the Employment Equity targets, which saw the sector scoring an average of 10.3 points, 57% of the target in 2014-16. Although the representation of black people and black women has increased since inception of the Charter a decade ago, the recorded achievements in 2014-16 are just above 50% of the target for senior black managers and below 50% for black women senior managers. Junior management performance recorded the smallest gap to target, with middle management slightly better than senior management. The sector needs to significantly improve its performance in relation to black management and employment equity to demonstrate its commitment to transformation.

The Skills Development target also doubled in the alignment process, along with an equally high increase in weighting, and performance was enhanced by the distribution of the target between Skills Development expenditure and the number of learnerships. In the Charter, learnerships contributed to 75% of the target and were restricted to matriculants; in the FS Code the learnerships target is reduced to 60% of the total Skills Development target and includes undergraduates at the employment entry level. Skills Development achieved an average of 86% of target over the three years. This positive achievement demonstrates the industry's commitment to investing in the development of its employees, in particular for black women and in learnerships.

The Preferential Procurement element was one of the best performing elements across all sub-elements, after black-owned and black women-owned suppliers. In the Charter, Preferential Procurement and Enterprise Development were combined in one scorecard element but were separated into two elements in the FS Code alignment process. The Enterprise Development scorecard element achieved an average of 94%, while Socio-Economic Development achieved an exceptional score of 97% in 2016.

The two unique financial sector scorecard elements, Access to Financial Services and Empowerment Financing, performed well despite the fact that at the time of the gazetting of the FS Code in 2012, some of the standards for these elements had not been finalised. Access to Financial Services achieved an overall score of 77% over the three years, while Empowerment Financing scored 97%.

The 2016 review shows that while transformation has taken place across all elements of the FS Code, the overall pace of transformation should be accelerated for the financial sector to achieve its transformation goals and meet the expectations of South African society.

3. INTRODUCTION AND BACKGROUND

The Financial Sector Charter Council members represent a range of organisations drawn from the four constituencies represented in the National Economic Development and Labour Council (Nedlac), Government, Business, Labour and Community. The Nedlac constituencies are joined in the Council by representatives of the Association of Black Securities and Investment Professionals (ABSIP), whose members are involved in the financial sector. The members in 2016 are shown in the table below:

Table 1: Charter Council constituencies, members and staff members

CONSTITUENCY	MEMBERS
GOVERNMENT	
National Treasury	Raymond Masoga
Department of Trade and Industry	Jacob Maphutha
Presidency	Ahmed Vawda
BUSINESS	Bridget Mokwena-Halala
Association of Savings and Investment SA	Trevor Chandler
Association of Savings and Investment SA	Ruth Benjamin-Swales
Banking Association of South Africa	Thabo Tlaba-Mokoena
International Bankers Association	Brett Landman
South African Insurance Association	Viviene Pearson
COMMUNITY	Malesela Maleka
Nedlac Community Constituency	Tebello Radebe
LABOUR	Kgomotso Makhupola
Nedlac Labour Constituency	Jan Mahlangu
	Jacobus Bezuidenhout
ABSIP	Asief Mohamed
	Sibongiseni Mbatha
	Stephen Seaka

The FS Charter Council staff members are:

	Office	Email address
Ramotshudi Isaac Ramputa	Chief Executive Officer	isaacr@fscharter.co.za
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Mirriam Hlahane	General Assistant	info@fscharter.co.za

3.1 BACKGROUND TO THE 2016 ANNUAL REPORT

The 2016 Annual Report is the sixth report to be published by the Financial Sector Charter Council since inception in January 2004. The Council was established as a result of agreements reached at the first Nedlac Financial Sector Summit in August 2002, and the signing of the Financial Sector Charter in 2003. The Charter was a voluntary transformation charter gazetted in terms of Section 12 of the Broad-Based Black Economic Empowerment (B-BBEE) Act, 53 of 2003 (the Act).

In 2007, following government's gazetting of the B-BBEE Codes of Good Practice (CoGP), voluntary transformation charters were required to align to the CoGP and be published as legally binding sector codes in terms of the Act. In the same year, the FSC Council initiated the process of aligning the Charter with the CoGP. It was widely anticipated that the FS Code would be gazetted before the end of 2008, the expiry of the transitional period for alignment with the generic CoGP. However, the Charter participants could not reach agreement on certain aspects of alignment, notably the "once empowered, always empowered" ownership principle, and negotiations continued for four years.

The FS Code was gazetted in December 2012. At the same time, the B-BBEE Advisory Council developed recommendations on aspects of transformation in all sectors of the economy that required refinement. These were mainly to address the risks of fronting and to close loopholes in the generic CoGP that had been used to undermine the transformation intentions of the Codes. These recommendations culminated in government publishing the revised generic CoGP in 2013 and the B-BBEE Amendment Act in 2014.

These legislative and regulatory changes required the FS Council to further revise the FS Code. In a similar exercise to the alignment process between 2007 and 2012, in 2013 the sector embarked on the process of re-aligning the 2012 FS Code with the revised 2013 generic CoGP. The new FS Code was finalised in 2017.

From 2003 to 2008, financial sector organisations voluntarily used the Charter and its scorecard to drive and measure transformation and the FSC Council published four annual reviews between 2006 and 2009. During the period 2009 to 2012 when the Charter had no legal standing in terms of the B-BBEE Act, the sector reverted to reporting under the CoGP scorecard. In 2014, the Council published its 2013 annual report reviewing performance in terms of the FS Code that had been gazetted in 2012. Reports were not published in 2014 or 2015 while the Council negotiated changes to its transformation definitions, measures and targets to align with the 2013 revised CoGP and the 2014 B-BBEE Amendment Act.

3.2 METHODOLOGY AND INTEGRITY OF INFORMATION

The FSC Council has developed an online survey system to facilitate the annual submission of sector transformation performance data. The Council also provides guidance notes to assist reporting entities in preparing their reports for submission.

The system uses cloud-based forms to collect verified B-BBEE scorecard level data, B-BBEE certificate, scorecard and supporting data for various elements. The data submitted must be validated and signed off by the Chief Executive Officer of each reporting entity. Reports may not be submitted manually except for reports from Exempt Micro Enterprises (EMEs).

The system eliminates the need for manual intervention between the data reported and the information published to show sector performance. The Council verifies and analyses the data and produces an annual report that measures performance and maps transformation trends in the sector. The bulk of this annual report consists of performance tables and charts based on the data entered directly into the system by the reporting entities. These will be published annually going forward to enable stakeholders to track progress and analyse trends in sector transformation.

The use of weighted averages throughout, which is explained in more detail below, has improved the accuracy of reporting in each sub-sector. Council participants and other stakeholders have been consulted in interpreting the results of the survey.

3.3 WEIGHTING METHODOLOGY

The analysis in this report has been conducted on the basis of simple and weighted averages to take account of the market size of measured entities and to assess how representative they are of their sub-sectors. The major entities in the banking, long and short-term sub-sectors submitted reports, providing a sound indication of sub-sector B-BBEE performance. The formula used for weighting was as follows:

$A = (B*C)/D$ where:

A is the weighted performance for that entity; B is the original performance for that entity;

C is the weighting value for that entity; and **D** is the sum of the weighting values for all entities.

Weighted % Black Voting Rights = (Entity % Black Voting Rights*Entity Value of SA Operations after Exclusions value)/Sum of SA Operations after Exclusions for all entities reporting Ownership

Table 2: Weighting Methodology

Element	Weighted by:
Ownership	Value of SA Operations after Exclusions
Management Control	Value of SA Operations after Exclusions
Employment Equity	Total Number of Staff
Skills Development	Total Number of Staff
Preferential Procurement	Total Measured Procurement Spend (incl. imports)
Enterprise Development	Net Profit after Tax (NPAT)
Empowerment Financing	NPAT / Targets
Socio-Economic Development	NPAT
Access to Financial Services	Value of SA Operations after Exclusions or Targets as applicable

3.4 REPORT SUBMISSIONS

The South African financial sector consists of approximately 17 884 entities including banks, long-term assurers, short-term insurers, collective investment schemes, asset managers, state owned financial entities, JSE entities, non-bank lenders, underwriters, reinsurers and insurance intermediaries. Insurance intermediaries account for about 10 945 of the total.

In 2016, the Council received transformation performance reports from 181 entities, 42% of the 431 entities that registered their intention to report to the Council. This reporting rate reflects the instability caused in the process of revising the FS Code and aligning it with the amended CoGP. It is a significant increase on the 53 and 57 entities that submitted reports to the Council in the 2014-15 cycle and includes reports by all of the large, established financial entities with the greatest market share.

As indicated above, some Council participants are of the view that the reporting rate is disappointing and reflects the slow rate of financial sector transformation. Others hold the view that because all of the large entities submitted reports, the absence of reports from small entities is insignificant and that the use of weighted averages provides an accurate picture of transformation.

Various entities in the industry are either reported as subsidiaries of larger entities outside the sector and therefore do not have their own scorecard, or are reported in a group within the financial services sector. This may result in under reporting for some financial services sub-sectors. It is particularly true for short-term insurance and asset management companies where some are owned by banks or long-term assurers and therefore only provide a consolidated group report under their parent companies. A number of entities in the industry are relatively small, with highly specialised service offerings and may not have transformation performances to report.

It is envisaged that the requirement for entities in a group to report separately in the amended FS Code will assist in resolving some of these issues. In assessing sub-sector performance, the Council took into account only the 94 intermediaries identified as business entities from their responses to the call for submissions. Of these, 46 submitted reports. It is estimated that the number of intermediaries that are business entities is much higher than 94 and going forward the Council will work with the Financial Services Board to identify the correct number of entities that should submit annual performance reports.

The National Credit Regulator register identifies 6 344 entities as Non-bank Lenders. However, the list includes banks and subsidiaries of entities. The Council will be working with the FS Trade Associations to refine the list and avoid duplication. Group reporting also accounted for the exclusion of 366 financial entities. A total of 53 EMEs were excluded as they made manual submissions. In future the Council will capture data submitted manually so that it can be included in its online system and analysis. After taking these adjustments into account, a total of 431 entities were eligible to report. Of these, 181 submitted 2016 reports, representing 42% of eligible entities as shown below:

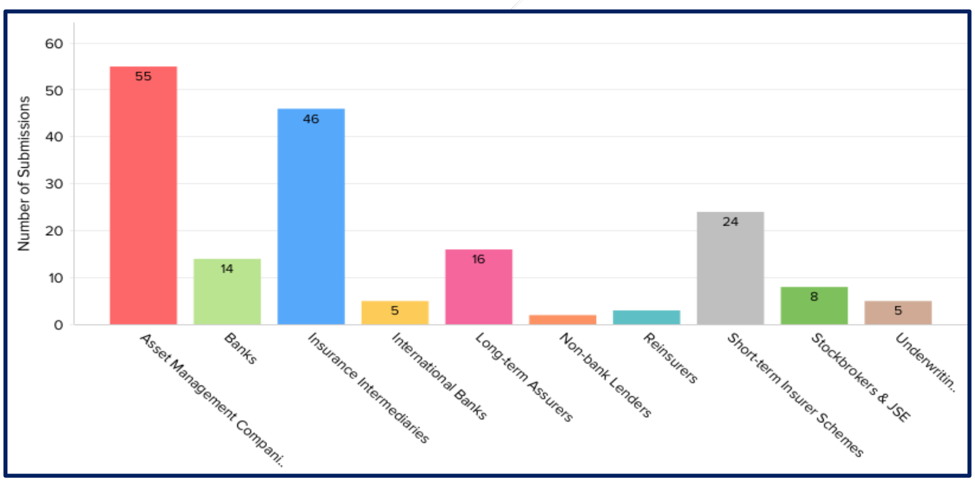
TABLE 3: VOLUMES REPORTED

Financial Year End	Generic	QSE	EME	Total
2013	49	3	1	53
2014	53	3	1	57
2015	52	4	1	57
2016	92	11	78	181

TABLE 4: REPORTS SUBMITTED BY SUB-SECTOR

Industry	Total Entities Identified	Total number of eligible reporting entities	Total number that eported	% against total eligible reporting entities
Local Banks	19	19	14	74%
International Banks	15	15	8	53%
Foreign Representative Banks (Don't report)	30			
Long-Term Assurers (FSB Website list)	81	39	16	40%
Short-Term Insurers (FSB Website list)	99	72	24	42%
Asset Managers (FSB Collective Investment Schemes list and 27Four report) and others	221	101	55	54%
FSPs/Intermediaries (FSB list received)	10945	94	46	49%
Non-bank Lenders (NCR)	6344	2	2	100%
Reinsurers	8	8	3	38%
Underwriting Managers	56	46	5	11%
Stock Exchange and Stock Brokers	66	35	8	23%
Total	17884	431	181	42%

FIGURE 1 – 2016 REPORTS SUBMITTED BY SUB-SECTOR



In the 2016 reporting period, asset management companies submitted 55 performance reports; insurance intermediaries submitted 46 reports; short-term insurers submitted 24 reports and long-term insurers submitted 16 reports. National banks submitted 14 performance reports and five international banks made submissions. The balance was made up by reports from two non-bank lenders, three re-insurers, eight stockbrokers and the Johannesburg Stock Exchange, and five underwriters. The total of 181 reports was made up of 92 reports in terms of the FSC generic Codes, 78 reports from emerging entities and 11 reports from Qualifying Small Enterprises.

TABLE 5: EMERGING ENTITY REPORTING

Sub-sector	Total	< 10m	>10 m <85m	> R85m
Long-term Assurers	1	1		
Short-term Insurers	6	6		
Asset Managers	21	16	4	1
Insurance Intermediaries	43	40	2	1
Underwriting Managers	4	4		
Stockbrokers / JSE	3	2	1	
Total	**78**	**69**	**7**	**2**

In 2016 there were 78 emerging entities in the financial sector. The largest number was in the insurance intermediaries sub-sector with a total of 43 emerging entities. The majority, 69 of the 78, were valued at less than R10 million. Seven emerging entities were worth between R10 million and R85 million, with the remaining two emerging entities being valued at over R85 million in 2016. Only one long-term assurer reported as an emerging entity, with a value of less than R85 million, while the six short-term insurers that reported were all worth less than R10 million. Of the 21 emerging asset managers, four were valued at between R10 million and R85 million, with one at more than R85 million. Similarly, two of the 43 insurance intermediaries were valued at between R10 million and R85 million, and one at R85 million or more. Of the three emerging entities in the stockbroking sub-sector, two were worth R10 million, and the third had a value of between R10 million and R85 million.

TABLE 6: GENERIC ENTITIES BY VALUE OF SA OPERATIONS

Sub-sector	< R100m	R100m - R1bn	>R1bn <R10bn	>R10bn	Total
Banks	3	2	3	6	**14**
International Banks	2	4	2		**8**
Long-term Assurers	3	5	2	5	**15**
Short-term Insurers	5	7	5		**17**
Asset Managers	15	2	8	2	**27**
Non-bank Lenders		1	1		**2**
Reinsurers	1	2			**3**
Insurance Intermediaries	1				**1**
Underwriting Managers	1				**1**
Stockbrokers / JSE		1	2	1	**4**
Total	**31**	**24**	**23**	**14**	**92**

3.5 OVERALL FS CODE SCORECARD

OVERALL FS CODE SCORECARD			
Element	**Points**	**% Weighting**	**Primary Reference**
Ownership	14 + 3 bonus	14%	Code series FS100 to be read with Code series 100 of the Generic Code
Management Control	8 + 1 bonus	8%	Code series FS200 to be read with Code series 200 of the Generic Codes
Employment Equity	15 + 3 bonus	15%	Code series FS300 to be read with Code series 300 of the Generic Codes
Skills Development	10	10%	Code series FS400 to be read with Code series 400 of the Generic Codes
Preferential Procurement	16	16%	Code series FS500 to be read with Code series 500 of the Generic Codes
Empowerment Financing	15	15%	Code series FS600
Enterprise Development	5	5%	Code series FS600 to be read with Code series 600 of the Generic Codes
Socio-Economic Development	3	3%	Code series FS700 to be read with Code series 700 of the Generic Codes
Access to Financial Services	14	14%	Code FS800
Total	**100 + 7 bonus**	**100%**	

The average B-BBEE score for the sector in 2013 was 4, with little change by 2016. Weighted average scores show that large entities have a greater focus on B-BBEE performance and are outperforming the overall sector in terms of FS Code measures. The seemingly negative trend from 2014 to 2015 is attributed to the variation in large entities reporting during the FS Code alignment process.

Where level 1 is the highest level of B-BBEE performance and level 9 is the lowest, in 2015 the financial sector achieved an average B-BBEE level of 4, with a rating of 4.2 and in 2016 of 3.9. In comparison, the weighted average was 3.0 in 2015 and 2016, a drop from 2.6 points in 2014. The sub-sector results vary widely with long-term assurers, asset managers and banks achieving the best average score of 3.4. Banks achieved an average level of 3.7 and a weighted average of 2.3 in 2016, while short-term insurers achieved an average B-BBEE level of 4.6 and a weighted average of level 4.0.

The significant dilution in some of the sub-sector average scores may be as a result of under reporting resulting from group consolidation reports. Reinsurers and underwriters scored an average level of 8, one point short of being non-compliant at level 9. Due to the unique nature of the businesses, most re-insurers are owned by global companies and deal directly with insurers. They are not motivated to obtain higher B-BBEE scores and as a result have impacted the overall annual performance negatively.

FIGURE 2 - AVERAGE SECTOR B-BBEE LEVELS

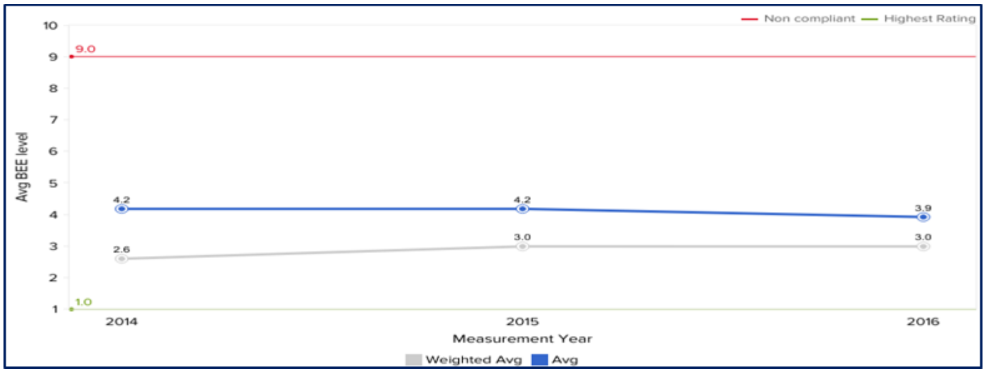
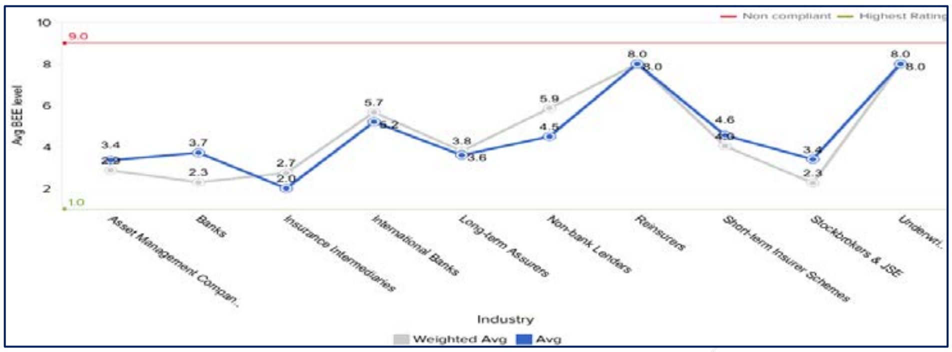


FIGURE 3 - AVERAGE B-BBEE LEVELS BY SUB-SECTOR 2016



Overall, black economic empowerment in the financial sector shows little variance during the period under review. Transformation performance measures indicate that while the sector has made significant progress in some areas, much work remains to be done to achieve its transformation goals.

Changes to the sector's reporting parameters brought about by amendments to B-BBEE legislation and regulation have negatively impacted on reporting volumes and consistency. However, all of the large financial entities in the sector submitted reports for the 2016 review.

Concessions on transformation initiatives, including allowing institutions to apply the "once empowered, always empowered" ownership principle, have not had an accelerating effect on other aspects of transformation. In particular, the sector's poor performance in achieving its Management Control targets is a concern that needs to be addressed.

Following the lengthy process of aligning the FSC to the CoGP, the Council looks forward to the implementation of the amended FS Code in 2017 becoming a powerful tool in driving transformation across the financial sector.

FS 100
Ownership

4. OWNERSHIP

Ownership Scorecard		
FS100 - Ownership	**Targets**	**Points**
2.1. Voting Rights of Black People	25% + 1 Vote	3
2.2. Voting Rights of Black Women	10% + 1 Vote	1
2.3. Economic Interest of Black People	25% + 1 Share	3
2.4. Economic Interest of Black Women	10% + 1 Share	1
2.5. Economic Interest of Black Designated Groups, Black Participants in Employee Share Ownership Schemes, Black Participants in Broad Based Ownership Schemes and / or Black Participants in Co-ops	2.50%	1
Ownership Fulfilment		
2.6. Net Equity Value (Formula A and B as per para.4 of Annexe 100 (C)		3
2.7. Direct or Indirect Ownership in Excess of 15%	10%	2
Bonus Points		
2.8. Ownership by Black New Entrants	10%	2
2.9. Ownership by ESOPs and Co-ops	10%	1

4.1 OWNERSHIP OVERVIEW

The average black ownership across the financial sector has exceeded the FS Code target of 25%. With the exception of the short-term insurance industry, all sub-sectors measured have exceeded the 25% black ownership target.

Primary factors affecting black ownership results are the capital requirements of ownership, the smoothing effect of the ownership principle of continued consequences which refers to the recognition in the scorecard of expired B-BBEE ownership deals, and uncertainty about the future treatment of broad-based schemes which are prevalent in the financial sector.

In 2015, the FSC Council commissioned leading financial research company Intellidex to investigate and report on black ownership in the financial sector. The purpose was to gather information and analysis to assess how black ownership had evolved between January 2011 and December 2014, and to facilitate discussion on how the FS Charter should be amended to align it with the revised CoGP. The report was titled *"The Assessment of Financial Sector B-BBEE Ownership"*, and analysed the scorecards of the 17 largest JSE-listed financial services companies in terms of B-BBEE Act Code Series FS100: Measurement of The Ownership Element of B-BBEE. In this report, ownership data relating to the B-BBEE transaction and/or equity equivalence for two local branches of foreign banks were excluded from this measure of ownership shareholding.

It analysed the ownership of seven banks, insurers and asset managers that fell within the top 100 largest South African JSE-listed companies. For this group, the net value created by their collective empowerment deals was R96.5 billion according to 31 December 2014 estimates, almost equal to 10% of the relevant market capitalisation of the firms at that time.

From an overall scorecard point of view, firms scored an average of 13 out of the maximum 14 points available for the Ownership element. Of the 17 firms studied, five invoked the continuing consequences principle in their scores for the 2014 scorecard. Similarly, relatively few firms invoked the “sale of assets” mechanism in their scorecards, with just two firms applying it in 2014. More firms invoked the continuing consequences principle in 2014 compared to 2010. This implied that more deals had matured and the black participants were exercising their shareholders’ rights to exit the transaction and realise value from the deals.

These assessments confirmed that significant value had been created through most of the black economic empowerment deals that were concluded by JSE Top 100 companies. However, a great number of these deals have matured, which affects the ownership performance of companies going forward. The research showed that deals that have lasted eight years or longer delivered an average return of 4.5% of the market capitalisations of investee companies, while deals that lasted less than eight years showed a return of 3.2% of value. These developments also present the market with the opportunity to introduce new black shareholders.

TABLE 7: GENERIC AVERAGE OWNERSHIP SCORES BY YEAR

Year	Average Score out of 17	Weighted Average Score	Number of Reports
2014	10.89	13.18	38
2015	9.49	10.59	41
2016	9.57	12.43	72

The “Once Empowered, Always Empowered” (OEAE) Ownership principle, which refers to the concession whereby financial institutions are allowed to recognise Ownership points under certain circumstances despite dilution, was reviewed in the amended Code to be gazetted in 2017. During 2016, seven financial

institutions reported that they had applied this concession in the measurement of their Ownership performance.

FIGURE 4 - BLACK ECONOMIC INTEREST BY SUB-SECTOR 2016

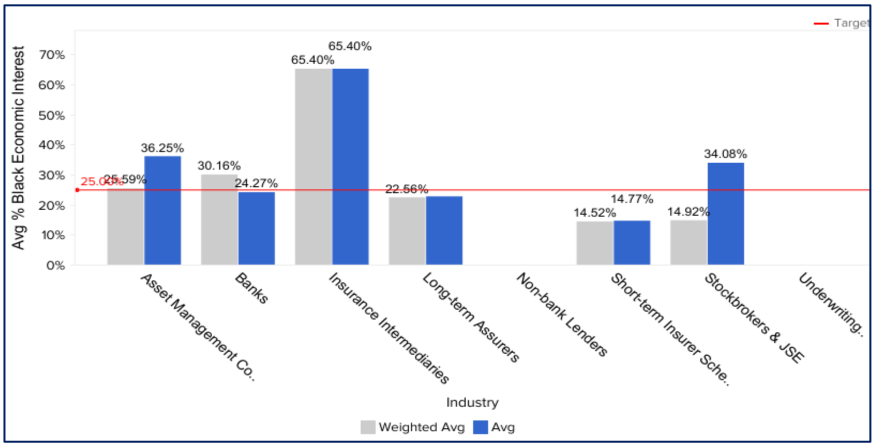


TABLE 8: BLACK OWNERSHIP IN THE FINANCIAL SECTOR IN 2016

Number of Entities reporting % Black Economic Interest of:				
Category	**<25%**	**25% to 50%**	**50% to 75%**	**100%**
EME	44	3	3	21
QSE	2	3		2
Generic	53	24	2	1
< R100m	63	11	3	24
R100m to R1bn	15	5	1	
>R1bn <R10bn	15	7	1	
>R10bn	6	7		
Banks	6	6		
International Banks	7			
Long-term Assurers	8	6	1	1
Short-term Insurers	19	3		1
Asset Managers and others	21	12	2	11
Non-bank Lenders	1			
Reinsurers	3			
Insurance Intermediaries	27	3	1	9
Underwriting Managers	4			1
Stockbrokers / JSE	3		1	1

4.2 FUNDING OF B-BBEE TRANSACTIONS

Group schemes are widely used in the financial sector to achieve black ownership. Current uncertainty about the government's approach to broad based schemes in ownership structures has discouraged such transactions and is a factor in the flattening of black ownership trends. Optional exclusion of mandated investments depending on the B-BBEE status of the investor can have a positive or negative impact on B-BBEE Ownership scores, but this situation has prevailed since 2013 and therefore is not a factor in the deterioration.

Differences in the number of large entities reporting in 2014 and 2015 account for inconsistencies at a sub-sector level. Long-term assurers are the strongest performers in the funding of black economic empowerment transactions. Six international banks reported under this indicator in 2015, but only three reported in 2016. Noting this caveat, the data show that these transactions are a small percentage of lending by international banks.

4.3 THE VALUE OF B-BBEE DEALS IN THE FINANCIAL SECTOR

According to "The Value of BEE Deals Report" published by Intellidex in June 2015, B-BBEE deals by the JSE's 100 largest companies since 2000 have generated R317bn in total value attributable to beneficiaries as at 31 December 2014. Of this amount, R52bn (16%) is attributable to staff schemes, R196bn (62%) to strategic investment partners and R69bn (22%) to broad-based community schemes, which have featured in several financial sector ownership deals.

The report indicates that deals typically involve three different beneficiary groups: black staff members, who can be incentivised and retained through their inclusion in deals; black strategic investors, who can contribute to overall strategy and competiveness; and community groups that are usually broad-based constituencies which become beneficiaries of philanthropic activities, and which are often affected by the companies' operations.

The total value was created from 136 deals with positive value. Of these, 51 deals included a staff component, 93 had a strategic investor component and 43 had a community scheme. Only 14 deals included all three groups. The mining sector has been the largest generator of value with a total of R101 billion. It is followed by banks with deals worth R57 billion; and industrials, also valued at R57 billion.

The three largest deals by value created are: FirstRand's R23.2 billion transaction; Exxaro's deal worth R16.8 billion; and Sanlam's R14.4 billion deal. Mining generated value equivalent to 11.8% of the market capitalisation of the companies in the sector, followed by healthcare. Banks and other financial entities came in fourth, dominated by the large insurance companies. The research report found that the majority of the strategic partners involved in the deals that were analysed, had used the return on the investment to start or invest in a diversified portfolio of investments. This is expected to contribute to the national Black Industrialist Programme, the primary objective of which is to contribute to expanding and shifting the demographic composition of the industrial sector. The FS Code Ownership element is well placed to create significant value for black shareholders. Council members are debating the issue of companies entering into new black ownership transactions. Some are of the view that this would be counterproductive, while others believe that it would play a significant role in the B-BBEE transformation process across the economy.

The Council requested each of its members to contribute their views on financial sector transformation to the Annual Report and inputs were made by the Banking Association South Africa (BASA), and the Association of Black Securities and Investment Professionals (ABSIP). The BASA contribution is featured below.

TREMENDOUS STRIDES MADE, STILL MUCH TO BE DONE

The 2016 Transformation Report of the Financial Sector Charter Council (FSCC) is being published 14 years after the signing of the Charter. The report details the tremendous strides the financial services industry has made towards transformation: by meeting the targets set out in the FSC scorecard and by doing business in a way that better benefits all their stakeholders, among other initiatives.

There have been significant developments in the financial services industry in the last 14 years. These include the impact of the global financial crisis in the European Union and USA; the advent of fintech; the entry of new banks in the domestic market; and significant changes in the local and international regulatory environment.

However, the Banking Association South Africa (BASA) acknowledges that there is still much work to be done. At BASA we are of the view that we need to look at how different products, platforms, fintech and other mechanisms are giving impetus to inclusion and transformation. We also need to consider the impact of significant changes in the regulatory environment, including the implementation of BASEL III and of the "Twin Peaks" regime. There must also be an appreciation that companies in the financial sector are businesses that must be profitable and sustainable if they are to continue to be able to provide affordable, essential services to the country. Our banks are globally competitive institutions that contribute to the international standing of South Africa. The release of the report is the right time for critical stakeholders to engage on the future of the financial services industry in South Africa. What will a transformed financial sector look like in 15 years? At the very least, it must continue to improve its services to the people of South Africa, increase its role on the continent and maintain its global credibility and respect. BASA believes the FSC Council is the appropriate forum to start engaging on these, and other, strategic issues. The constituencies making up the Council have worked together for many years, accept each other's bona fides and have a common commitment to the national interest.

FS 200
Management Control

5. MANAGEMENT CONTROL

Management Control Scorecard		
FS200 - Management Control	**Target**	**Points**
2.1 Board Participation		
2.1.1 Voting rights of black board members as a percentage of voting rights of all board members	50%	0.5
2.1.2 Voting rights of black women board members as a percentage of voting rights of all board members	25%	0.5
2.1.3 Black executive members of the board as a percentage of all executive members of the board	50%	1
2.1.4 Black women executive members of the board as a percentage of all executive members of the board	25%	1
2.2 Top Management		
2.2.1 Black Senior top management as a percentage of all senior Top Management	40%	1.5
2.2.2 Black women Senior Top Management as a percentage of all Senior Top Management	20%	1.5
2.2.3 Black other Top Management as a percentage of all other Top Management	40%	1
2.2.4 Black women other Top Management as a percentage of all other Top Management	20%	1
Total		**8**
2.3 Bonus points		
2.3.1 Black independent Non - Executive Board Members as a percentage of all independent Non - Executive Board Members	40%	1
Total bonus points		**1**
Total including bonus points		**9**

5.1 MANAGEMENT CONTROL OVERVIEW

The sector is significantly underperforming in terms of the Management Control element, with the average score remaining at around 4 out of 8 points since 2013. A total of 82 entities reported their generic average management control score in 2016. The average score out of 8 points for this element was 4.6, and the weighted average score was 5.5. This represented an overall increase on the 2014 and 2015 weighted average scores of 5.2 from the 46 and 49 entities that reported respectively during the previous two years.

Transformation performance declines with seniority, with the least and slowest transformation at the most senior levels. Targets for transformation at the senior levels are not being met while junior management has consistently achieved close to 80% of targets. While the low sector growth rate in the period under review has resulted in fewer top executive positions being available than may otherwise have been the case, this is not the primary reason for poor performance against the Management Control targets.

There is consensus amongst Charter participants that transformation of top management in entities in the financial as well as other sectors of the economy is essential if South Africa is to achieve a more inclusive, equitable and cohesive society. Over the past 15 years of financial sector transformation, the sector has been slow to achieve this goal and continues to underperform. None of the sub-sectors is meeting its Management Control target, with Black senior management accounting for approximately 27% of the individuals at this level in 2014, and 30% in 2016. Performance needs to improve and be monitored.

In the amended FS Code, Management Control includes Employment Equity, has fewer points and is not a priority element. A priority element requires a 40% achievement score to avoid a B-BBEE Level drop. The sector is aware of this challenge and the challenges with low participation of black women and significant under representation of African employees, particularly in senior and executive management roles. It was from this premise that the sector negotiated for minor deviations from the CoGP by specifically including targets for participation by African employees, based on EAP targets, in the Management Control element and the use of occupation level stratification on skills development in the amended Code.

TABLE 9: GENERIC AVERAGE MANAGEMENT CONTROL SCORES BY YEAR

Year	Average Score out of 8	Weighted Average Score	Number of Reports
2014	3.7	5.2	46
2015	4.1	5.2	49
2016	4.55	5.49	85

TABLE 10: 2016 GENERIC MANAGEMENT CONTROL SCORES BY ENTITY SIZE

Size	Average Score out of 8	Weighted Average Score	Number of Reports
< R100m	3.62	4.18	28
R100m - R1bn	5	4.75	21
>R1bn - <R10bn	4.72	4.77	22
>R10bn	5.42	5.61	14

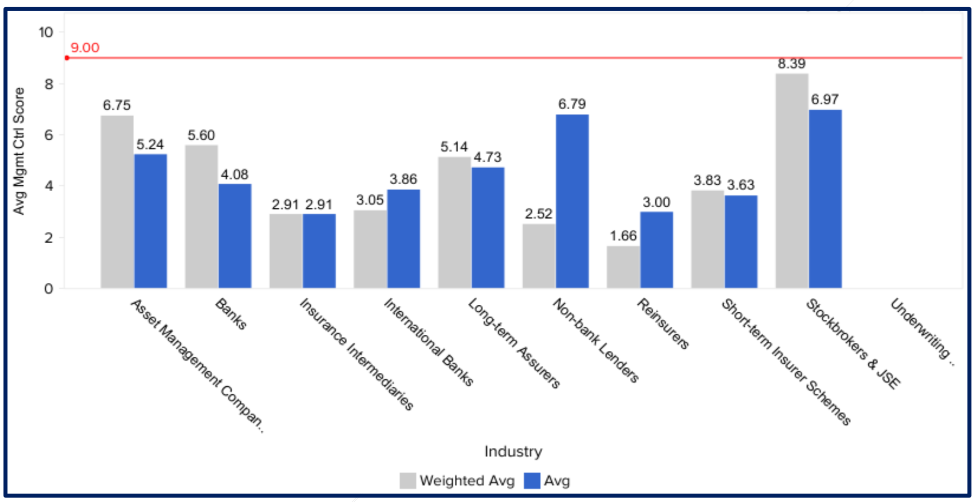
TABLE 11: AVERAGE MANAGEMENT CONTROL SCORES BY YEAR

Year	Average Score out of 27	Weighted Average Score	Number of Reports
2014	N/A	N/A	N/A
2015	18	13.2	4
2016	21.5	22.6	6

5.2 MANAGEMENT CONTROL SCORES

FIGURE 5 – GENERIC AVERAGE MANAGEMENT CONTROL SCORES BY YEAR

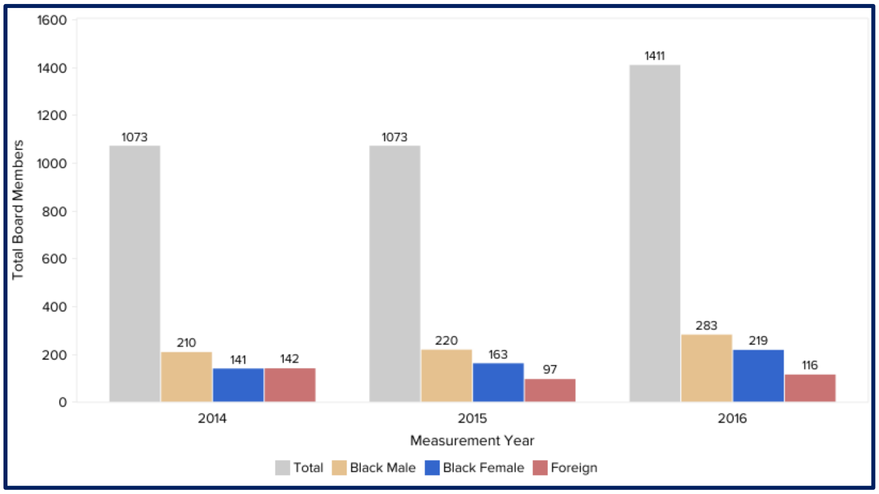
FIGURE 6 - GENERIC AVERAGE MANAGEMENT CONTROL SCORE BY SUB-SECTOR, 2016



5.3 REPRESENTATION OF BLACK DIRECTORS ON FINANCIAL SECTOR BOARDS

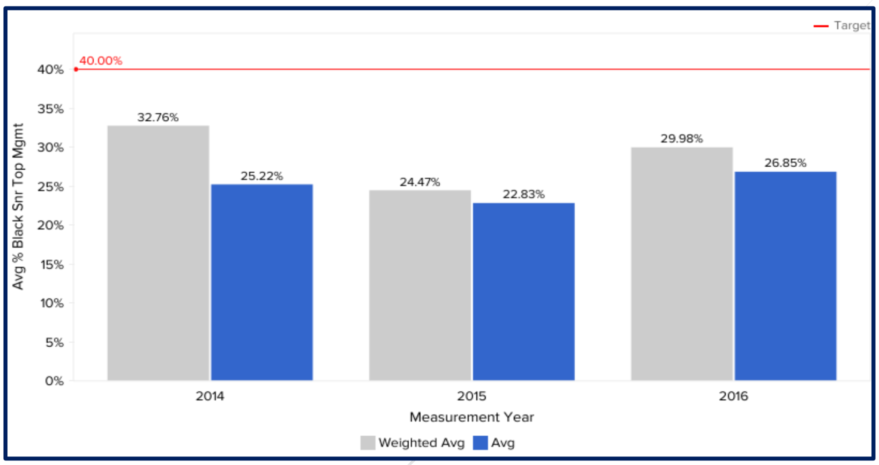
Black executive participation on financial sector boards rose from the 34% of the previous two years to 38% in 2016. At the same time, black board participation dropped from 37.8% in 2014 to 36.3% in 2016 using weighted averages. Black women's participation on boards is reported at a consistently low 13%, moving to a weighted average of 16,7% in 2016. This falls far short of the FS Code target of 25%. The nature of ownership in the financial sector results in high numbers of foreign board members representing global entities.

FIGURE 7 - PROFILE OF FINANCIAL SECTOR BOARDS



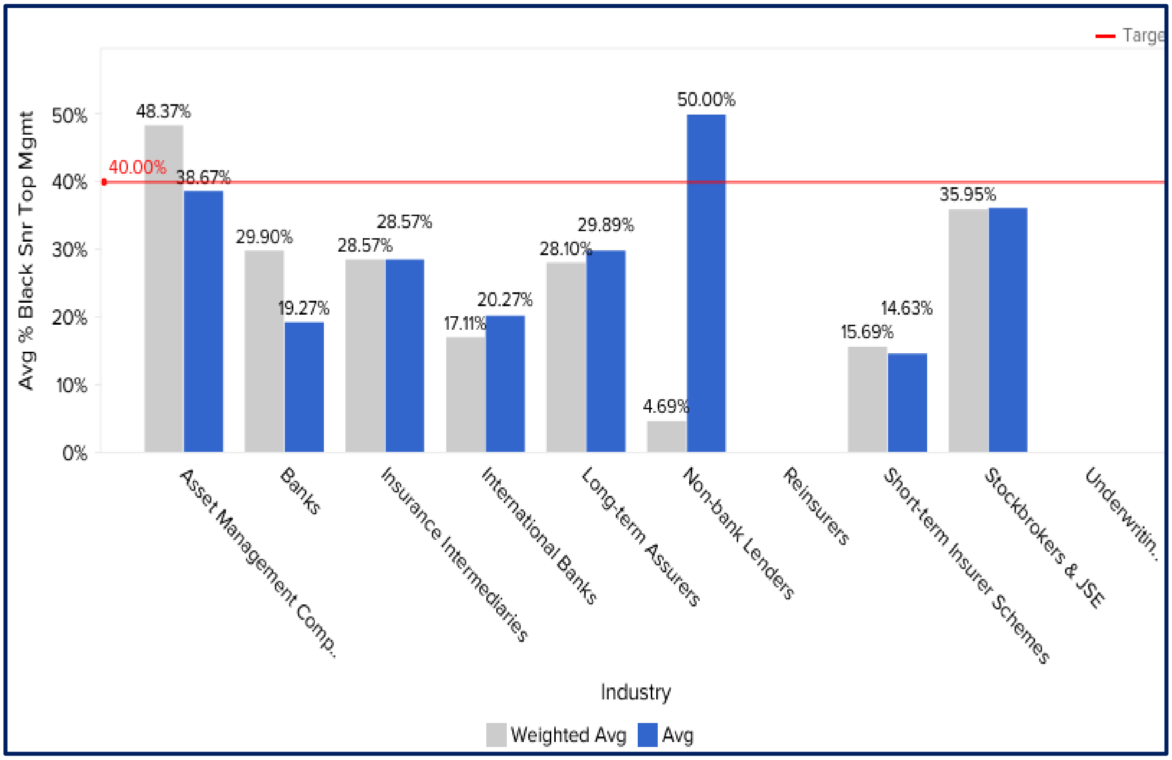
5.4 BLACK SENIOR TOP MANAGEMENT

FIGURE 8 - AVERAGE % BLACK SENIOR TOP MANAGEMENT BY YEAR



The sector averages show that the larger entities achieved the strongest results in 2014. The ongoing impact of inconsistent reporting by major entities impacts sub-sector level performance results but, with the exception of long-term assurers, shows that the sector is achieving scores significantly below its own targets for this important indicator of transformation.

FIGURE 9 - AVERAGE % BLACK SENIOR TOP MANAGEMENT BY SUB-SECTOR, 2016



The Council requested each of its members to contribute their views on financial sector transformation to the Annual Report. The Association of Black Securities and Investment Professionals (ABSIP) and the Banking Association South Africa (BASA) made inputs. The ABSIP contribution is featured below.

A CONCENTRATED SECTOR IN THE HANDS OF A FEW

Established in 1995, the Association of Black Securities and Investment Professionals (ABSIP) is an industry body that represents black professionals and black business across the financial sector. As a member of the Financial Sector Charter Council ABSIP has played an instrumental role since the inaugural Financial Sector Summit of 2002 and the signing of the historic Financial Sector Charter in 2003. We are committed to a fair and equitable financial sector that is inclusive, growing on a sustainable basis and globally competitive.

The Financial Services Sector is critical to the growth and development of South Africa's economy. The sector plays an instrumental role in household consumption smoothing, asset accumulation, contributing to job creation, poverty reduction and is fundamental to investment allocation. Since 1994, the sector has been growing at significantly higher rates than the average for the economy. It is a world-class sector, globally recognised for innovation and governance. However, the structure of the sector remains rigid in that the fruits of its success are not shared by all. In this context, the Financial Sector Code plays an integral role in promoting economic equality and achieving parity within this key sector of our economy.

The findings of the 2016 report are both disappointing and concerning for ABSIP. The interventions made thus far have been disastrous, contributing to entrenching inequality and furthering the business as usual narrative. Our society remains burdened with high levels of poverty and unemployment that is racially characterised. While some progress has been recorded, overall progress has been slow and unsatisfactory. Significantly more could have been achieved to unlock South Africa's growth potential but efforts have been hamstrung by established financial sector business associations that cannot see the vision of an effective Financial Sector Transformation Council that could contribute to a win-win state of inclusive sustainable economic growth.

The topography of the sector remains lopsided in the hands of a few large enterprises which, through bancassurance models and vertical integration, control the value chain of services within the sector. While some have concluded B-BBEE ownership transactions, these are however mostly narrow-based black economic empowerment as opposed to the broad-based empowerment envisaged in the B-BBEE legislation and Codes. The status quo prevails, further entrenching positioning and market share. This is further exacerbated by exclusive arrangements and networks across the value chain resulting in restrictive access. After two decades of democracy, it is unfortunate that no dominant or broad-based black participant has emerged within the sector, as evidenced by our review of a number of sub-sectors.

Stockbroking

In 2016 Black stockbrokers' share of total value traded on the JSE was 1.62%, dropping from the 1.69% recorded in 2015 and 1.68% in 2014. The sector remains dominated by multi-nationals and large financial sector firms established during the Apartheid era. ABSIP intends to conduct research in the coming year on analysts that had one or more votes to confirm anecdotal evidence that only about 20% of the sell-side analysts in the annual Financial Mail analysts rating are female, only about 1 in 15 of the sell-side analysts is Black and only 1 in 50 analysts is African Black. ABSIP's view is that the established asset management industry is by and large to blame for this poor state of transformation.

Asset Management

Independent black asset management firms manage less than 5% of the total value of South African savings and investments. The sector remains dominated by large financial firms established during the Apartheid era. These firms made super profits while 90% of the Black population was prevented from competing with them.

Investment Consulting

The sector remains dominated by multi-nationals and large financial sector firms established during the Apartheid era where they made super profits while 90% of the Black population was prevented from competing with them. The old boy networks remain strong in this industry supported by and large by quislings.

Banking

An oligopoly market structure dominated by five large players characterises the banking sector in South Africa. Only one registered bank has black equity ownership in excess of 50%. In the Apartheid era, the banking sector was able to make super profits with the policy of the four-pillar banking approach of National Treasury, which prevailed then and now.

Insurance

The prevalent bancassurance model has ensured that in excess of 65% of this industry is controlled by four dominant companies. In the Apartheid era the insurance sector was able to make super profits with the restrictive licensing and exceptionally higher capital requirements for new entrants. Then and now, Black people have not been able to inherit capital or enter the insurance sector, both short-term and long-term.

CHALLENGES RECORDED BY BLACK PEOPLE EMPLOYED WITHIN THE SECTOR

There has been little transformation in influential roles within entities in the financial sector over the past three years, signifying that big shifts need to be made. The structure of the South African economy’s management has an embedded Eurocentric culture that advocates individualism and competition which conflicts with the Afro-centric culture of the majority of employees that advocates inclusiveness and solidarity. Many of our members continue to cite invisible rules, cultural alienation, race and gender biases, and trust deficits as reasons that drive them out of the industry. They cite fragmented human resources practices and the lack of visible leadership and commitment to institutionalise change, as reasons for leaving the financial sector. Many corporate members, on the other hand, speak to talent shortages, price wars for talent, competition from Black independents and the high job mobility rates, as examples of the challenges they experience. What appears to be missing is the balance between meeting both business and transformation imperatives. Companies have to send signals to staff that they are serious about transformation, and also have clear career paths so that people can see that they are being developed for a purpose.

ACCESS TO MARKETS FOR BLACK INDEPENDENTS

Black independent financial companies experience the same challenges across the board when it comes to expansion and penetration of the sector. The obstacles include access to markets as a result of the lack of patient capital, regulatory barriers and unlocking of the value chain. For example , Black asset management consistently cite access to asset owners by untransformed “gatekeeper” consultants, who restrict support to asset managers who form part of their network, as the largest barrier. Brand awareness within the sector is very important and many Black firms cannot compete against the large budgets of the incumbents. The gatekeepers in this industry just do not believe Black people can manage money as evidenced by the statistics in this report which show that after 23 years of democracy, less than 5% of assets are managed by Black Owned and Black Managed asset managers.

ELEMENTS OF THE FINANCIAL SECTOR CODE

This 2016 report of the FSC is critical to assessing the achieved rate of transformation, guiding necessary interventions and in making evidence-based policy and regulatory decisions. The report marks the end of three years since the last report was published and therefore provides an opportunity for introspection ahead of the 2017 report. Unfortunately, this report has many shortcomings largely resulting from the incompleteness of the dataset making it difficult to adequately characterise the sector and to reflect on performance. It is regrettable that the response rate for this review was so low and that data collected was not fully representative of the sector as no information is available on many sub-sectors. This dearth of data has resulted in inadequate analysis on distribution, subsector performance, and indicator level implementation. Ranking sub-sectors' overall performance, as well as positioning indicators within a variable, is important in making choices regarding the nature of interventions required to move the overall sector forward. ABSIP has repeatedly criticised and given constructive input on the significant short-comings of the FSC 2013 Annual Report and subsequent draft Annual Reports that have not been published. The constructive input has been ignored by the FSC Council and the Secretariat.

a. At an Overall Level

Implementation of the FSC has been bleak. This is concerning given that the targets that were collectively negotiated were already low. The progress across the nine variables is uneven; with employment equity and management control lagging. While ownership and skills development aggregately have surpassed the 50% mark; distribution data is absent to make a real judgment on the structure of the sector. The inclusion of Black women does not appear to be a priority for the financial services sector; there appears to be a decline from 2014 to 2015 on most indicators related to Black women. This is a parody considering that the set targets in the FSC were already low. Asset managers, banks, and long-term insurers appear to be committed to meeting the FSC targets on most of the indicators. However parsimonious data makes it difficult to determine the subsectors that require urgent attention. The innocuous focus on 'majors' may inadvertently provide a rosy picture of transformation in the sector.

b. Ownership

The sector has made little progress to meeting the ownership target considering that 21 of the 48 responses have 0 points for this variable. Sadly there is an overall decline in performance between 2014 and 2015. While banks have improved significantly between 2014 and 2015, they are still far from getting the 17 points Ownership target. Stockbrokers/JSE and international banks appear to be delinquents and need to be taken to task.

c. Management Control

The performance hovers at 4 points average; this is only half of the total points or less if considering the 1 bonus point. In terms of the distribution, the sector looks worse than the average numbers.

d. Employment Equity

Performance is at 50% of the target across all the subsectors. The low achievements regarding Black senior and middle managers are dragging the overall performance down.

e. Preferential Procurement

The sector has exceeded the "B-BBEE Procurement Spend from all Suppliers based on their B-BBEE Procurement Recognition Levels as a percentage of Total Measured Procurement Spend", which represents 50% of the weighting for this variable. It will be interesting to explore the distribution across the B-BEEE ratings. It is again unfortunate that the sector is not meeting the procurement spend with 30% Black women-owned suppliers.

f. Enterprise Development

It is regrettable that international banks regressed in their 2015 enterprise development spend.

g. Socio-economic Development

The focus is mainly on education, roughly 50%. The sector should consider broadening its interventions to other social subsectors including rural development, food security, livelihood strategies and arts and culture, which are all critical to social cohesion.

h. Access to Financial Services

The respective sub-sectors can do more on consumer education considering the high levels of indebtedness in the country.

ABSIP'S COMMITMENT

The picture presented by the 2016 report is not rosy. However, in the absence of real data on sectors and links in the respective value chains, it is difficult to ascertain if much progress has been achieved in the de-racialisation of the sector, employment growth within the sector, an increased tax base and broadened ownership. As such ABSIP's voice on the Financial Sector Charter Council will be to strengthen the role the Council plays within the sector. Given the poor results recorded in this report, we have taken note of our responsibility to intensify our efforts so as to ensure that the next iteration in 2017 does not face the same challenges. Our efforts on the Council will be directed towards:

- Intensifying awareness and education on the FSC.
- Focusing on industry engagement to improve and accelerate the pace of sector transformation.
- Being the voice of the disenfranchised when it comes to negotiating elements of the Code especially in the case of Black people and in particular Black women.
- Holding the secretariat accountable for the implementation of appropriate processes that professionally track progress within the sector, including gathering quality data.
- Continuing to seek regulatory compliance on all aspects of the FSC.

ABSIP's focus will be driven by the goal of ensuring that the financial sector and the economy reflect wealth and income according to our population demographics.

Financial Sector Charter Council

FS 300
Employment Equity

6. EMPLOYMENT EQUITY

Employment Equity Scorecard		
FS300 - Employment Equity	**Targets**	**Points**
2.1 Black disabled employees as a percentage of all employees	3.00%	0.5
2.2 Black Women disabled employees as a percentage of all employees	1.50%	0.5
2.3 Black Senior Management as a percentage of all Senior Management	60.00%	3
2.4 Black Women senior management as a percentage of all senior management	30.00%	2
2.5 Black Middle Management as a percentage of all Middle Management	75.00%	3
2.6 Black Women Middle Management as a percentage of all Middle Management	37.50%	2
2.7 Black junior management as a percentage of all Junior Management	80.00%	2
2.8 Black Women junior management as a percentage of all Junior Management	40.00%	2
Total		**15**
2.9 Bonus points for meeting or Exceeding EAP* target for Senior Management	87.50%	1
2.10 Bonus points for meeting or Exceeding EAP* target for Middle Management	87.50%	1
2.11 Bonus points for meeting or Exceeding EAP* target for Junior Management	87.50%	1
Total bonus points		**3**
Total including bonus points		**18**

6.1 EMPLOYMENT EQUITY OVERVIEW

The financial sector continues to underperform in terms of the 18 points available for the Employment Equity element. The same concern about the slow pace of transformation at the board and executive committee levels applies to senior and middle management levels.

There is a general concern that black junior management performance does not accurately reflect transformation. There is a wide disparity of definitions of junior management within the sector and the Department of Labour format for reporting that put many people in this category who are not actually managers. The consequence is that a large percentage of junior managers could never be appointed in middle management positions. The general consensus is that the real transformation achievement at junior management is lower than claimed in reports. The low growth rate in the sector has not slowed an increase in overall staffing levels, but this has happened primarily at the low skilled and semi-skilled levels. Management positions have not been created at the same rate.

The B-BBEE scorecard figures do not show the extent to which black managers at any of the three levels are sitting in non-strategic roles. There is an acknowledged need to create a pipeline of potential senior executives and to fast track black managers from junior management upwards. The Council will be considering how to identify and report on the number of black managers who have the potential to be appointed to more senior levels of management.

TABLE 12: AVERAGE GENERIC EMPLOYMENT EQUITY SCORE BY YEAR

Year	Average Score out of 18	Weighted Average Score	Number of Reports
2014	8.5	10.1	48
2015	8.7	10.3	49
2016	8.93	10.63	83

TABLE 13: AVERAGE GENERIC EMPLOYMENT EQUITY SCORE BY ENTITY SIZE

Size	Average Score out of 18	Weighted Average Score	Number of reports
<R100m	8.81	8.34	25
R100m to R1bn	8.17	8.41	21
>R1bn <R10bn	9.15	11.16	22
>R10bn	9.94	10.58	15

6.2 EMPLOYMENT EQUITY SCORES

FIGURE 10 - AVERAGE EMPLOYMENT EQUITY (EE) SCORES BY YEAR

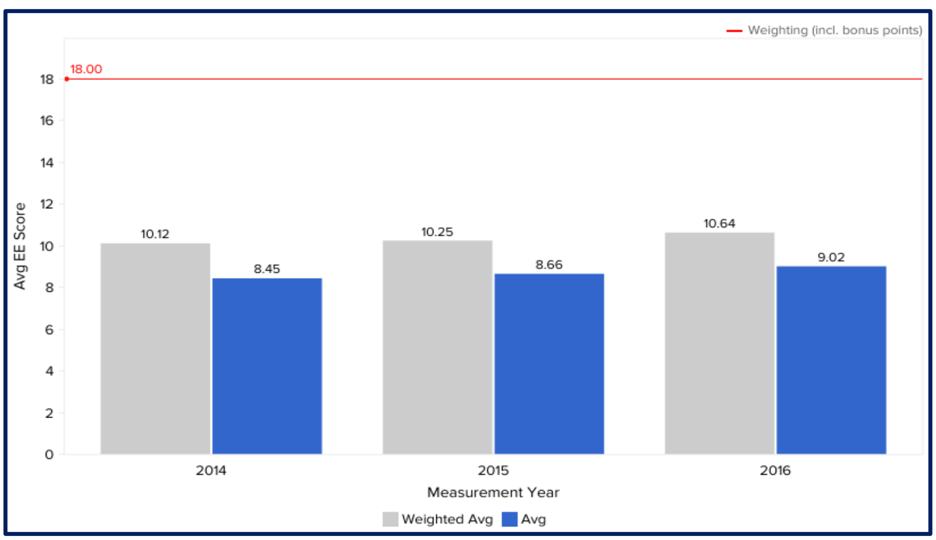
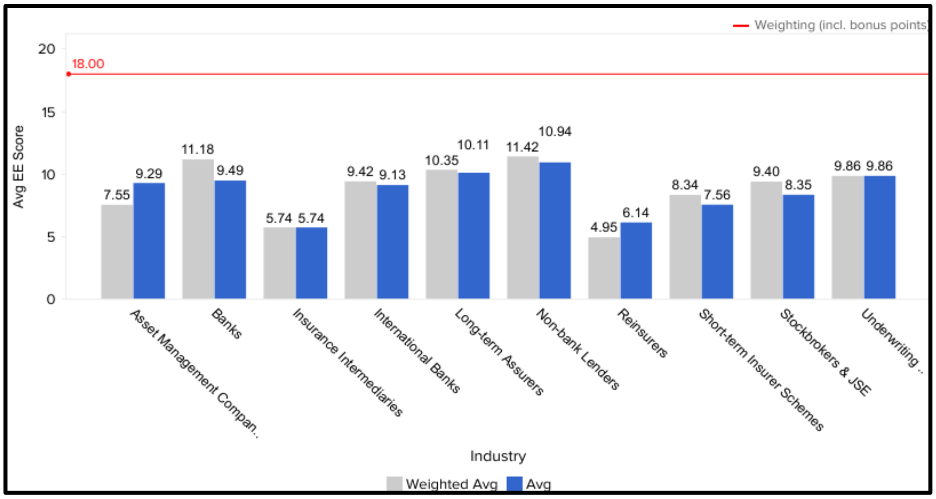


FIGURE 11 - AVERAGE EMPLOYMENT EQUITY SCORE BY SUB-SECTOR, 2016



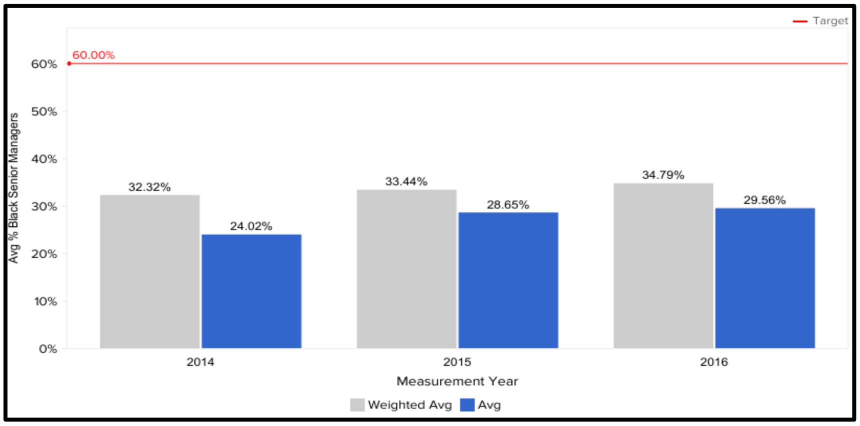
There is relatively little variation across the sub-sectors, indicating that the sector average accurately reflects sub-sector results. The Commission for Employment Equity (CEE) continues to report that there is over-representation of white employees, in particular white men, at the levels of Middle, Senior and Top Management. In addition, white people, predominantly white men, benefit from higher levels of recruitment, promotion and training opportunities. This trend is less prevalent at the middle management level, where more African employees benefitted from skills development initiatives than any other group.

The introduction of tracking performance against the Economically Active Population (EAP) statistics in the generic CoGP further demonstrates the government's commitment to achieving equitable representation. This is an important shift for the financial sector where, for example, banks employ 61% females and 39% males, while 75% of employees are black. Banks employ a youthful workforce with 53% being younger than 35 and only 10% being 55 or older according to the 2015-16 BankSeta Sector Skills Plan. However, the pace of change is likely to be slow because statistics indicate that the sector does not create a large number of vacancies. These exist mainly in the Information Technology (IT) field, which is a scarce skill, with a large number of higher level skills being imported. While these statistics relate to the banking sub-sector, it is the biggest employer in the financial sector, and indicates sector employment equity trends.

The sector is challenged by a number of constraints, including lack of EAP representation, especially at middle to top management levels, and the need for recruits to have scarce skills, particularly IT, actuarial and other specialised financial skills in accounting, risk management and compliance. The Council expects that the amended FS Code's specific target for African people and stratification of skills development spend will positively contribute to the achievements of the CEE and revised generic CoGP EAP principles.

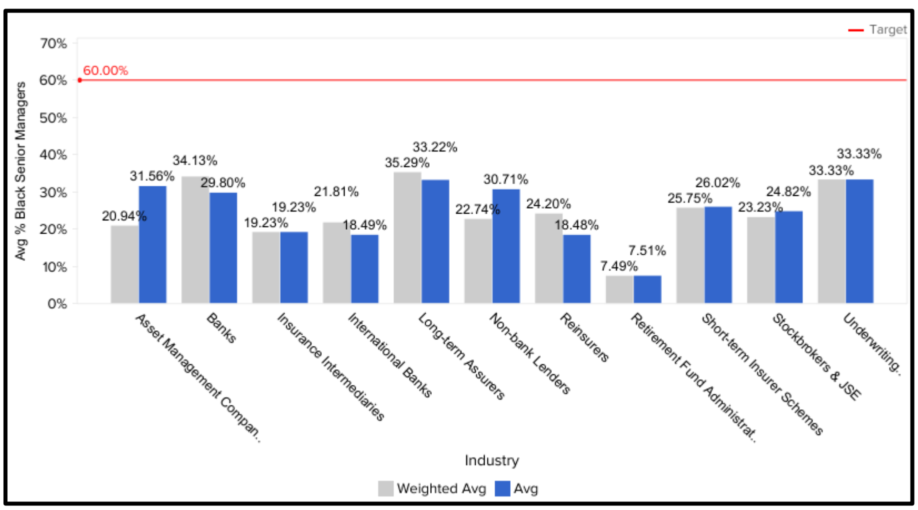
6.3 BLACK SENIOR MANAGEMENT

FIGURE 12- AVERAGE % BLACK SENIOR MANAGEMENT BY YEAR



In 2013 the sector average for black senior management representation was 27.16% and by 2016 had improved marginally to 29,5%. The sector scored below the 60% target for this important transformation indicator. The gap to target is consistent across the three main sub-sectors in the financial sector. Only 23% of entities are achieving target representation of black people at senior management level. At around 28%, the financial sector performance is lower than the 32% reported by the 16th Commission for Employment Equity Report 2015-2016. However, the weighted averages are more in line with the national average. The Commission's report on the financial sector is broadly in line with the findings of this report, with black senior management at 35% and the Council's weighted average of 34.3%.

FIGURE 13 - AVERAGE % BLACK SENIOR MANAGERS BY SUB-SECTOR IN 2016



6.4 BLACK JUNIOR MANAGEMENT

The pipeline of black junior managers appears to be available although the definitions of management may be distorting these results. Employing people in junior management roles with opportunities for progression is essential to maximising this pipeline. The low growth rate in the sector in recent years has resulted in fewer top executive positions being available than may otherwise have been the case. However, staffing at lower levels has increased and transformation has taken place proportionately, with consistent sub-sectors results.

FIGURE 14 - AVERAGE % JUNIOR MANAGEMENT BY YEAR

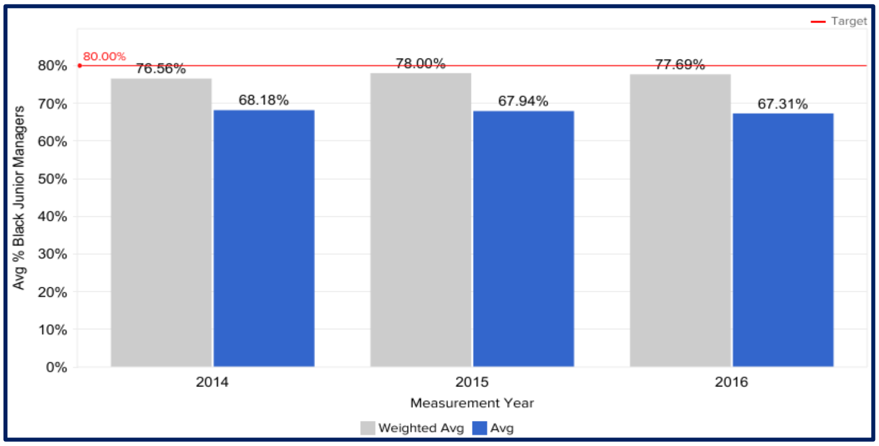
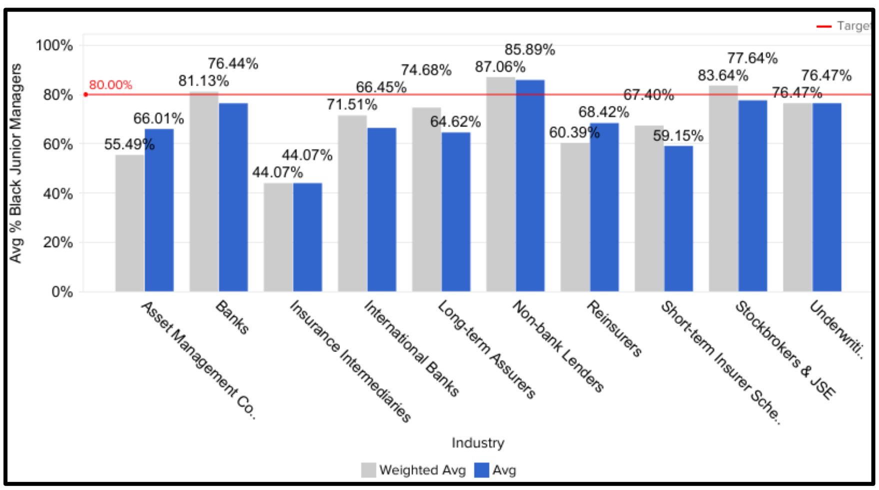


FIGURE 15 - AVERAGE % BLACK JUNIOR MANAGERS BY SUB-SECTOR, 2016



6.5 BLACK EMPLOYEES WITH DISABILITIES

The sector has performed poorly in employing people with disabilities. Although the sector average has improved marginally from the 0.46% reported in 2013, there remains a significant gap to target, which is itself a modest 1.5%. However, some entities regard the target as unreasonably high and expensive to attain. The outlier is one high performing international bank that reported in 2014 but not in 2015, which affected the average for that small sample. The 16th Commission on Employment Equity Report records the percentage of people with disabilities in the financial sector as 1.1%. The data collected for this survey shows a much lower figure. The difference requires further investigation and will be addressed in the next report.

FS 400
Skills Development

7. SKILLS DEVELOPMENT

Skills Development Scorecard		
FS400 - Skills Development	**Target**	**Points**
Skills Development Expenditure on Learning Programmes specified in the Learning Programmes Matrix for Black employees as a percentage of the financial institution's leviable amount	3.00%	3
Skills Development Expenditure on Learning Programmes specified in the Learning Programmes Matrix for Black Women employees as a percentage of the financial institution's leviable amount	1.50%	1.5
Skills Development Expenditure on Learning Programmes specified in the Learning Programmes Matrix for disabled Black employees as a percentage of the financial institution's leviable amount	0.30%	0.5
Skills Development Expenditure on Learning Programmes specified in the Learning Programmes Matrix for disabled Black Women employees as a percentage of the financial institution's leviable amount	0.15%	0.5
Skills Development – Learnerships	**Target**	**Points**
Number of Black employees participating in Learnerships or Category B, C and D Programmes as a percentage of total employees	5.00%	3
Number of Black Women employees participating in Learnerships or Category B, C and D Programmes as a percentage of total employees	2.50%	1.5
Total Points		**10**

7.1 SKILLS DEVELOPMENT OVERVIEW

Skills Development performance across the sector yields largely positive findings and reflects a significant financial sector contribution to the economic empowerment of black South Africans. The Black Management Forum's Transformation Barometer published in 2016 found that long-term solutions to improve transformation include "improving the education system radically so as to provide a steady stream of work-ready young people that are able to compete on the rapidly advancing technology front worldwide".

The banking sector reports customer centricity as a major change driver in the industry with a need for professionals who can understand clients holistically. As a result of the digitisation and technological advancements in the industry, most banking vacancies require scarce ICT skills. According to the BankSeta 2015/2016 Sector Skills Plan, the educational levels of the sector's workforce indicate that at least 65% of employees do not have post-matric qualifications. Currently the most important driver of change in the banking sector is technology and where vacancies cannot be filled by South Africans, people with the requisite skills are recruited from other countries. The failure to co-ordinate supply and demand emerged as the most important cause of scarce skills shortages. Technology changes to self-service terminals, migration to online and mobile banking channel, and the needs of a larger rural population with a less developed technological infrastructure, are challenges that face a banking industry where only 70 000 of the 177 000 employees possess a post-matric qualification. Against this background, stakeholders consulted suggested that the average National Qualifications Framework (NQF) level of learnerships within the sector is only NQF 5, which is equivalent to a higher certificate, and only one level above Grade 12.

The Skills Development element has been broadened to include unemployed black people. This presents the industry with an opportunity to proactively identify its skills requirement pipeline and adopt a two pronged skills development approach. The first step would be to build on the existing skills of its current employees; the second would be to invest in the training and development of the required IT and financial skills of learners, entry level candidates and existing employees.

Performance in this element has been consistent for the past three years at 6 out of 10 points. Weighted averages show positive results, with larger entities exceeding targets at a sub-sector level. However, skills development expenditure on black employees with disabilities has not improved and requires the sector to devise new strategies to meet its targets.

TABLE 14 - AVERAGE GENERIC SKILLS DEVELOPMENT SCORE BY YEAR

Year	Average Score out of 10	Weighted Average Score	Number of Reports
2014	6.1	8.4	45
2015	6.2	8.4	49
2016	6.72	8.87	84

TABLE 15 - AVERAGE GENERIC SKILLS DEVELOPMENT SCORE BY ENTITY SIZE

Size	Average Score out of 10	Weighted Average Score	Number of Reports
<R100m	6.38	6.49	26
R100m - 1bn	5.6	4.2	22
>R1bn - <R10bn	7.52	8.81	22
>R10bn	7.8	9.2	14

FIGURE 16 - AVERAGE SKILLS DEVELOPMENT SCORE BY YEAR

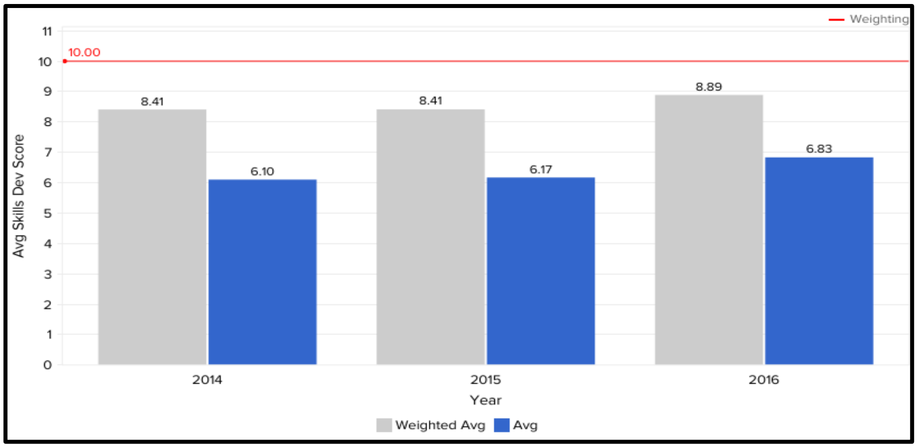
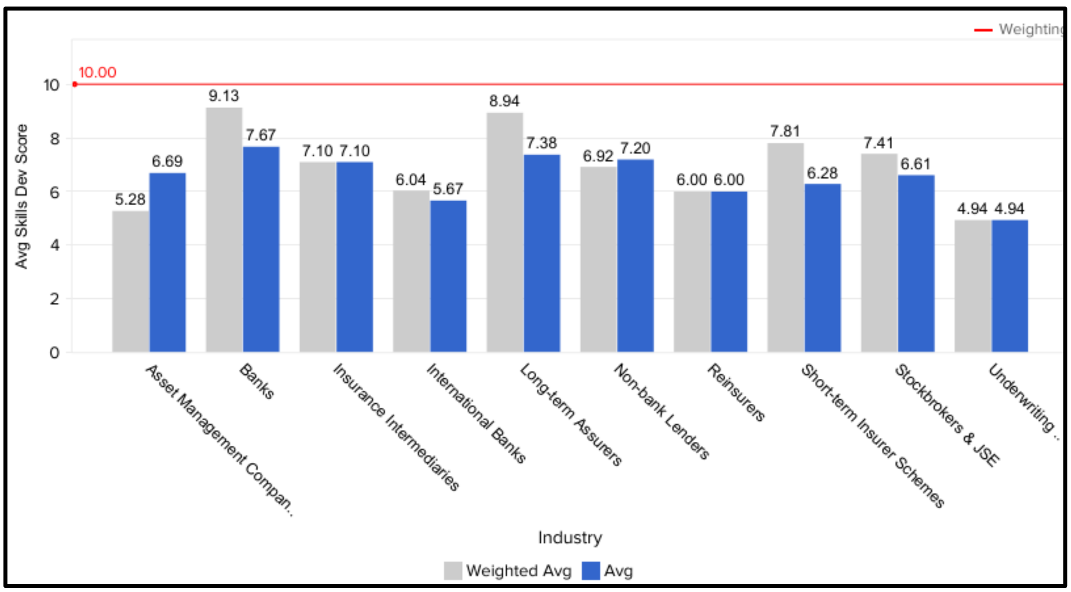


FIGURE 17 - AVERAGE SKILLS DEVELOPMENT SCORE BY SUB-SECTOR, 2016



FOSTER THE FUTURE

The Association for Savings and Investment South Africa (ASISA) "Foster the Future" initiative brings together three independent entities: the ASISA Academy, the ASISA Foundation, and the ASISA Enterprise and Supplier Development Fund. They are driven by the common goal of addressing one of the key social deficits currently plaguing our country and prohibiting economic growth, namely unemployment. With support from key stakeholders and funding from ASISA members, the Foster the Future initiative aims to empower vulnerable communities through financial literacy, facilitating employment for graduates and creating jobs by building businesses.

The ASISA Academy

The ASISA Academy creates desperately needed employment opportunities for black graduates who want to pursue a career in the savings and investment industry by bridging the problematic gap between tertiary education and the skills required by potential employers. To achieve this effectively, the Academy has forged strong partnerships with institutions such as the Tertiary School in Business Administration (TSiBA) and the University of Johannesburg (UJ).

Collaborative programmes prepare black graduates for careers in the savings and investment industry through work-readiness boot camps and internships. The effectiveness of this approach is evidenced by the 85% employment rate of black interns by ASISA member companies.

The Academy also offers learning programmes for young people already employed by the industry to encourage ongoing learning and skills development in an independent environment. The Academy's high quality and practical learning solutions are informed by industry realities. The content of the programmes, subjected to rigorous academic quality checks, is designed and taught by senior industry experts who do not charge for their services. This creates a unique and highly effective learning environment and the opportunity to interact with industry leaders.

In partnership with the ASISA Foundation, the Academy also delivers relevant and independent retirement fund trustee education programmes. The Academy has seen unprecedented demand for all seven Trustee Education workshops presented across the country in Durban, East London, Johannesburg, Cape Town and Ceres. Academy programmes have also been attended by regulators from other southern African countries, namely Namibia, Botswana and Swaziland.

The ASISA Foundation

The ASISA Foundation is a non-profit industry initiative that delivers effective and objective financial literacy and micro enterprise development programmes to South Africa's most vulnerable groups. The aim is to achieve a long-term sustainable and positive impact on the financial well-being of communities, particularly the poor and needy, through facilitating greater financial capability and economic participation by all South African citizens. The quality and long-lasting impact of each of the Foundation's projects is affirmed through independent monitoring and evaluation.

The efforts of the Foundation are guided and overseen by a Board of Trustees consisting of individuals from stakeholders including organised labour, organised community, National Treasury and the Financial Sector Charter Council. The Board of Trustees also includes representatives from ASISA structures including the Transformation, Skills Development and Education Board Committee and the Consumer Financial Education Standing Committee. The Foundation is fully compliant with the Financial Sector Code (FSC).

The ASISA Enterprise and Supplier Development Fund

The ASISA Enterprise and Supplier Development Fund (ESD) Fund was launched in March 2013. It exists to fast-track job creation by unlocking the growth potential of South Africa's small and medium enterprise (SMEs) sector. The Fund's approach is premised on the deep understanding that every SME is a unique business requiring more than just financial support in order to grow and create employment. The Fund therefore ensures the sustainable development of high-potential black owned SMEs, through an innovative combination of tailored business support, access to market and financial support structured according to the specific needs of each SME and access to market. Eligible black owned SMEs are carefully selected either from the supply chain of ASISA member companies or because there is a good mandate fit from a social and industry perspective.

The Fund received international recognition for this innovative approach when it was selected in March 2016 by the United States Agency for International Development (USAID) for a US$1 million grant, payable over three years, as part of the USAID Partnering to Accelerate Entrepreneurship (PACE) initiative. The Fund is one of only eight applicants worldwide selected for this grant and only the second successful applicant from Africa. To date the Fund has:

- Achieved a 27% average revenue increase across supported SMEs;
- Deployed R250 million in SME support & investments;
- Shifted R105 million in procurement spend;
- Developed 470 SMEs (supported 2 500 jobs and created 500 new jobs); and
- Created optimal ESD investments for 40 funders.

The Fund's structure and operating model are designed to optimise the impact of enterprise development investment by applying sound corporate governance and robust investment expertise. It is governed by a Board of Trustees representing industry and Government with more than 200 combined years of specialist experience in financial services, governance, fund management, procurement and transformation. The Investment Committee is responsible for evaluating and approving the Fund's portfolio of investments and boasts investment professionals with experience in private equity, SMEs and developmental investing.

Financial Sector
Charter Council

FS 500
Preferential Procurement

8. PREFERENTIAL PROCUREMENT

Preferential Procurement Scorecard		
FS500 - Preferential Procurement	**Targets**	**Points**
B-BBEE Procurement Spend from all Suppliers based on their B-BBEE Procurement Recognition Levels as a percentage of Total Measured Procurement Spend	70%	8
B-BBEE Procurement Spend from all Suppliers that are QSEs or EMEs based on their B-BBEE Procurement Recognition Levels as a percentage of Total Measured Procurement Spend	15%	3
Procurement Spend on any of the following Suppliers as a percentage of Total Measured Procurement Spend:		
Suppliers that are 50% Black owned	12%	2.5
Suppliers that are 30% Black Women owned	8%	2.5
Total Points		**16**

8.1 PREFERENTIAL PROCUREMENT OVERVIEW

The sector average Preferential Procurement Score has been 12 out of the maximum score of 16 points for the past three years. Preferential procurement performance improved in 2016, with the number of entities reporting increasing to 82 and averaging a score of 13 out of a possible 16 points. The weighted average score was 15, a slight improvement over the 2015 score of 14.9 on a smaller sample of 50 reporting entities.

The FS Code has lower targets than the generic CoGP for procurement from Exempted Micro Enterprises (EMEs), black-owned and black women-owned suppliers. This scorecard element has therefore retained most of the principles in the 2012 FS Code and the changes that have been effected are not as significant as those of the other scorecard elements.

However, it is important to note that Procurement and Enterprise and Supplier Development funding targets are phased in over a period of three years in the revised Code to ensure that procurement targets in the sector do not continue to lag behind. It takes into account the allocation of sub-sector targets and the introduction of new or increased targets in sector specific elements.

TABLE 16: AVERAGE PREFERENTIAL PROCUREMENT SCORE BY YEAR

Year	Average Score out of 16	Weighted Average Score	Number of Reports
2014	11.5	14.7	47
2015	11.7	14.9	50
2016	12.97	15.01	85

TABLE 17: AVERAGE PREFERENTIAL PROCUREMENT SCORE BY ENTITY SIZE

Size	Average Score out of 16	Weighted Average Score	Number of Reports
< R100m	12.59	13.64	28
R100m - R1bn	11.4	13.63	21
>R1bn - <R10bn	14.1	14.14	22
>R10bn	14.31	15.57	14

FIGURE 18 - AVERAGE PREFERENTIAL PROCUREMENT SCORE BY YEAR

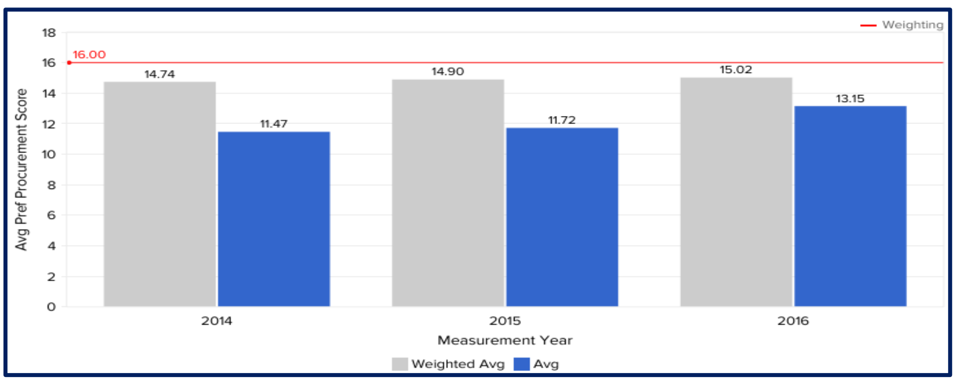
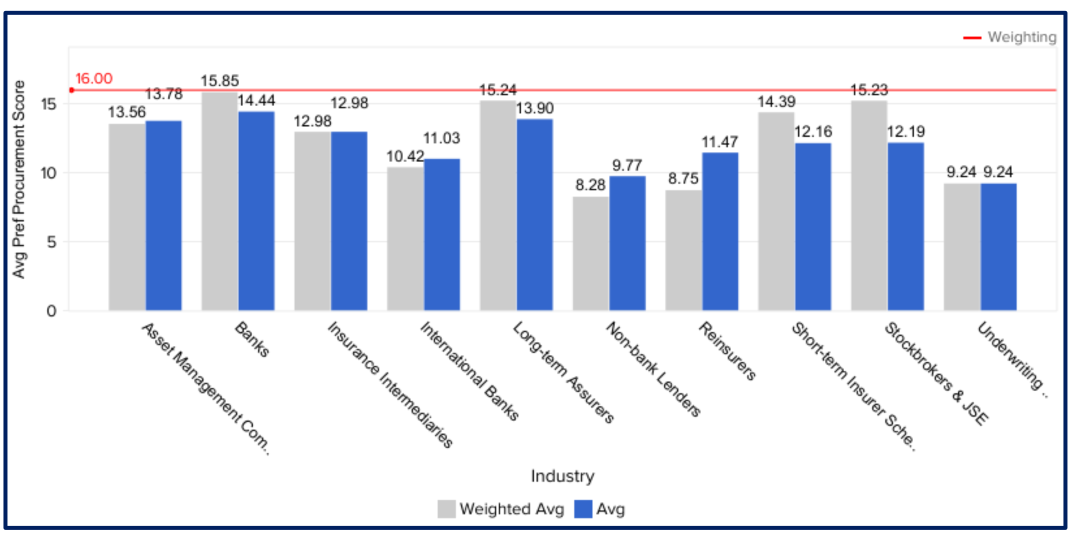


FIGURE 19 - AVERAGE PREFERENTIAL PROCUREMENT SCORE BY SUB-SECTOR, 2016



Overall, there are three major areas of procurement spending for financial services companies: IT and telecommunications, which makes up almost 50% of procurement spend, administration and services, which includes marketing and advertising, and facilities and building management. Information technology infrastructure is the backbone of most financial services companies, most of which is imported. This presents a significant challenge when entities are measured against the preferential procurement scorecard element.

However, this challenge also presents the opportunity for financial services companies to actively engage their service providers to develop innovative solutions. One innovation is the multinationals' Equity Equivalents Programmes (EEPs), which enables global companies whose policies prevent them from transferring equity through partnership arrangements in other countries, to invest in Enterprise and Supplier Development, Research and Development and Critical and Core Skills.

Seven multinationals have taken advantage of this provision and implemented approved EEPs. Four companies, namely Hewlett Packard, Microsoft, Dell and IBM, are in the Information and Communication Technology (ICT) industry, have invested more than R1 billion in the following programmes: ICT scarce and critical skills; enterprise development; IT software development in the safety and security, healthcare, consumer, mobility and cloud computing fields; high performance computing (HPC) and business management skills; providing bursaries and internships for undergraduate and postgraduate ICT students and funding research.

Financial Sector Charter Council

FS 600

Enterprise Development & Empowerment Financing

9. ENTERPRISE DEVELOPMENT & EMPOWERMENT FINANCING

Enterprise Development Scorecard	Target	Points
FS600 - Enterprise Development for measured entities that are exempted from contributing towards Empowerment Financing		
Qualifying ED contributions made by the measured entity as a percentage of the target	3% of Cumulative NPAT	15
Total Points		**15**
FS600 - Enterprise Development for measured entities that are not exempted from contributing towards Empowerment Financing		
Qualifying ED contributions made by the measured entity as a percentage of the target	0.2% of NPAT	5
Total Points		**5**

9.1 ENTERPRISE DEVELOPMENT OVERVIEW

The level of performance in the Enterprise Development (ED) element of the FS Code is encouraging. Several major entities have established experienced and dedicated teams that drive the sector's Enterprise Development programmes. The sector weighted average is just short of the target. Strong performance is also noted at sub-sector level. Transaction Financing is the weakest area. For those organisations which are excluded from Empowerment Financing the ED picture is similarly positive although targets were not achieved. A total of 22 entities reported in the category "Enterprise Development for FSC Generic Entities Reporting Empowerment Financing", and achieved an average score of 3.8 out of 5 points. The weighted average score out of 5 was 4.7, compared to 4.6 achieved in the previous year, as shown below.

TABLE 18: ENTERPRISE DEVELOPMENT FOR FSC GENERIC ENTITIES REPORTING EMPOWERMENT FINANCING

Year	Average Score out of 5	Weighted Average Score	Number of Reports
2014	4.4	4.8	17
2015	4.0	4.6	22
2016	3.6	4.69	25

TABLE 19: ENTERPRISE DEVELOPMENT FOR FSC GENERIC ENTITIES REPORTING EMPOWERMENT FINANCING - BY ENTITY SIZE

Size	Average Score out of 5	Weighted Average Score	Number of Reports
<R100m	2.5	5.0	2
R100m - R1bn	2.0	1.77	1
>R1bn- <R10bn	3.72	4.83	8
>R10bn	4.5	4.7	10

The South African Insurance Association is co-ordinating the short-term insurance industry's initiatives to introduce opportunities that will unlock transformation challenges in the supplier chain in the industry. The industry recognises the importance of linking enterprise development initiatives with procurement opportunities and has undertaken a number of sectoral transformation and Sustainability Initiatives. The article below describes its Motor Transformation and Sustainability Strategy implemented in association with the Motor Body Repairers' Associations.

Motor Transformation and Sustainability Forum

As part of accelerating transformation and levelling the playing field in the short term insurance industry and related industries such as the motor body repair industry , the year 2016 saw the South African Insurance Association (SAIA) together with its members and associations representing the motor body repair (MBR) industry, under the banner of the Motor Transformation and Sustainability Forum (MTSF), approving standards for Motor Body Repairers doing out-of-warranty work, in South Africa.

The Motor Body Transformation and Sustainability Forum (MTSF) was formed towards the end of 2015 – together with the MBR Associations – with a view to addressing the transformation and sustainability of both the insurance and MBR industries. A memorandum of understanding was signed by SAIA and the MBR Associations at the end of 2015 to address the following:

- Preferential work for black owned enterprises, with a priority focus on small black businesses, and to address blockages to procurement.
- To agree on standards and grading at different levels, for repairs in the out-of–warranty space, as repair spend in the in-warranty space is still currently directed by motor manufacturers and not by the insurers. This was the first priority with a first step being to introduce a standard for the out-of-warranty repair environment.
- To establish a database of MBRs be utilised by the insurers in identifying qualifying B-BBEE compliant suppliers to which they can distribute the repair work.
- To address issues related to in-warranty repairs with the relevant stakeholders, including original equipment manufacturers (motor manufacturers).
- To consider new ideas, including enterprise development to accelerate change.
- To jointly promote compulsory third party motor insurance in South Africa.

We are happy to say that we have made progress, despite some challenges and timing delays during this reporting period. The standards have been signed off and MBRs are being assessed according to the standards. The database has been developed and MBRs are added as they are assessed, we are also conducting a research on industry capabilities and capacity to inform potential new procurement targets in this space, as well as an enterprise and supplier development programme that will link to the MTSF project in future. During this period, the major activity was finalising the standards as insurers have to ensure good quality work and excellent customer experience. This action should remove one of the key blockages to access to insurance work. The rest of this article therefore focuses on the work done during this reporting period.

Adoption of Out-of-Warranty Standards for MBRs

In general, standards give assurance to customers that the MBR has the required skill-set, capacity and capability to repair vehicles involved in accidents, and thus expecting the work carried out to be of acceptable quality. Previously, the MBR industry subscribed to various standards as prescribed by their respective associations, for out-of-warranty work and Original Equipment Manufacturer (OEMs) standards for in-warranty work. This resulted in increased barriers of entry in accessing preferential procurement opportunities and unintendedly slowed down transformation progress within the short term insurance industry. The MTSF enlisted services of an international standards accreditation company, Bureau Veritas, to:

- Create shop and repair work categories;
- Create a home-grown standard for out-of-warranty work;
- Develop a custom made database;
- Assess and certify MBR shops; and
- Update the Database accordingly.

One of the key barriers to entry for small black-owned MBRs to access work in the short term insurance industry, was identified as not meeting minimum standards as required by the industry. The implementation of the national standards is one of the industry initiatives aimed at accelerating transformation within the Enterprise and Supplier development space and particularly to assist in the development of small black owned MBRs.

In order to support and fast-track the certification process the short term insurance industry through SAIA also pledged funds to assist black-owned SMME MBRs with certification costs if they meet the following criteria:

- The MBR must be 51% or more black owned or 30% black woman owned;
- Gross turnover must be R2 000 000 or less per annum;
- The MBR must have been in operation for a period of not less than two years.

The standards are due to be implemented from 1 May 2017, renewable every two years. It is envisaged that the kick off project aimed at completing the certification of all the MBRs currently enlisted on the provided association databases will take a year

9.2 EMPOWERMENT FINANCING OVERVIEW

Empowerment Financing for the Banking industry Scorecard		
FS601 - Empowerment Financing for the Banking industry	**Target**	**Points**
Targeted Investments Transformational Infrastructure , Black SME Financing, Black Agricultural Financing, Affordable Housing	R48bn	12
BEE Transaction Financing	R32bn	3
Total Points	**R80bn**	**15**

Empowerment Financing for the Long-term Insurance Industry Scorecard		
FS602 - Empowerment Financing for the Long-term Insurance industry	**Target**	**Points**
Targeted Investments	R27b	12
Transformational Infrastructure , Black SME Financing, Black Agricultural Financing, Affordable Housing		
B-BBEE Transaction Financing	R15b	3
Total Points	**R42bn**	**15**

Empowerment financing is one of the two unique elements in the FS Code. It measures targeted investments such as SME Development, Agricultural Development, Affordable Housing initiatives and Transformational Infrastructure projects, as described in more detail below. In addition, this pillar of the Sector Code promotes the financing of Black Economic Empowerment deals and projects in the government's Black Industrialist Scheme.

Transformational Infrastructure is dedicated funding for infrastructure projects in underdeveloped areas where communities have historically been denied equitable access to economic resources. It is intended to focus on financing efforts that provide infrastructure such as roads, bridges and schools that will contribute to reducing infrastructure backlogs and increase the potential for economic growth and development in these areas.

The Property Sector Code has also adopted the Transformational Infrastructure model, which will incentivize both the property and financial sectors to identify investment opportunities in peri-urban and rural areas and stimulate economic activity and job creation. In 2016, 34 financial entities reported and achieved an average score of 13.1 out of 15, and a weighted average score of 14.2.

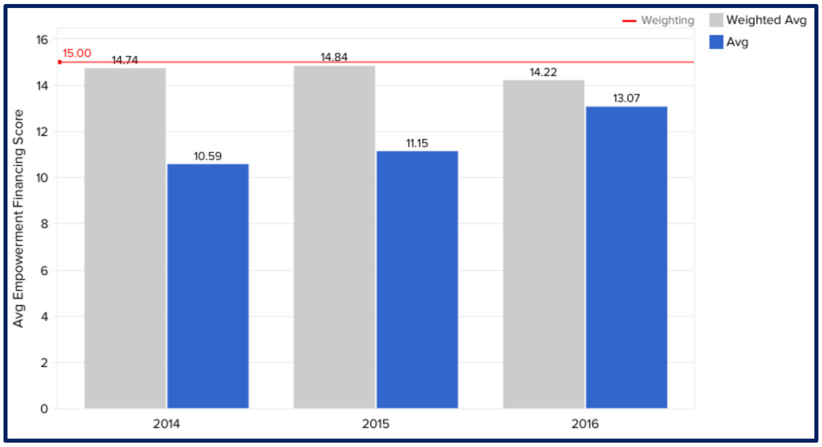
Table 20: FSC Generic entities Empowerment Financing Scores

Year	Average Score out of 15	Weighted Average Score	Number of Reports
2014	10.6	14.7	20
2015	11.2	14.8	26
2016	12.04	14.19	37

Table 21: FSC Generic entities Empowerment Financing Scores - by Entity Size

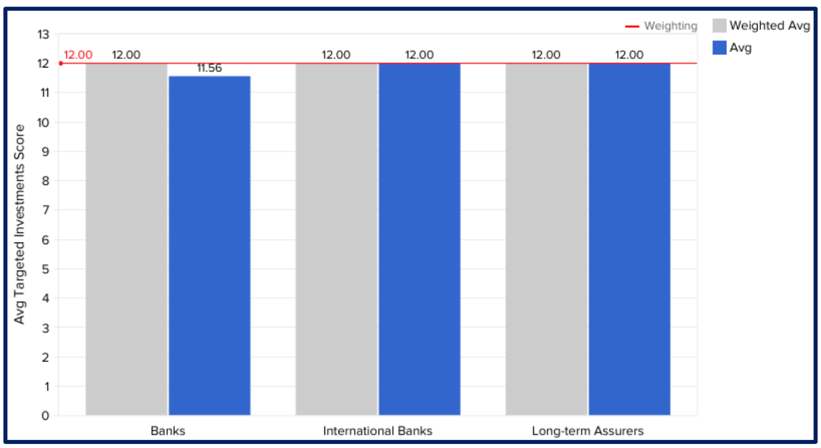
	Average Score out of 15	Weighted Average Score	Number of Reports
<R100m	11.82	11.97	8
R100-R1bn	9.99	13.52	7
>R1bn<R10bn	10.47	14.94	11
> R10bn	14.4	14.9	11

FIGURE 20 - AVERAGE EMPOWERMENT FINANCING SCORES BY YEAR



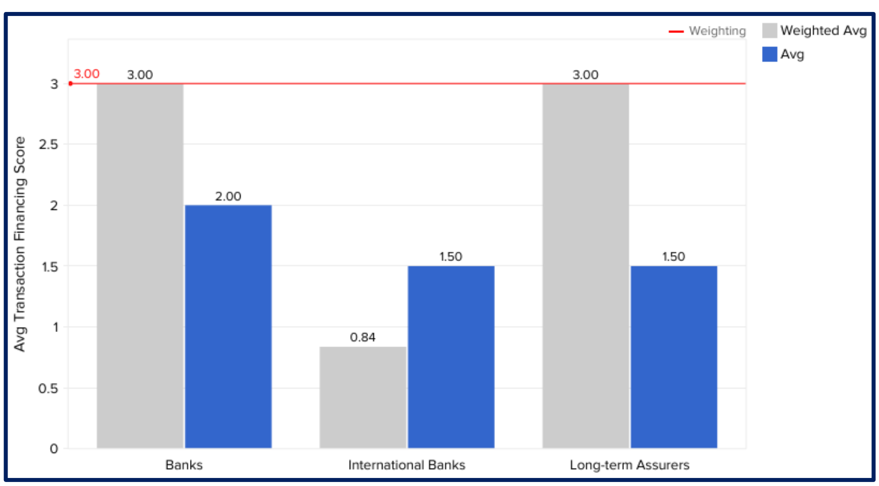
9.2.1 TARGETED INVESTMENTS

FIGURE 21 - AVERAGE TARGETED INVESTMENTS SCORE BY SUB-SECTOR, 2016



9.2.2 TRANSACTION FINANCING

FIGURE 22 - AVERAGE TRANSACTION FINANCING SCORE BY SUB-SECTOR, 2016



FS 700

Socio-economic Development

10. SOCIO ECONOMIC DEVELOPMENT

Socio- Economic Development Scorecard		
FS700 - Socio- Economic Development	**Target**	**Points**
Cumulative value of all Socio-Economic Development Contributions made by a financial institution as a percentage of the cumulative net profit after tax *	2012 = 0.75% of NPAT; 2013 = 0.7% of NPAT; 2014 = 0.6% of NPAT	3
Total Points		**3**

10.1 SOCIO-ECONOMIC DEVELOPMENT OVERVIEW

The Socio-Economic Development (SED) element in the proposed Amended FS Code includes measurements for Consumer Education, which is unique to the financial sector. The FS Code proposes that SED spending be split between Consumer Education with two points, and other SED programmes, which can score up to three points.

The sector has achieved an average score of 2.5 out of 3 points consistently for the past three years. Weighted averages show larger institutions either reaching or scoring close to the target. Council stakeholders commented that the relatively few points associated with this element raises questions about the effectiveness of SED initiatives.

In 2016, the number of entities reporting on Socio-Economic Development achievements rose to 78 from the 2015 total of 50. They achieved an average score of 2.6, and a weighted average of 2.9 out of 3 points, as shown in the tables below.

Financial services companies made up 21% of the companies that responded to the 2015 Trialogue CSI Handbook, which surveys corporate social investment in South Africa. The handbook showed that financial services accounted for approximately 14% of the total R8.1 billion of CSI expenditure in 2015, which together with the mining (approximately 40%) and retail sectors (approximately 16%), made up the bulk of 70% of the total. The report found that 92% of respondents support the education sector, followed by social and community at 74% and health at 58%. The corporates' budgets followed the same trend, with the education sector at 47%, social and community at 17% and health at 12%.

School level education receives the largest portion of education support at 51%. Post-school education accounted for 27% of education spend, and early childhood education investment totaled 19%. Adult education received 3%, while bursaries and scholarships received 24% of education spend. Infrastructure, facilities and equipment received 24%, while curriculum development was allocated 10% of spend. Maths and science remained the largest subject focus at 35% of spend, with specialised subjects such as accounting and medical studies accounting for 15% of spend. The balance was allocated to other areas such as adult consumer education, physical education, arts education and systemic education change.

The shift in the sector's skills needs puts the focus on maths and science, and IT skills need to be prioritised in order to expose learners to these scarce skills while they are still at school. The current focus in society on the cost of post-school education and the question of free university and college education raised by the #FeesMustFall movement in 2015, gives the sector the opportunity to debate transformation initiatives to support education and skills development in society as well as in the financial sector.

TABLE 22: AVERAGE GENERIC SED SCORE BY YEAR

Year	Average Score out of 3	Weighted Average Score	Number of Reports
2014	2.5	2.9	45
2015	2.6	3.0	50
2016	2.56	2.9	81

TABLE 23: AVERAGE GENERIC SED SCORE BY SIZE

Size	Average Score out of 3	Weighted Average Score	Number of Report
< R100m	2.42	2.67	26
R100m-R1bn	2.79	2.88	20
>R1bn <R10bn	2.47	2.94	21
>R10bn	2.7	2.9	14

FIGURE 23- AVERAGE SED SCORE BY YEAR

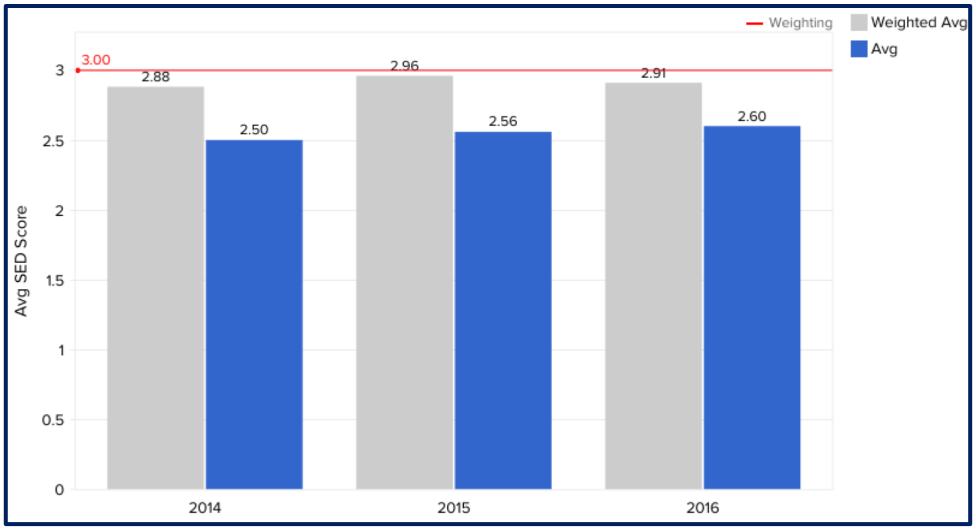
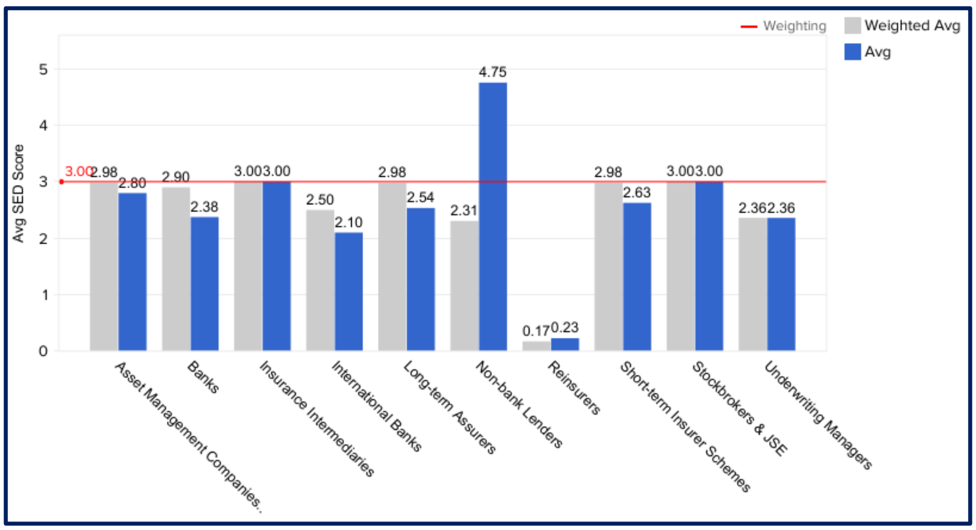


FIGURE 24 - AVERAGE SED SCORE BY SUB-SECTOR, 2016



FS 800

Access to Financial Services

11. ACCESS TO FINANCIAL SERVICES

11. 1 ACCESS TO FINANCIAL SERVICES OVERVIEW

Access to Financial Services is the second element that is unique to the FS Code. The Access score has remained static at around 8 out of a possible 14 points for the past three years. In 2016, the 30 reporting entities achieved a score of 8.9, marginally higher than the score of 8.8 by 24 entities in 2015. Reporting entities in 2016 scored a weighted average of 9.9 points, down from weighted average scores of 11.5 in 2014 and 10.8 points in 2015.

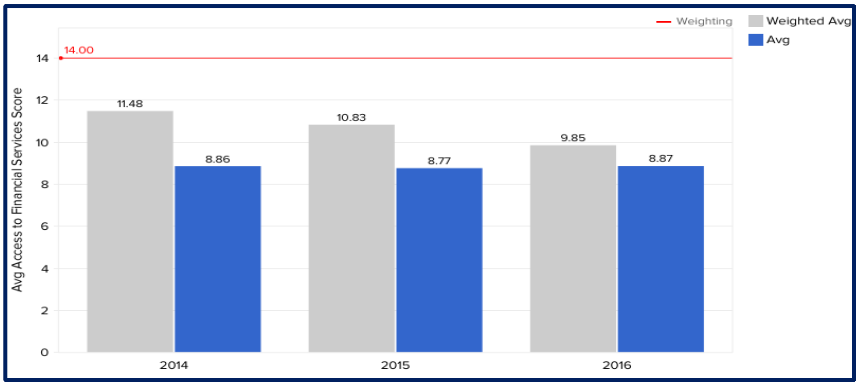
Table 24: Average Access to Financial Services Scores by Year

Year	Average Score out of 14	Weighted Average Score	Number of Reports
2014	8.9	11.5	17
2015	8.8	10.8	24
2016	8.9	9.9	30

Table 25: Average Access to Financial Services - by Size

Year	Average Score out of 14	Weighted Average Score	Number of Reports
< R100m	4.91	0.71	4
R100m - R1bn	10.9	6.6	5
>R1bn - <R10bn	8.4	7.7	11
>R10bn	10.1	10.1	10

FIGURE 25 - AVERAGE ACCESS TO FINANCIAL SERVICES - BY YEAR



The Access to Financial Services scorecard for banks, which is measured largely by geographic access, has shifted its weighting towards banking densification, which measures access to cash withdrawal facilities, and product related access, which measures the number of active accounts to qualifying products per institution.

One of the factors affecting banking transaction points is the universal move to digital and mobile banking in place of branches and automatic teller machines (ATMs). The move towards digital financial services and simplified account opening procedures has improved the take up of accounts by unbanked and underbanked people.

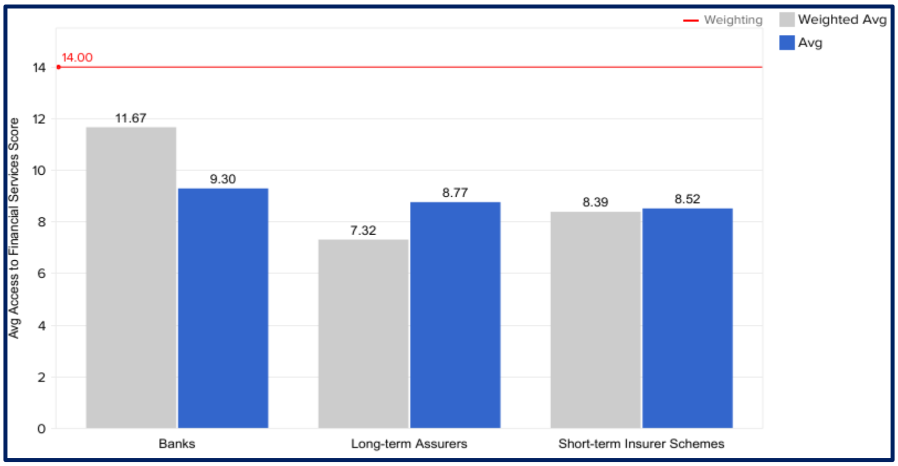
Financial institutions are increasingly relying on mobile technologies to provide low income earners with secure access to financial services. The success story of mobile payments in South Africa for the unbanked is demonstrated by the service provided by Capitec Bank from 2006 in partnership with Shoprite Checkers and Pick n Pay. Capitec partnered with retailers to offer a money market transfer service that can be accessed nationwide at the branches of these retailers. Other banks followed by offering similar products: FNB's eWallet; ABSA's Cash-send; Standard Bank's Instant Money Transfer with Spar; Nedbank and Vodacom's M-Pesa (CGAP, 2010; Finmark Trust, 2011). Stakeholders comment that the banks' Access scorecard is silent on the tools to drive savings behaviour despite the fact that South Africa has a low level of savings and high levels of indebtedness.

The long-term assurer's Access scorecard measures access to life products and reflects mainly funeral policies and credit life policies. The short-term assurer's Access scorecard measures the number of policies and the maximum sum insured for a range of personal and commercial policies, such as motor, home, business and other none-life related covers.

According to SAIA, this has remained a challenging element for the industry due to the nature of service purchased, particularly by the intended Access market. It is a challenge for the industry to penetrate the low income market, as the potential clients may either not have assets that they consider insurable, do not have disposable income for insurance premiums, or are not able to justify paying for an eventuality that may not even occur. However, the sector is continuing to evaluate potential solutions that will assist it to provide the low income market with appropriate and affordable products. The sector therefore engages in industry specific consumer education initiatives in order to create awareness about the importance of short-term insurance for low to middle income earners. The intention is that this will help to create an appetite for the products offered by the industry.

Wholesalers, i.e., financial entities that do not provide financial products and services to individual buyers, are exempt from this scorecard element. The Council has the discretion to exempt retailers whose financial products and services are unsuitable for low-income buyers.

FIGURE 26 - AVERAGE ACCESS TO FINANCIAL SERVICES SCORE BY SUB-SECTOR, 2016

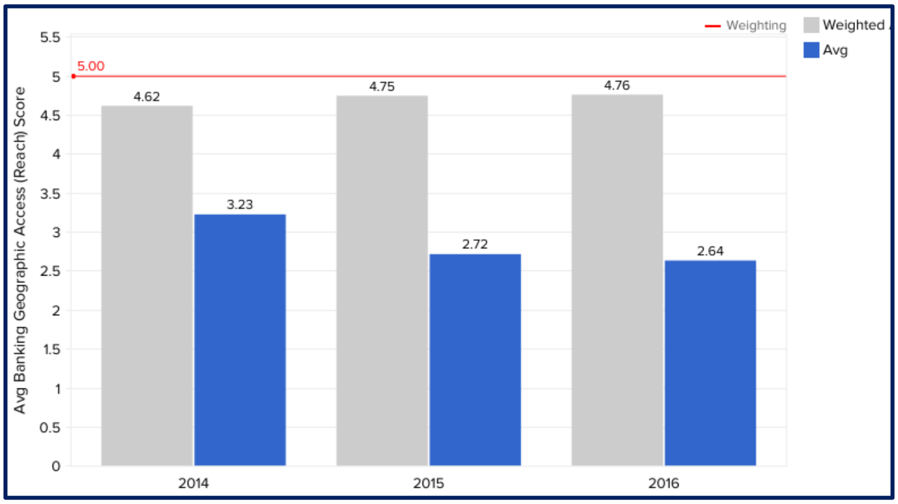


11.2 BANKING

Access to Financial Services for the Banking industry Scorecard		
FS801 - Access to Financial Services for the Banking industry	**Targets**	**Points**
Geographic Access (Reach)		5
Transaction point - 50% or more of households fall within LSM 1-5	85%	1
Service point - 50% or more of households fall within LSM 1-5	70%	1
Sales point - 50% or more of households fall within LSM 1-5	60%	2
Electronic Access - Individuals earning less than R5,000 per month increasing by CPIX p.a	19% of account holders within the target market	1
Banking Densification - Individuals in the LSM 1-5 group nationally	1, 500	2
Product related access - Individuals in the LSM 1-5 group nationally	12,370,082 active accounts	3
Affordable Housing Origination - Qualifying measures as per metrics agreed		2
Consumer Education - Qualifying individuals in the LSM 1-8 group	2012=0,25% 2013=0,3% 2014=0.4%	2
Total Points		**14**

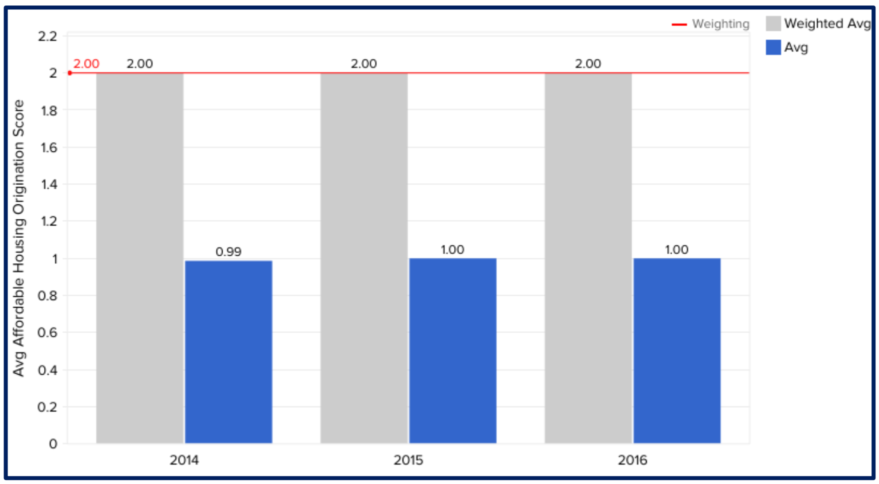
11.2.1 Banking Geographic Access

FIGURE 27 - AVERAGE BANKING GEOGRAPHIC ACCESS SCORE



11.2.2 BANKING AFFORDABLE HOUSING ORIGINATION

FIGURE 28 - AVERAGE BANKING AFFORDABLE HOUSING ORIGINATION SCORES



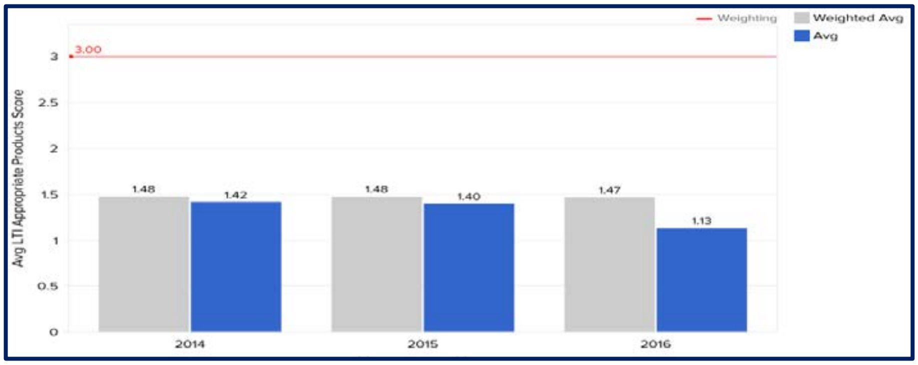
11.3 LONG TERM ASSURANCE

Access to Financial Services for the Long-term Insurance industry Scorecard	Targets	Long-term Insurance Industry
FS802 - Access to Financial Services for the Long-term Insurance industry	**Target**	**Points**
Appropriate products per developed standards	1	3
Market penetration industry target to be phased in over the period 2011 - 2017	5,739,023	7
Transactional access - adult population within the target market	80%	2
Consumer education	2012=0,25% 2013=0,3% 2014=0.4%	2
Total Points		**14**

11.3.1 LONG-TERM ASSURANCE APPROPRIATE PRODUCTS

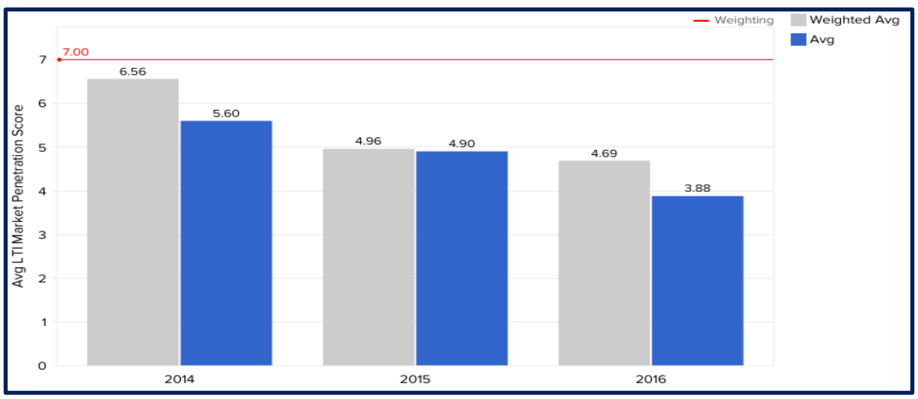
Scores for 2015 showed significant improvement on 2013 sub-sector averages. Appropriate Products is the weakest area of investment, with the largest number of access products being funeral policies.

FIGURE 29 - LONG-TERM ASSURANCE APPROPRIATE PRODUCT SCORES



11.3.2 LONG-TERM ASSURANCE MARKET PENETRATION

FIGURE 30 – LONG-TERM ASSURANCE MARKET PENETRATION SCORES



11.4 SHORT-TERM INSURANCE

Access to Financial Services for the Short-term Insurance industry Scorecard	Targets	Short- term Insurance Industry
FS804 - Access to Financial Services for the Short-term Insurance industry	**Industry Targets**	**Points**
Appropriate Products	**8**	2
Insurance Policies		10
Motor vehicle - maximum sum insured R60,000	6%	
Household contents - maximum sum insured R100,000	6%	
Property / Homeowners - maximum sum insured R350,000	3%	
Black EMEs, QSEs and Co-operatives - equipment, contents - maximum sum insured R100,000	15%	
Black EMEs, QSEs and Co-operatives QSE's -premises - maximum sum insured R500,000	10%	
Agriculture - maximum sum insured R35 million for property, R500,000 for equipment, R100,000 for produce	6%	
Livestock - maximum sum insured R600,000	6%	
Consumer Education	2012: 0.25%; 2013: 0.30%; 2014: 0.40%	2
Total Points		**14**

11.4.1 SHORT-TERM INSURANCE APPROPRIATE PRODUCTS

FIGURE 31 - SHORT-TERM INSURANCE APPROPRIATE PRODUCTS SCORES

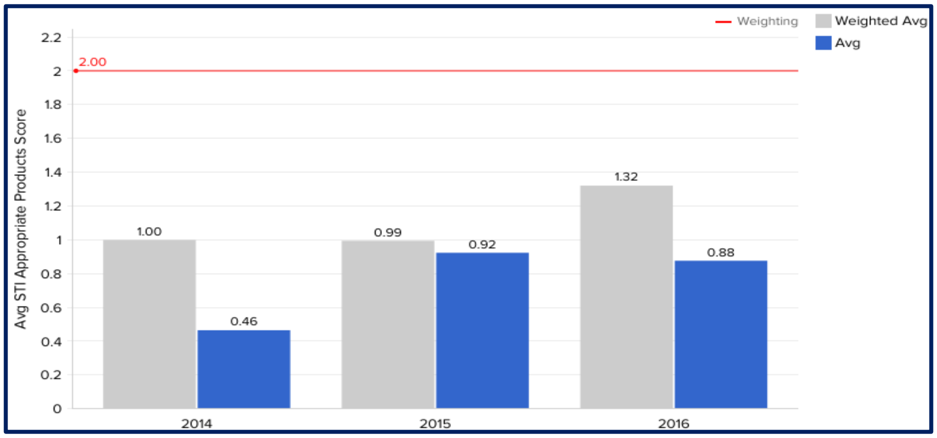


FIGURE 32- SHORT-TERM INSURANCE APPROPRIATE PRODUCTS COMMERCIAL LINES

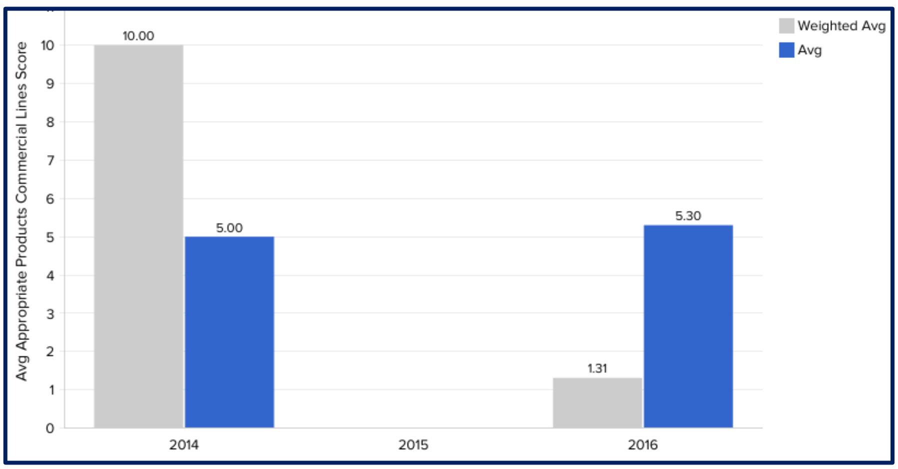
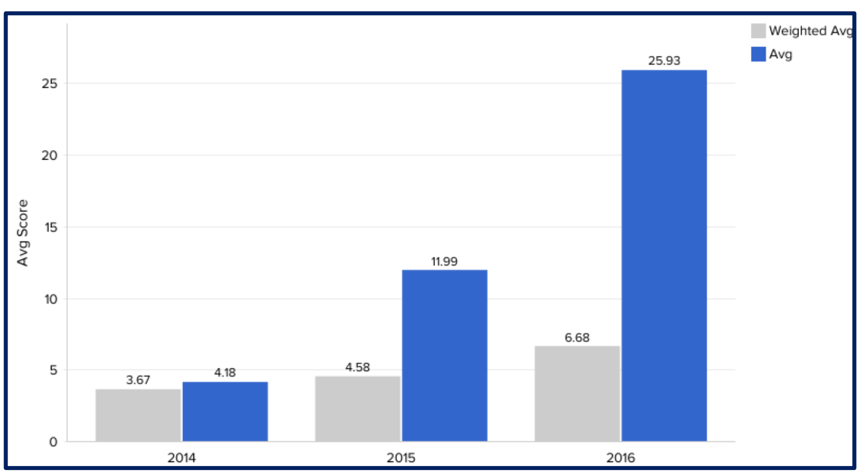


FIGURE 33 - SHORT-TERM INSURANCE APPROPRIATE PRODUCTS PERSONAL LINES



11.5 CONSUMER EDUCATION

Standards for consumer education measurements were finalised only late in 2013 when the sector average was 1.13, and had increased to 1.33 by 2016. According to the reports, banks and stockbrokers made the best progress.

FIGURE 34 - AVERAGE CONSUMER EDUCATION SCORES BY YEAR

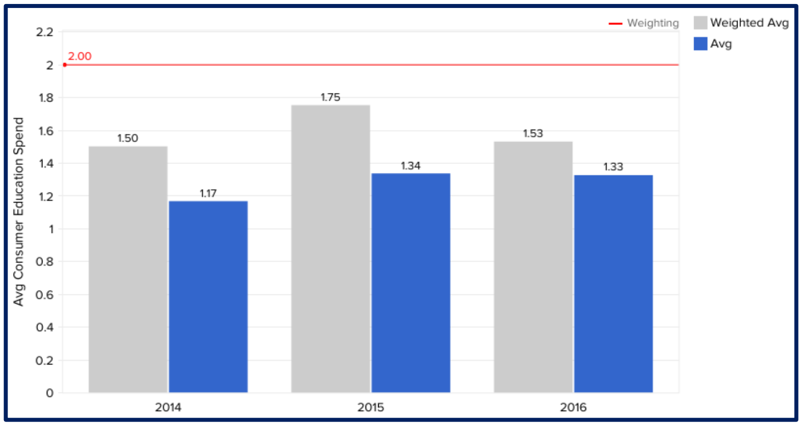
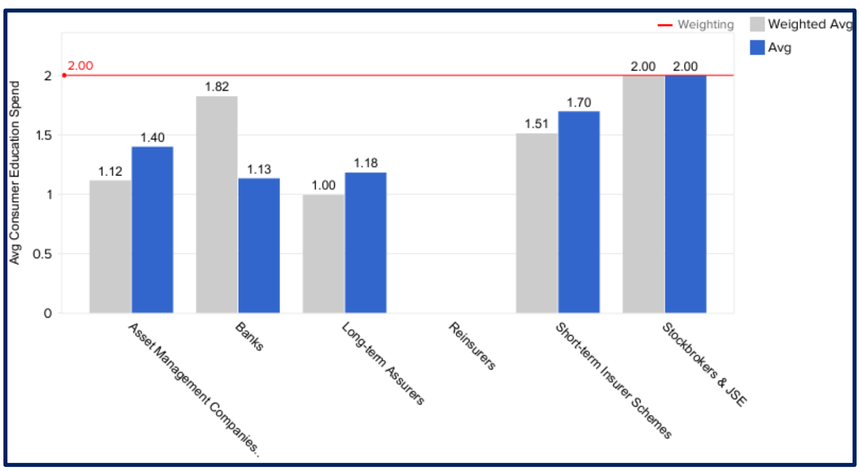


FIGURE 35 - AVERAGE CONSUMER EDUCATION SCORES, BY SUB-SECTOR 2016



SAIA CONSUMER EDUCATION FLAGSHIP PROJECTS

The South African Insurance Association (SAIA) and its members are committed to actively contributing to the principles of sustainable insurance so as to ensure that the short-term insurance industry remains relevant. As an organisation representing the industry, we recognise the vital role that financial literacy and consumer education plays in ensuring this sustainability. In our quest to raise levels of financial literacy and consumer education, we provide various initiatives to consumers of short-term insurance products, especially those from previously disadvantaged backgrounds and the youth throughout the country.

Managing My Finances Financial Education Project

For the year 2016, through our partner – Bright Media, we collaborated with the Department of Basic Education to deliver a schools-based financial education project, "Managing My Finances". This initiative reached a total of 2 735 teachers, who in turn reached between 190 000 and 285 000 learners in all nine provinces. It focused on developing and distributing financial literacy material for Grades 10, 11 and12. Its objectives were:

- To improve the financial capability of learners, through providing ready-to-use resources for their teachers, enabled by face-to-face training and resource packs.
- To provide FET Mathematical Literacy teachers, and hence their learners, with practical classroom lesson units, with a focus on improving Financial Literacy skills.
- To participate in international best practice by working alongside government in schools for financial capability development within the curriculum.
- To ensure reach within communities where schools are under resourced and teachers are most in need of support.
- To strengthen the existing Managing My Finances (CAPS Aligned version) in accordance with recommendations made by the Department of Basic Education as per their findings emanating from the 'Diagnostic Report' of the final Grade 12 examinations of 2015, i.e. any Mathematical Literacy areas that require additional/focused attention by the teachers in 2016.

Highlights of the project included the use of local SME enterprises to supply the lunch for educators, empowering local small providers, including women. Networking opportunities were created for teachers during and after the sessions, and through WhatsApp groups. By collaborating with the Department of Basic Education and provincial departments and teachers, as well as with WITS and UKZN, the project was able to ensure that student teachers received the materials before beginning their work in schools.

Next of Next Week Television Mini-series

Another flagship Consumer Education project was in its third season in 2016, the "Next of Next Week" TV series. The show reached maturity in 2016, and grew to a full 30-minute episode, presented in a mini-series format. The show reached an audience of close to a million viewers per episode and resonated with a younger audience.

The main objective of the show was to influence the attitudes of consumers in the lower to middle income groups towards insurance and financial products in general. The show created considerable demand for information and further sharpened the understanding of member products by the consumers. Research respondents also indicated that their behaviour had been impacted by the show and they were watching their spending patterns more closely and also more inclined to seek services from financial service providers in future.

TABLES

FIGURES