

THE BANKING  
ASSOCIATION  
SOUTH AFRICA

# 2023 TRANSFORMATION REPORT



**krutham**  
An Intellidex Company

# About this report

This report is produced by Krutham (Pty) Ltd

1st Floor, Building 3  
Inanda Greens Office Park  
54 Wierda Road West  
Sandton  
South Africa

Email: [mail@krutham.co.za](mailto:mail@krutham.co.za)  
Web: [www.krutham.co.za](http://www.krutham.co.za)  
Tel: +27 (0)10 072 0472

Krutham was commissioned by the Banking Association South Africa (BASA) to produce an independent report from data supplied from member banks.

The report reflects transformation in the banking industry and its progress towards achieving the targets set out in the Financial Sector Code.

The publication serves as a report to society on the contribution of the banking industry to the development of the country, and as a platform for thought leadership on transformation.

It aims to serve as an authoritative annual reference book of data on banks and empowerment, complemented by a narrative that analyses and explains trends in the statistics.

## Disclaimer

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## Acknowledgements:

Editor: Colin Anthony  
Data & analysis: Lameez Alexander  
Researcher: Zonke Zwane-Sebonyane  
Design & layout: Eleonora Del Grosso

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## Keeping better score

*The B-BBEE scorecard does a good job tracking a bank's investments in empowerment, but it is the quality of the outcomes that counts.*

*By Bongilewe Kunene*

Ultimately, South African banks will reach the transformation and empowerment targets in the Financial Sector Code (FSC). The Transformation in Banking Report sets out with audited numbers the continuous year-by-year improvement in bank's ownership, employment equity and empowerment financing, among others.

In the year under review (2021), banks already exceeded their targets in several of these critical transformation and empowerment measures. It is also clear from the report that where banks are lagging on their targets, it is not because of a lack of commitment.

As has been pointed out before,

the past few years' difficult economic and business conditions have made it more challenging to accelerate the achievement of FSC targets that depend on growth in targeted lending and employment opportunities, among others. Besides persistent volatility in the global economy, South African banks have had to contend with a stagnant domestic economy. Severe load-shedding and the deterioration of vital economic infrastructure through corruption, theft and vandalism caused extensive disruptions to businesses and households. These challenges are set to remain as the South African Reserve Bank (SARB) forecasts only 0.2% gross domestic product growth in 2023.

Banks share the view that sustainable transformation and empowerment are necessary to spur economic growth and development in South Africa. BASA has long advocated that inclusive economic growth is the fastest and most effective way to transform the economy and empower the majority of South Africans. Economic reforms – like reducing unnecessary red tape and policy uncertainty, and opening the energy and logistics markets for effective, genuine partnerships with the private sector – are necessary to boost growth and opportunities for empowerment.

Despite the stagnant economy, the Sanlam Transformation Gauge 2023 report – which measures

transformation at national and sectoral levels – places the financial sector on black economic empowered (BEE) level 2 against a national average of all industries at level 3. (BEE level 1 is most empowered.)

The major commercial banks, Absa, Standard Bank, Nedbank and Firstrand are all level 1.

Since 2021, the year covered in this report, there have been two major deals by banks. Capitec announced in February 2022 that it would issue R1 billion in new shares for purchase by qualifying permanent employees from previously disadvantaged backgrounds. In March 2023, Absa announced a R10 billion BEE transaction that will benefit black South Africans and employees. These two deals indicate that the banking industry's black ownership score will inevitably increase in the coming years.

The Transformation in Banking Report found that in 2021:

#### Ownership

- Black voting rights in banks reached 32%, against a target of 25%; and
- Black economic interest reached 26%, against a target of 25%.

#### Employment Equity

There were improvements in the percentage of black managers across all management levels in 2021, but banks remained short of their targets.

- Black directors constituted 39% of bank board members (unweighted), against a target of 50%. The marginal drop of one percentage point from the previous year is in part due to the drop in the total number of bank board members (from 210 to 190);
- The percentage of black top senior managers increased by eight percentage points to 48% but fell short of the target of 60%; and

- Junior managers remained at 87%, against their target of 88%.

There is a strong pipeline of black junior and middle managers, indicating that senior and top senior ranks will inevitably be transformed.

#### Women:

- Women's voting rights reached 15%, ahead of a target of 10%;
- Women's economic interest in banks reached 12%, against a target of 10%;
- Black women constituted 23% of all bank board members, against a target of 25%;
- The percentage of black women in top senior management increased by six percentage points to 21%; and
- However, there were declines in the percentage of women in other management levels, with women in junior management dropping to 48% from 59% (a net effect of incremental changes in each bank), but still ahead of the 44% target.

#### Empowerment Financing

Empowerment financing increased by R7 billion to R279 billion in 2021.

The financial sector scorecard is essential for tracking banks' investments in transformation, empowerment financing and consumer education. However, the scorecard does not always effectively measure the outcomes of transformation and empowerment initiatives.

There is a strong case to shift from measuring inputs to measuring outcomes. While this could be difficult, it is essential as it helps ensure that programmes are making a difference. Measuring outputs will help programmes to operate efficiently, have a genuine impact and account to their stakeholders. Both input and output measurements should be carefully and sustainably

incorporated into future transformation policies, which must be sustainable, practical and serve South Africa's majority.

There is a strong perception that transformation in the workplace lags the scores on B-BBEE certificates. Politically, the pressure has been ratcheting up, manifesting in new legislation, including:

- The Employment Equity Amendment Act 2020 (EEA Act) was signed into law by President Cyril Ramaphosa on 12 April this year. The legislation appears to give the state the power to determine, for each company, what percentage of its staff must be African, Indian, Coloured and white. While BASA supports the legislation's aims of giving equitable representation in the workplace to historically disadvantaged people, it is not practical nor likely to be constitutional to assign racial quotas to companies. BASA is engaging with the Department of Employment and Labour to address its concerns with the act.
- The draft public procurement bill envisages preferential procurement for black-empowered businesses. It provides for preference for specific categories of people, including setting aside contracts for them. This envisages preferential procurement with a points system for black-empowered businesses and measures to provide preference for specific categories of people as well as for designated economic sectors (such as local manufacturing and services), including measures to set aside contracts for those groups as well as measures to subcontract to specific categories of people or businesses as a precondition for bidding.

However, more legislation and regulation, which often cannot be enforced, is not likely to achieve the desired outcomes. Much of what impedes banks' transformation and empowerment programmes are often macroeconomic challenges.

The FSC Charter review – a process that began in 2018 – must be completed to see what successes can be built on and to address shortcomings. Resolving policy and ideological logjams and weak administration in the Financial Sector Transformation Council (FSTC) is crucial if it is to facilitate meaningful discussions about

transformation in the financial sector. These can only be resolved with the necessary urgency if a spirit of good faith, pragmatism and productive engagement can be restored among the council's stakeholders.

The World Bank Group considers financial inclusion a key enabler to reduce extreme poverty and boost shared prosperity. Access to appropriate and affordable financial services facilitates day-to-day life, helping families and businesses plan for everything from long-term goals to unexpected emergencies. As accountholders, people are more likely to use other

financial services, such as credit and insurance, to start and expand businesses, invest in education or health, manage risk and weather financial shocks. Banks are comfortably ahead of their targets to provide access to accounts and transaction and service points for South Africans.

This is further evidence that the business of banking is inherently developmental and a stable, sustainable banking system is vital for inclusive economic growth and the social and economic advancement of the country. ■

*Kunene is MD of BASA.*

## Stacking up

Transformation within the financial sector compares well with other sectors.

- The 2023 Sanlam Transformation Gauge, reflecting the scores of 14,542 companies including 1,076 financial companies, places the sector on recognition level 2 while the national average is level 3.
- The FSTC report for 2019/20 reflects that seven banks achieved level 1 recognition, with one bank on level 2 and another on level 3. The rest were level four or higher.
- The Department of Labour's Commission for Employment Equity report shows that nationally, 62.95% of top management is occupied by white people. For banks, at both top senior and senior levels, 48% of managers are black people. ■



# Highlights

Ownership levels increased significantly in 2021 with black voting rights now at 32% from 27% in 2020



**Black women voting rights climbs to**

**15%** FROM (12%)

*The total number of directors falls for the second successive year*

*The percentage of black board members drops to*

**39%**



*Empowerment financing continued its upward trajectory reaching*

**R279bn**

*Spending on skills development continues its year-on-year growth but growth, reaching*

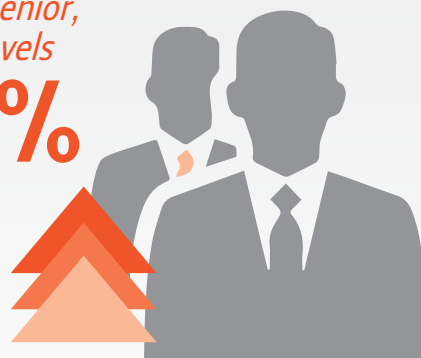
**R4.9bn**

*2021; however, socioeconomic development has declined*

*There were improvements at top senior, senior and middle management levels*

*Junior management is the most transformed at*

**87%**



# Methodology

- Data supplied by the banks for 2021 were based on the Financial Sector Code scorecard methodology.
- Ownership data were weighted by banks' total assets to determine industry aggregates.
- We report on four years of data for each indicator: 2018-2021. Year-ends are December for all banks except Capitec (Feb), Finbond (Feb), Investec (March), Bidvest (June) FirstRand (June), Sasfin (June),
- Some data were restated for certain banks to ensure year-on-year comparability.
- Ubank's figures are no longer included separately following its incorporation into African Bank.
- While the number of participants may change each year and figures may be restated, this remains a credible reflection of the banking sector's progress in meeting targets set out in the Financial Sector Code.

## Restatements of prior year data

- Data from previous years were restated in instances where banks gave clear reasons. When changes were submitted with no reason, adjustments were not instituted.

**Changes:** Sasfin preferential procurement: restatements on prior years were due to Sasfin aligning with final audited figures.

Submitting banks for 2021		Banks included in historical data 2018-2020	
1	Absa Group	1	Absa Group
2	African Bank	2	African Bank
3	Al Baraka Bank South Africa	3	Al Baraka Bank South Africa
4	Bank of Taiwan South Africa	4	Bank of Taiwan South Africa
5	Bidvest Bank	5	Bidvest Bank
6	Capitec Bank	6	Capitec Bank
7	China Construction Bank South Africa	7	China Construction Bank South Africa
8	Citi South Africa	8	Citi South Africa
9	Finbond Mutual Bank	9	Finbond Mutual Bank
10	FirstRand	10	FirstRand
11	Grindrod Bank	11	Grindrod Bank
12	Habib Bank AG Zurich (HBZ)	12	Habib Bank AG Zurich (HBZ)
13	HSBC South Africa	13	HSBC South Africa
14	Investec	14	Investec
15	Ithala	15	Ithala
16	Nedbank	16	Nedbank
17	Sasfin Bank	17	Sasfin Bank
18	Standard Bank	18	Standard Bank
19	TymeBank	19	TymeBank
		20	Ubank (now part of African Bank)

# Scores



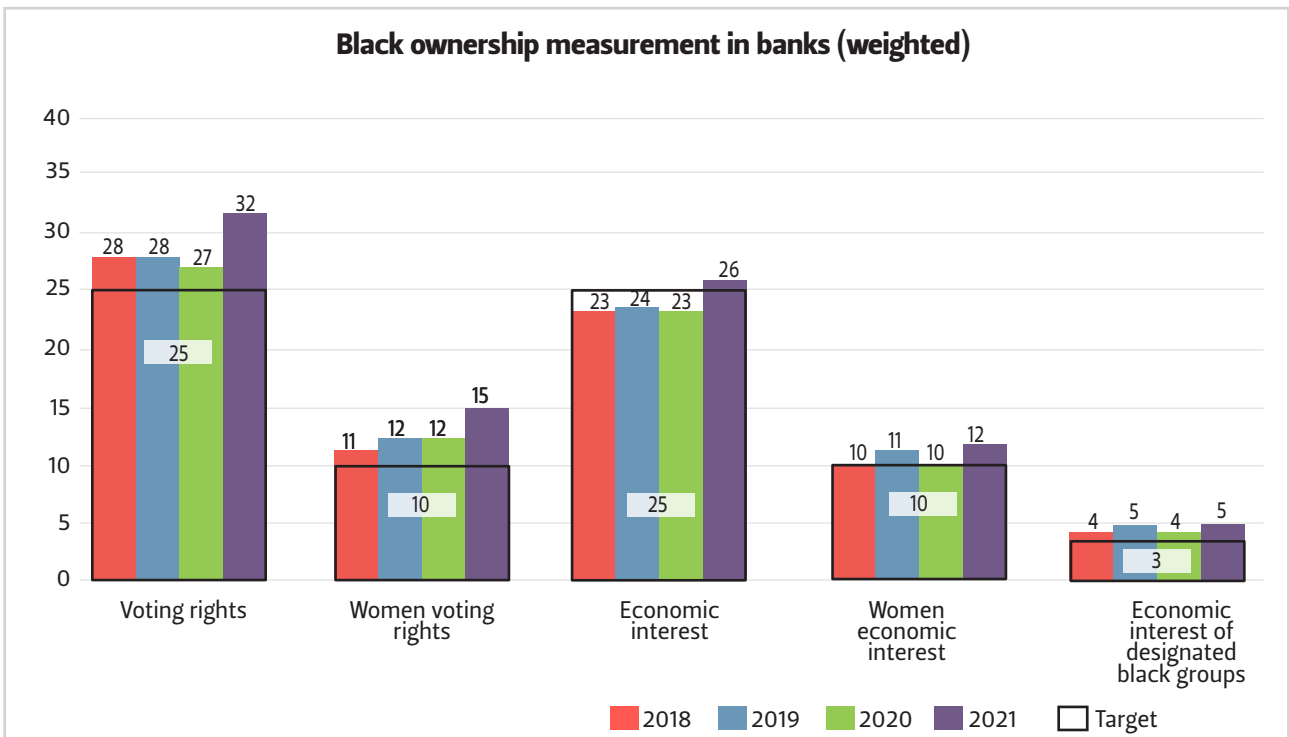
## Ownership

- Ownership levels increased significantly on all measures, exceeding the FSC targets.
- While numerous banks recorded incremental increases

in black voting rights, the main driver of the overall increase from 27% to 32% was due to Capitec’s BEE deal. The change was included in Capitec’s BEE verification certificate issued

in February 2022, which covers 2021.

- Weightings are based on each bank’s proportion of total assets across all banks.

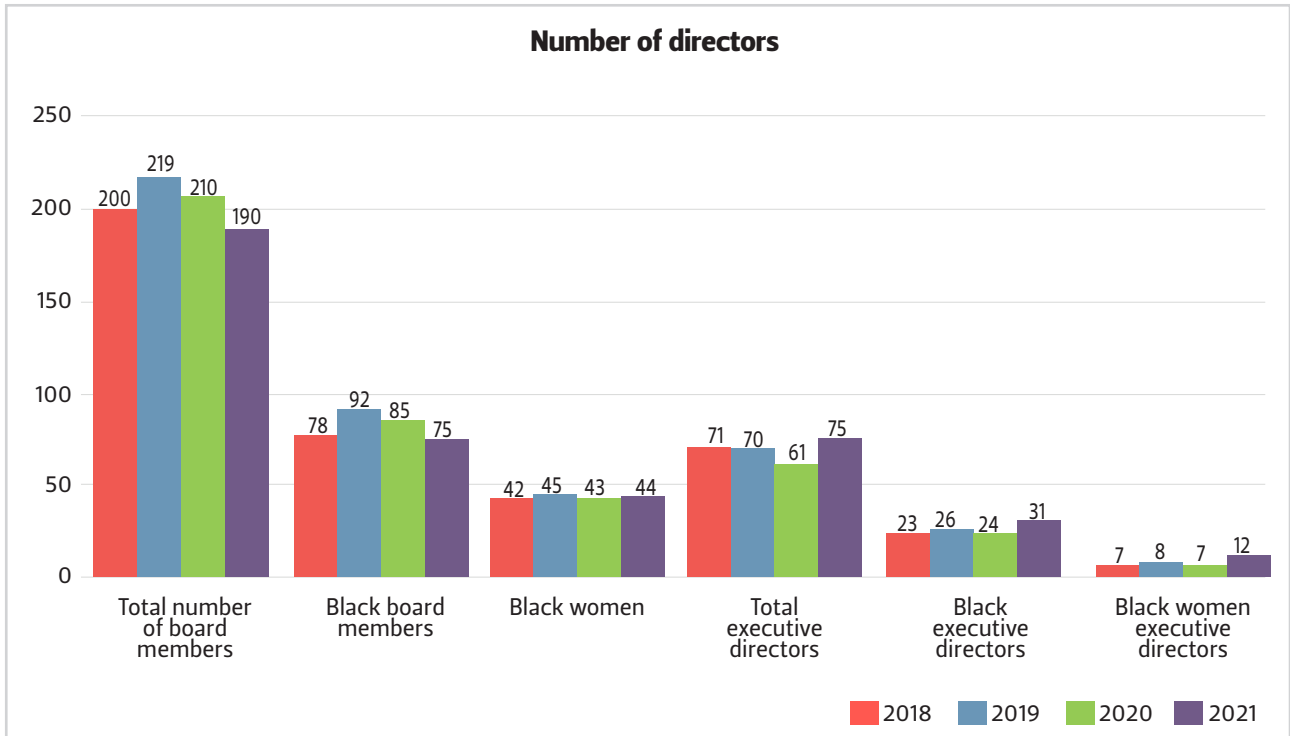


Due to banks’ financial reporting cycles, this report covers 2021. Subsequently there has been a major black economic empowerment deal which is likely to see a material improvement in ownership scores.

In March 2023, Absa Group announced a R10bn

B-BBEE transaction which sees 7% of the total group shareholding allocated to structures that will benefit ordinary black South Africans through a corporate social investment trust and employees through a staff trust.

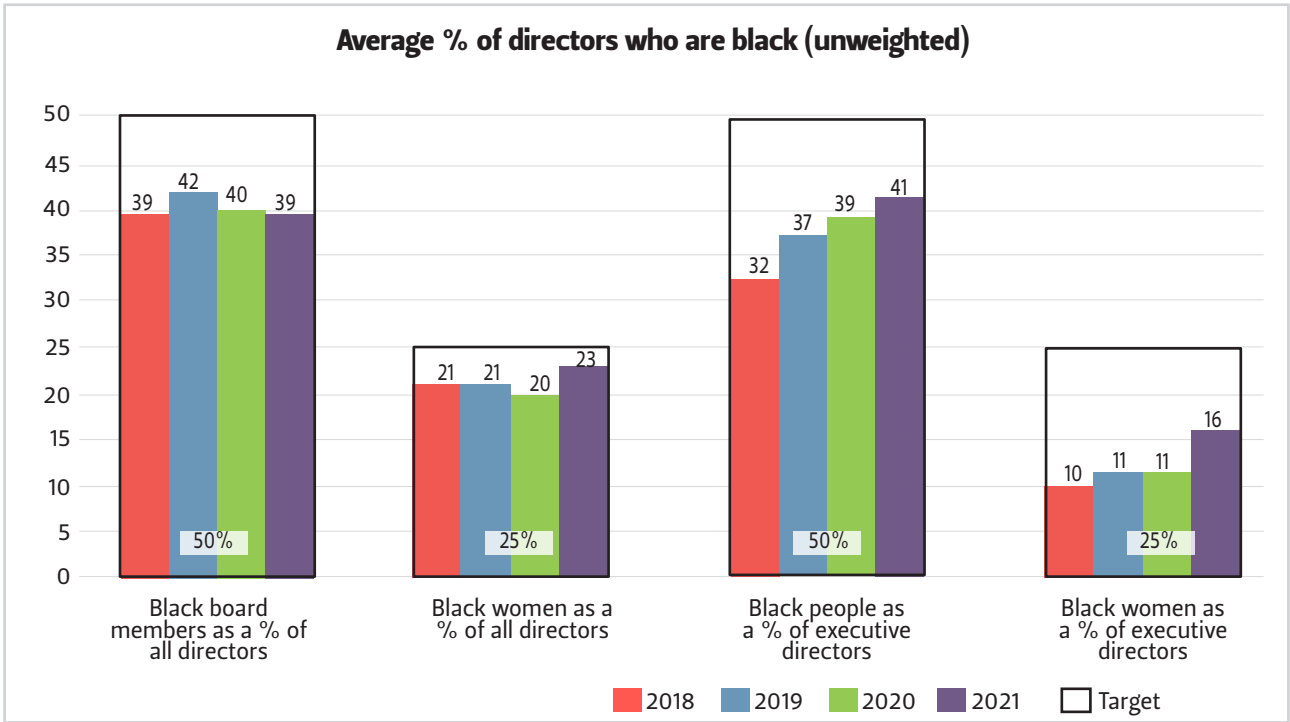
# Management



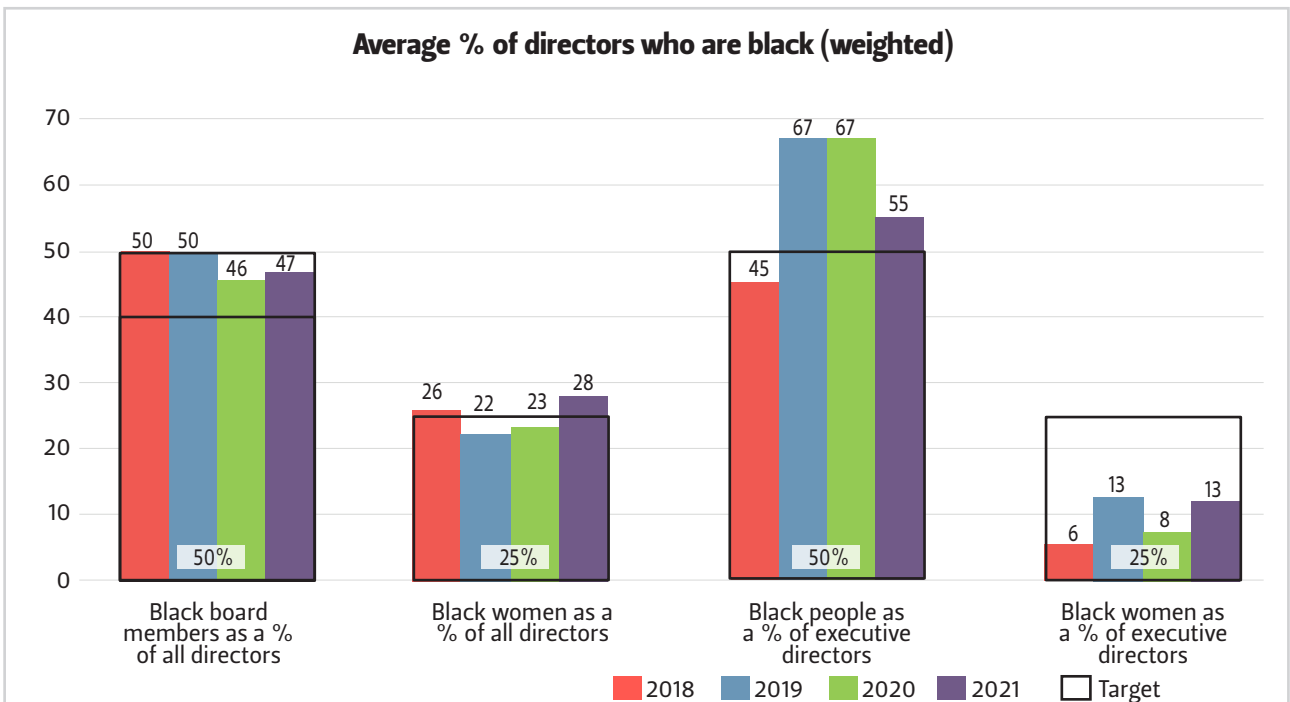
- The total number of board members has decreased considerably. This is partly due to the exclusion of Ubank after being incorporated into African Bank and a reported decrease in the number of board members from other banks.
- However, there has been growth at executive director level.

## Number of banks at or exceeding director targets

	2018	2019	2020	2021
Banks with more than 50% black board members as a percentage of all directors	5	6	6	8
Banks with more than 25% black women directors	10	8	9	11
Banks with more than 50% black executive directors	11	7	10	10
Banks with more than 25% black women executive directors	4	4	3	4



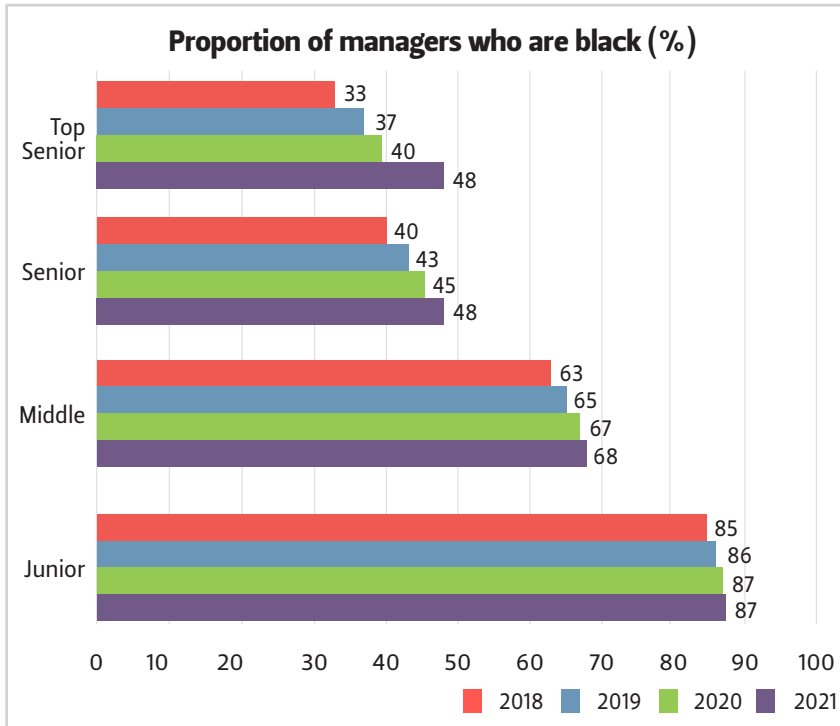
- All categories of management control remain behind targets on an unweighted basis.
- Black board members as a percentage of all directors regressed for the second consecutive year but black women improved, both as a percentage of all directors and of executive directors.



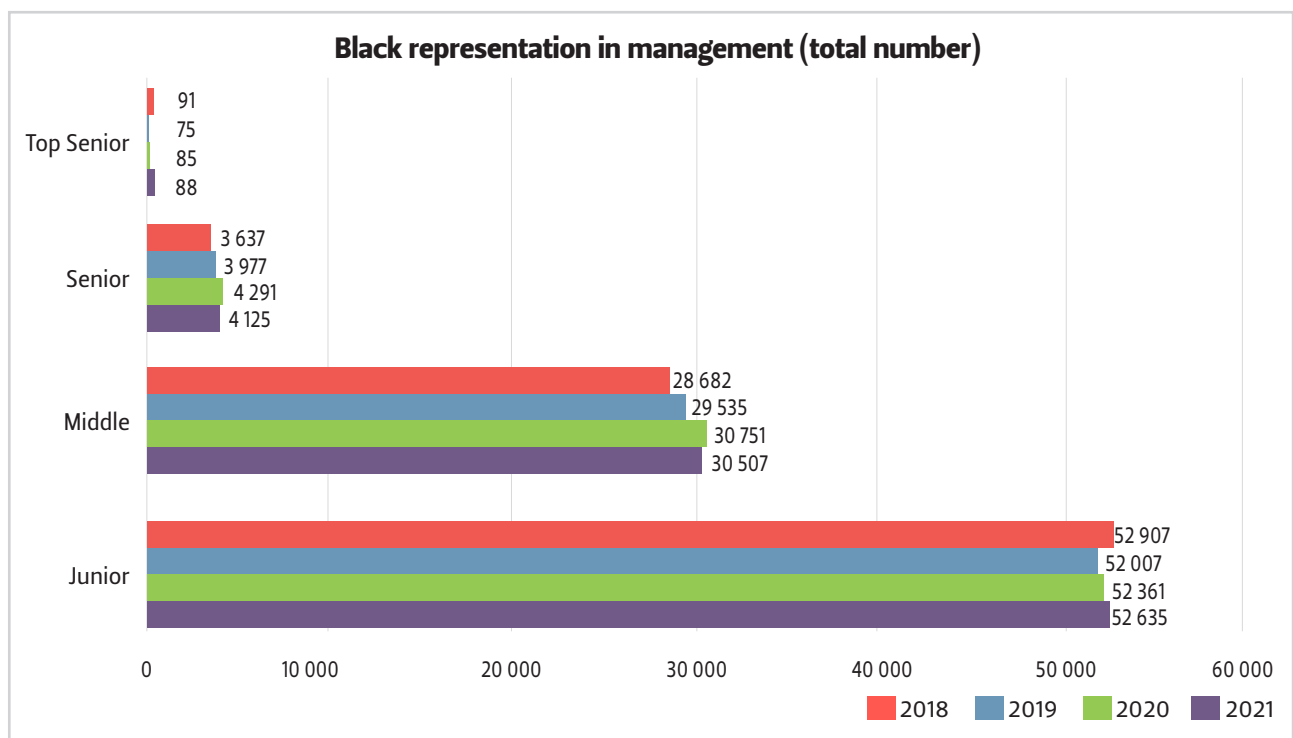
- On a weighted basis, there was growth in the percentage of black board members including black women directors.
- The percentage of black executive directors drops sharply from last year while it increases by five percentage points for black women.
- Weightings are based on each bank's proportion of total assets across all banks.



# Management control



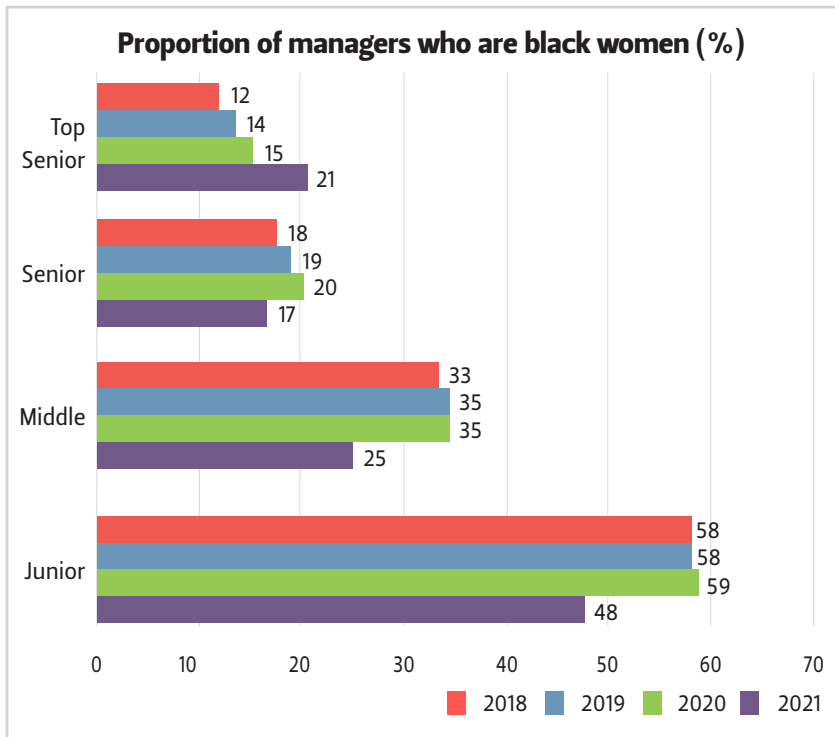
- There were improvements across all management levels in 2021, with growth of eight percentage points at top senior level.
- Banks remain behind targets on all levels, though junior management is only one percentage point off target:
  - Top senior: 60%
  - Senior: 60%
  - Middle: 75%
  - Junior: 88%



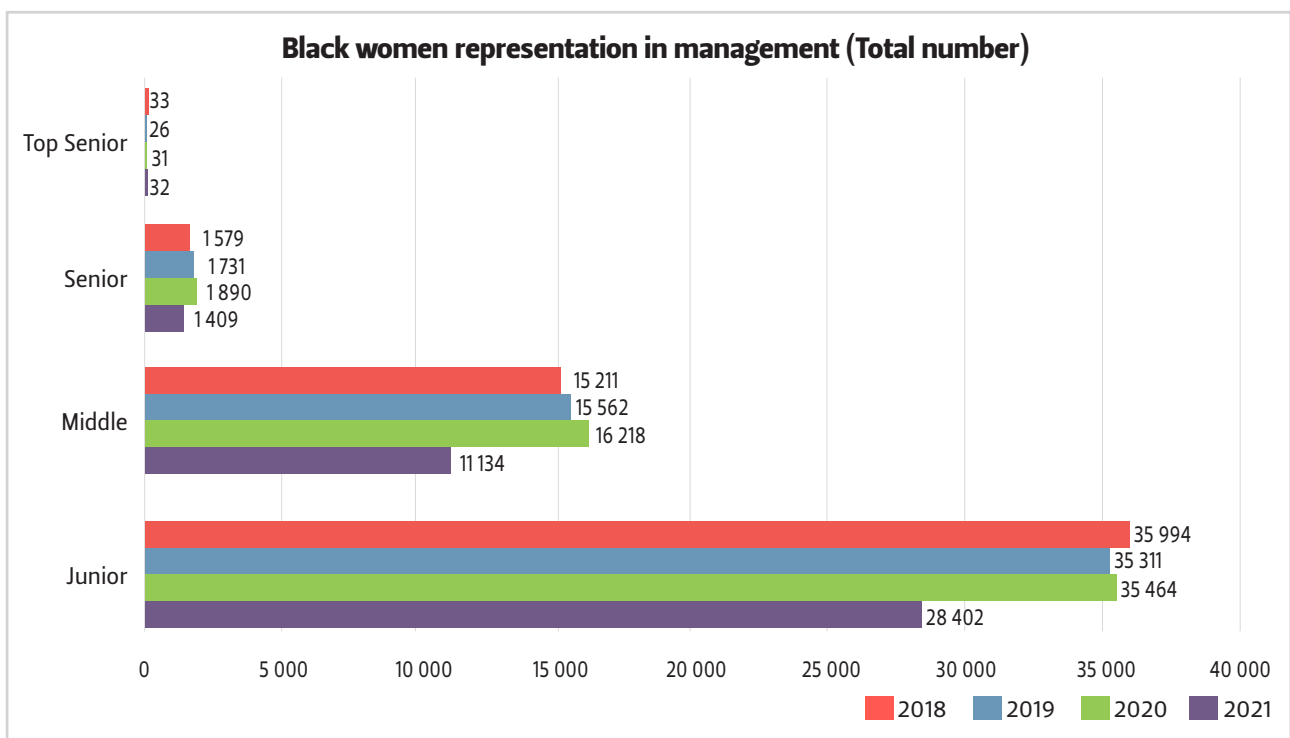
- The total number of black representation declined at senior and middle levels.
- Total across all management levels: 87,355



## Management control: black women



- There were declines for women across all management levels in 2021, except at top senior level with a growth of six percentage points.
- FSC targets for black female employees:
  - Top senior: 30%
  - Senior: 30%
  - Middle: 38%
  - Junior: 44%

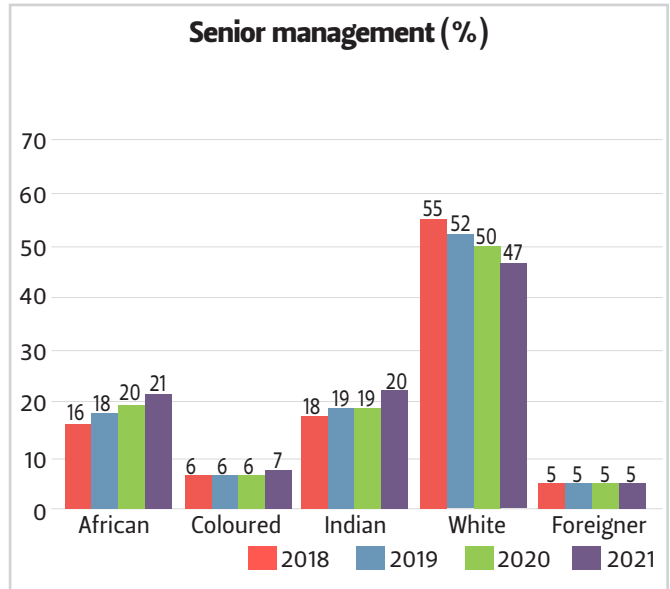
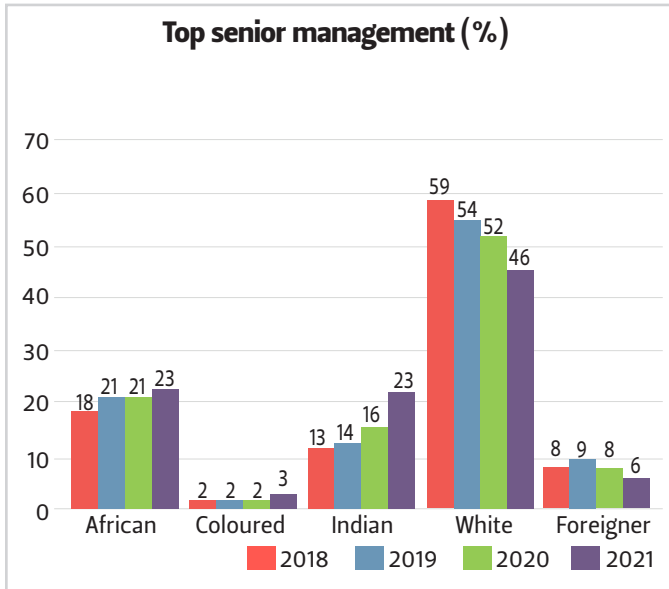


- The total number of black women representation declined significantly at all management levels with only a slight increase at top senior from 31 to 32 black women.
- Total across all management levels in 2021: 40,977

## Detailed breakdown of management

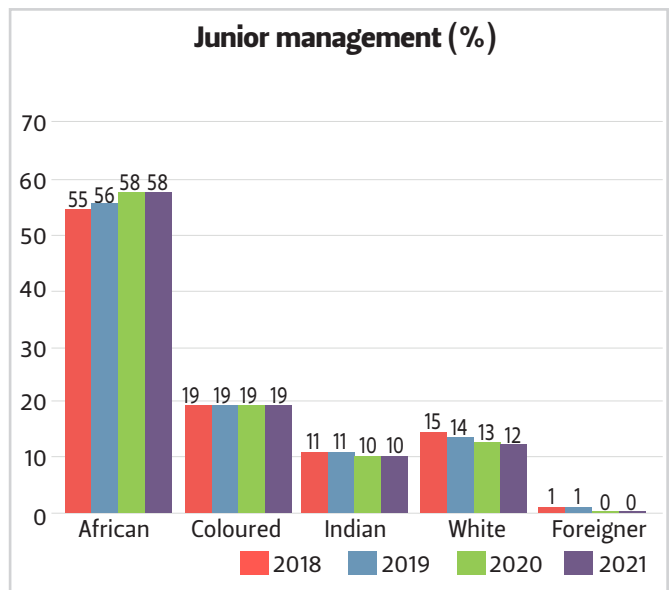
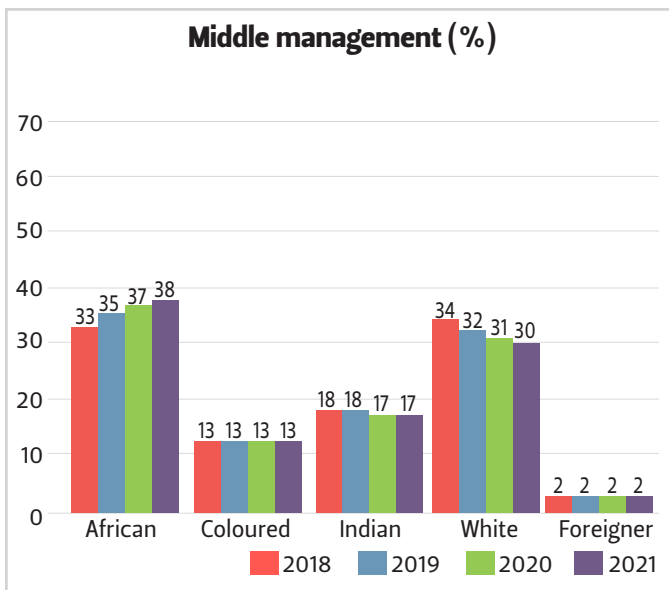
■ **Top senior:** White managers dominate top senior management despite the drastic year-on-year decline.

■ **Senior:** White managers also dominate at this level with a similar decreasing trend, with slight gains for the other groups.



■ **Middle management:** Black Africans have the highest representation in middle management, having surpassed white managers in 2019.

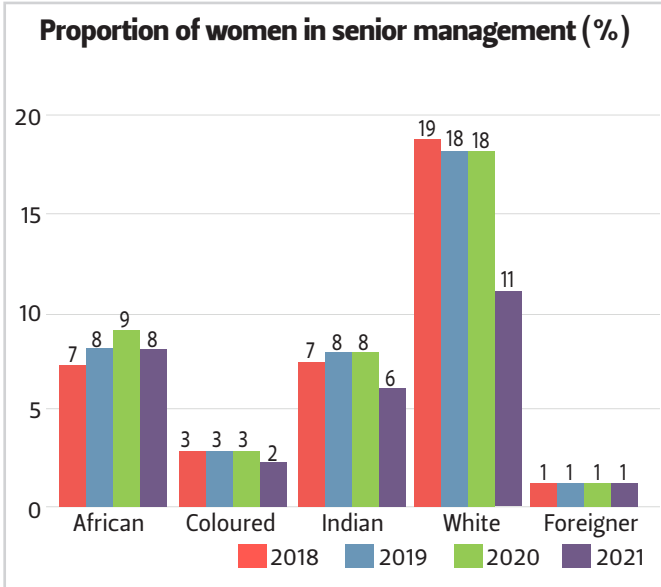
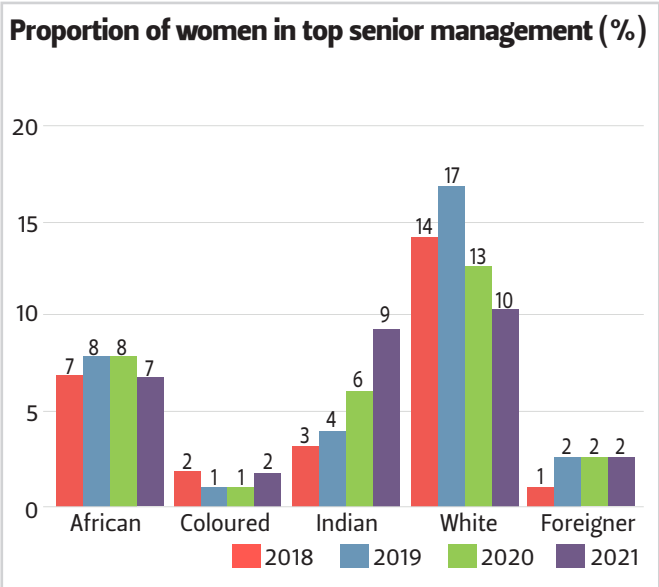
■ **Junior management:** Black Africans dominate junior management and there are more Coloured junior managers than white.



# Detailed breakdown of women in management

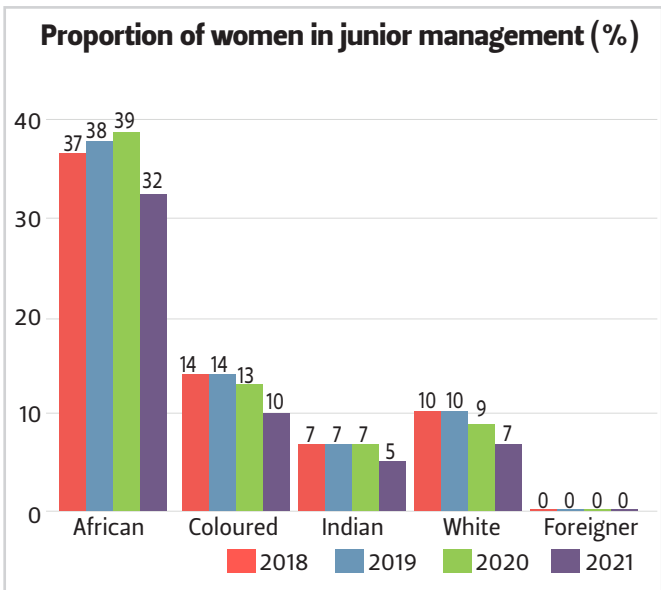
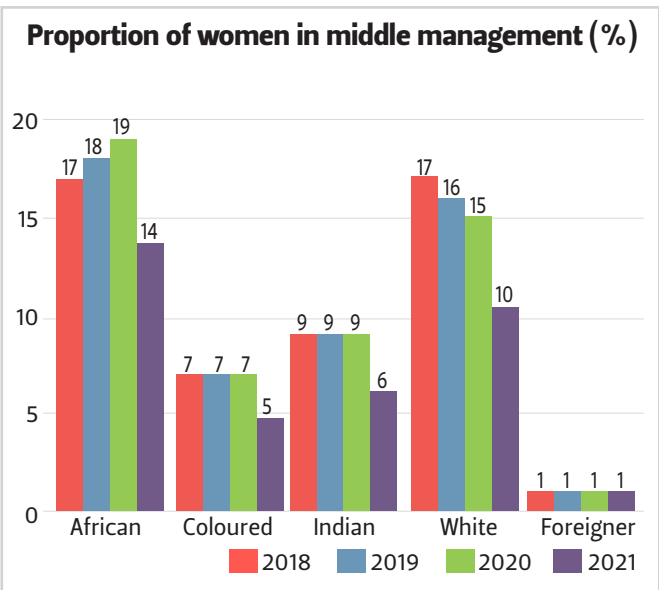
■ **Top senior:** White women are in the majority at the top senior level of management despite their year-on-year decline. Black African women retain the third highest proportion with 7%. Indian women overtook African women in 2021.

■ **Senior:** White women are also in the majority at this level but with a drastic decline in 2021. Other categories have also fallen.



■ **Middle management:** Black African women have the highest representation in middle management despite a sharp decline of women middle managers across all race groups in 2021.

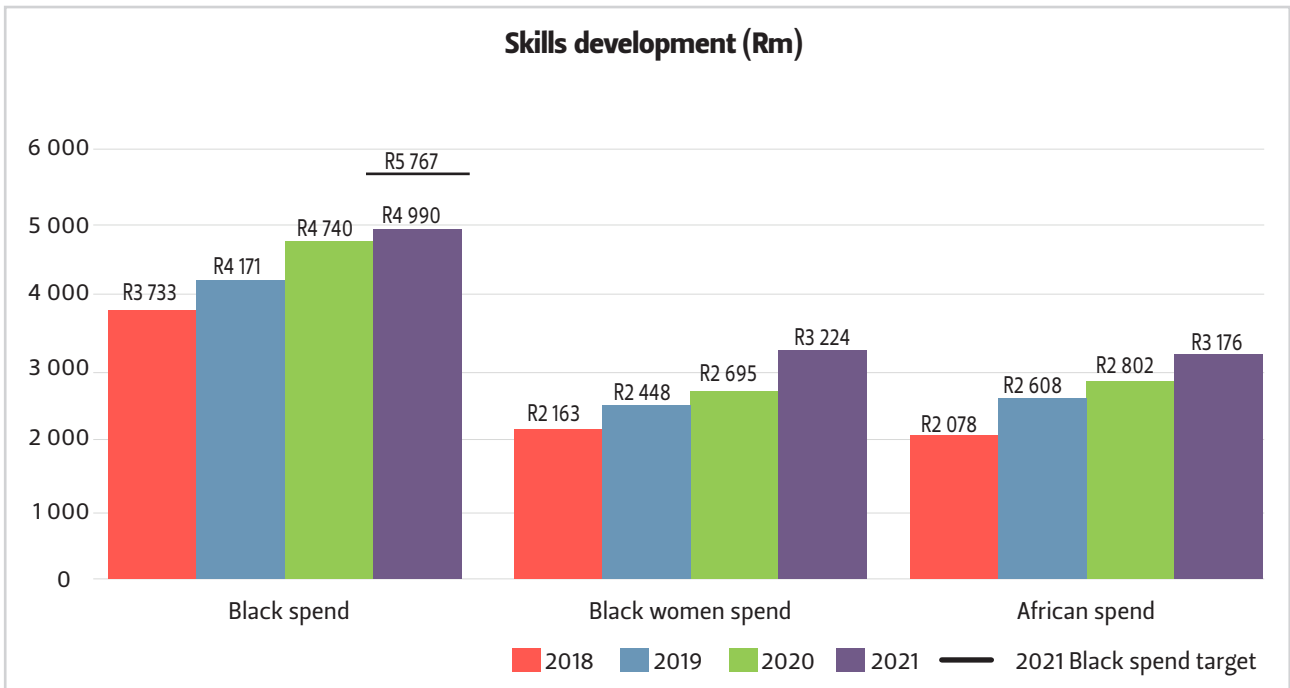
■ **Junior management:** Black African women dominate junior management.



All percentages rounded off



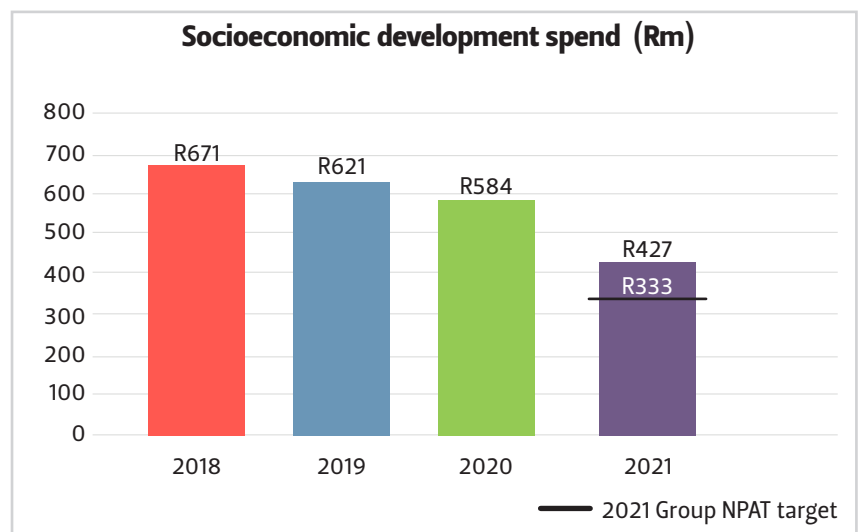
## Skills development



- Banks have increased spending across all categories for four consecutive years.
- However, if measured against the generic codes' target of 6% of leviable payroll, banks are 15,5% behind target.

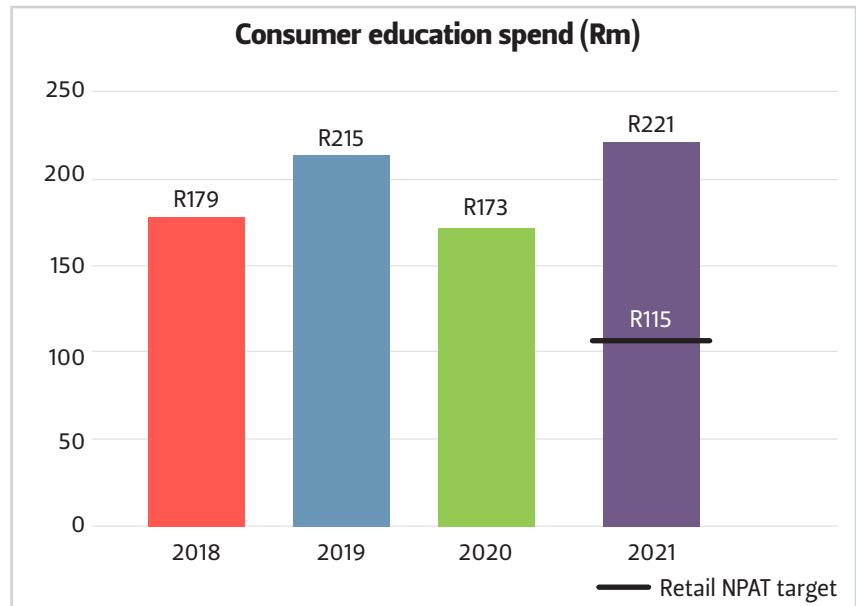
## Socioeconomic development

- A sharp drop in socioeconomic spending this year continues a downward trend that began before the onset of Covid-19
- Spending in 2021 is still above target.
- The 2021 target is 0.6% of banks' 2020 NPAT at R333m.

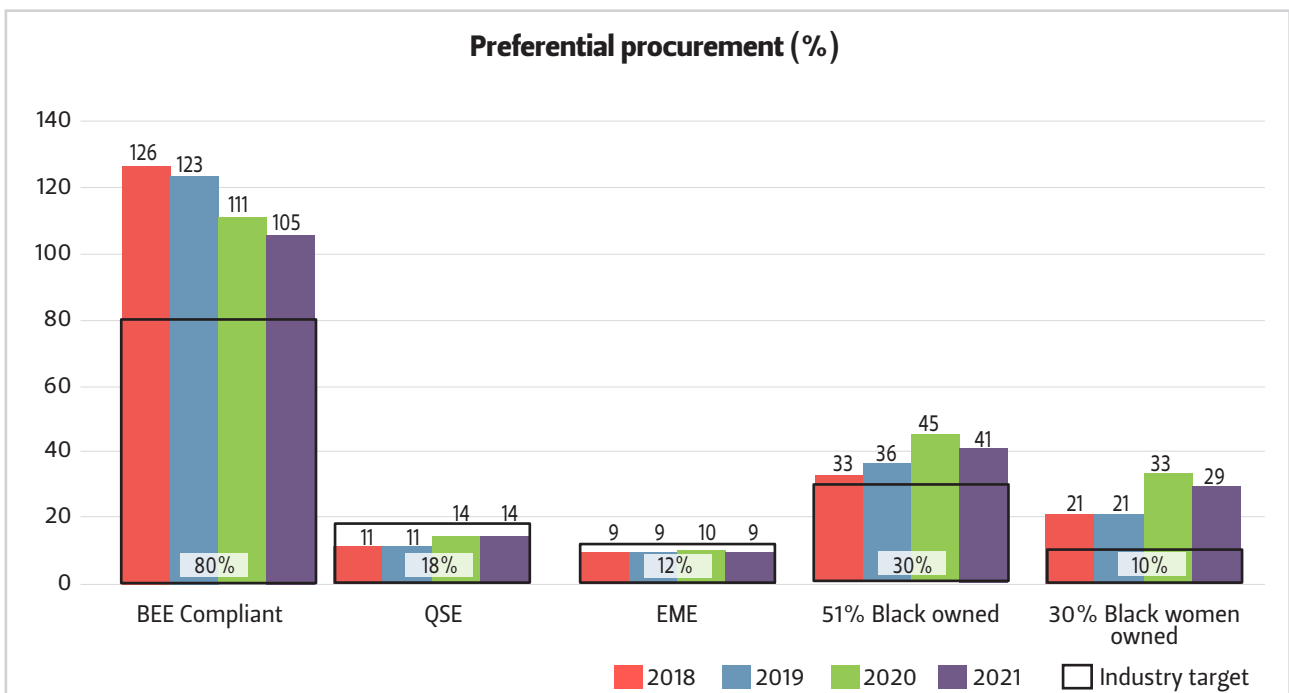


## Consumer education

- Spending on consumer education increased about 28% in 2021.
- This follows a sharp fall in Covid-hit 2020 where face-to-face interactions were limited.



## Preferential procurement



- Procurement activity declined for the third consecutive year for BEE-compliant suppliers.
- Spending in the other targeted segments also decreased slightly, except for QSEs which remain at 14%.

- Banks are well ahead of target for the BEE compliant, 51% black owned and 30% black women owned categories but behind on QSE and EME.
- The procurement targets are set every three years as a percentage of total spend:

- 80% BEE-compliant suppliers
- 18% qualifying small enterprises
- 12% exempted micro enterprises
- 30%, 51% black owned
- 10%, 30% black women owned.

[Rand values on next page]

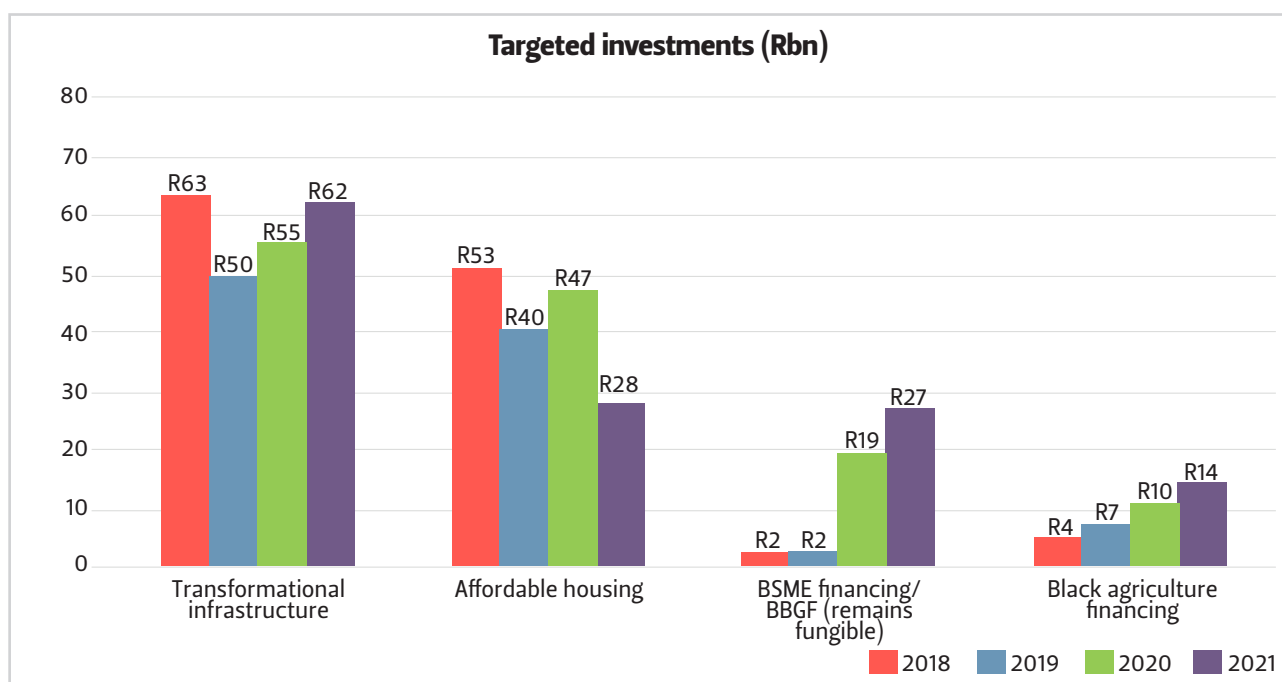
## Preferential procurement (Rbn)

### Preferential procurement (Rbn)

	2018	2019	2020	2021	Target
Total Measured Procurement Spend (TMPS)	R79	R84	R73	R82	
BEE-compliant	R83	R81	R73	R69	R66
QSE	R9	R9	R10	R12	R15
EME	R7	R7	R7	R7	R10
51% black owned (BO)	R26	R31	R33	R33	R25
30% black women owned (BWO)	R17	R18	R24	R23	R8

- Banks' total measured procurement spend increased by R9bn from 2020 to R82bn.
- BEE-compliant spending dropped by R4bn to R69bn but is still ahead of the target of R66bn.

## Targeted investments: components

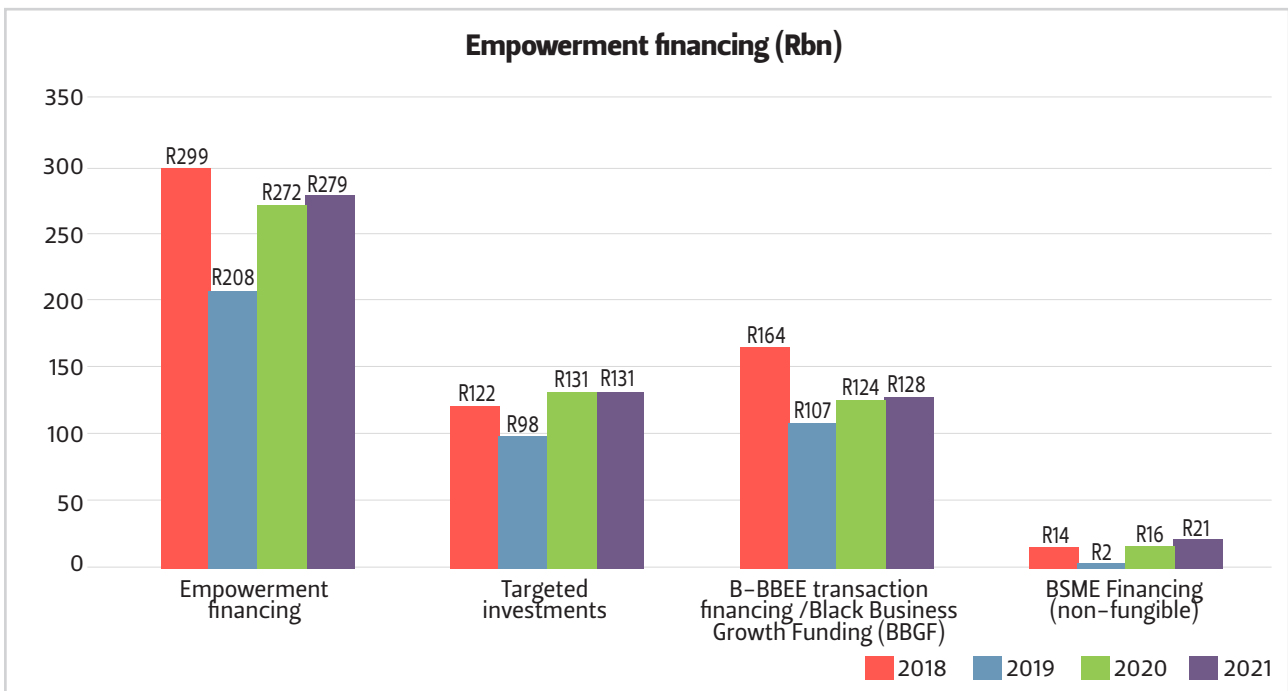


- Financing of transformational infrastructure, BSME financing and black agriculture increased substantially.

- However, spending on affordable housing has dropped significantly.

- The empowerment financing value is divided between BEE transactions and targeted investments on a 4:6 ratio, after allocating 4% of the target towards BEE transactions. The target is set for five years.

## Empowerment financing

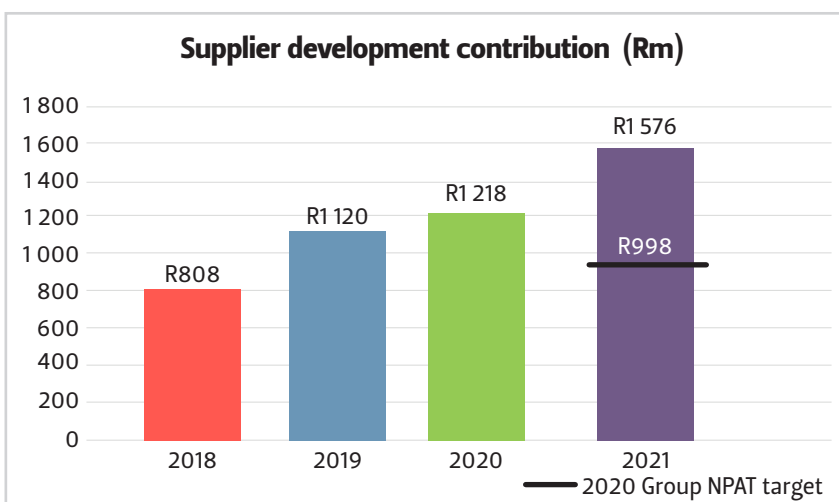


Empowerment financing continues to trend upwards after a sharp rise in Covid-hit 2020.

The empowerment financing value is divided between BEE transactions financing and Black Business Growth/SME funding and targeted investments on a

4:6 ratio, after allocating 4% of the target towards Black Business Growth and SME funding. The target is for a five-year period.

## Supplier development contributions

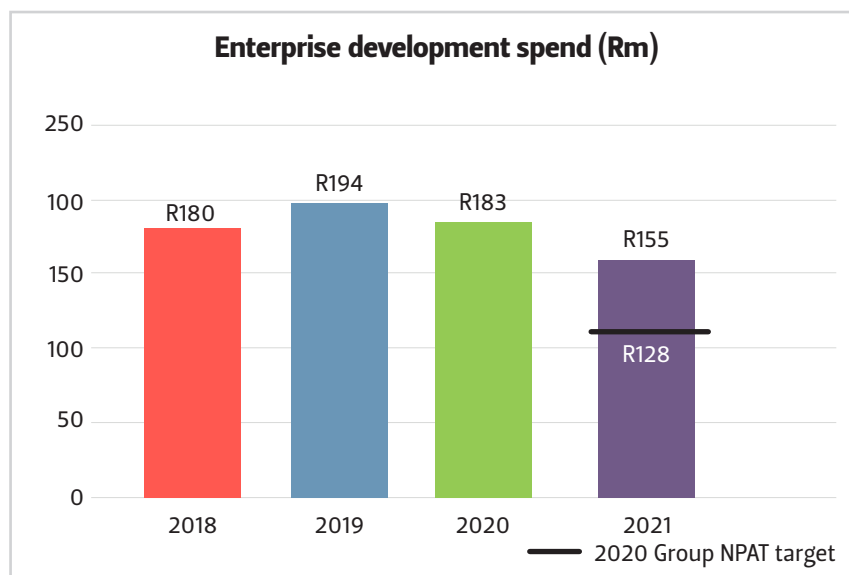


Supplier development spending increased in 2021 for the fourth year running.

Banks continue to spend above target.

2021 target: 1,8% of 2020 NPAT at R998m.

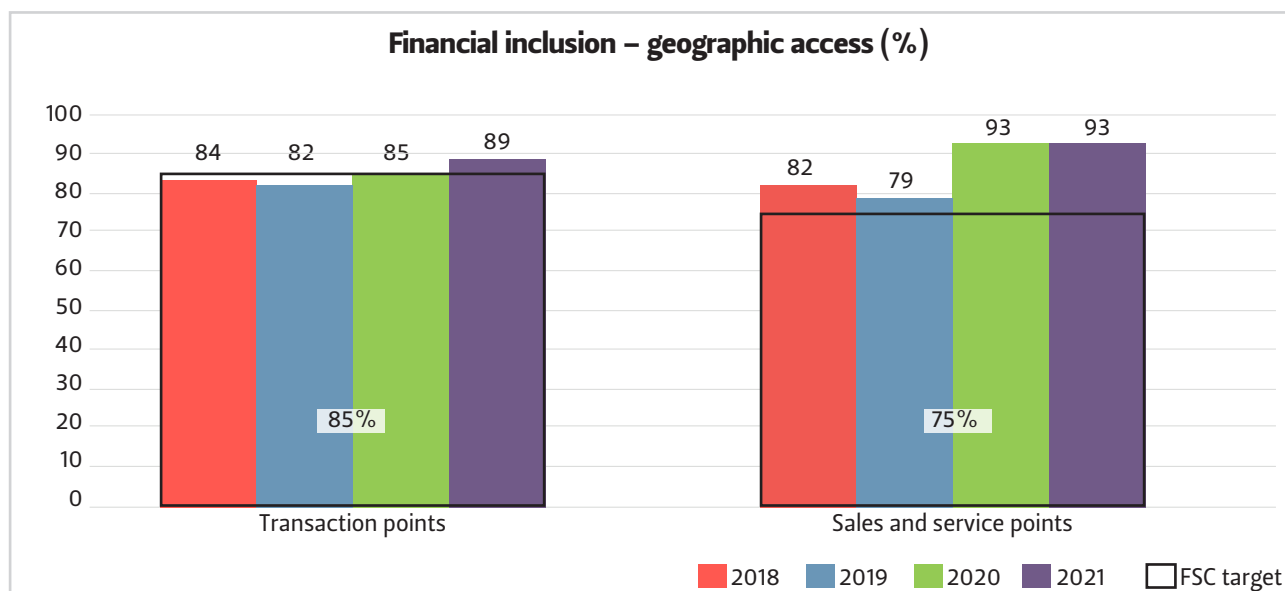
## Enterprise development contributions



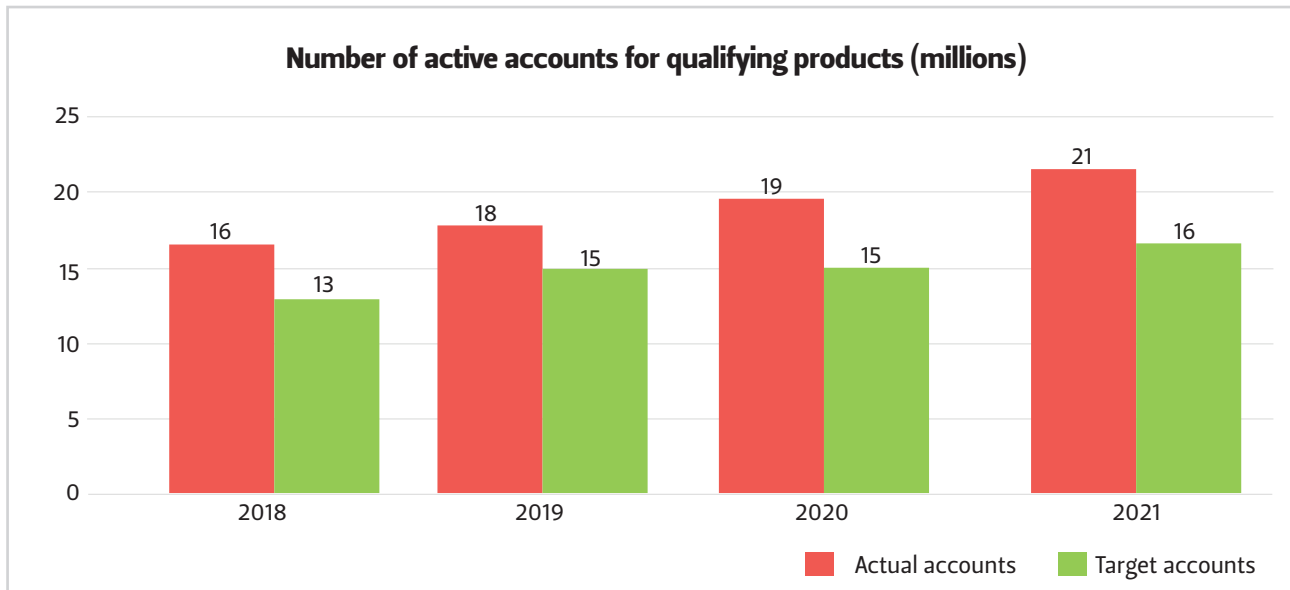
- Enterprise development spend fell significantly in 2021 for the second consecutive year.
- Banks spent above the 2021 target of R128m (0.2% of 2020 NPAT).

## Financial inclusion – geographic access

- Transaction points are within a 5km radius of the target market. Sales and service points are within a 15km radius of the target market.
- Access to sales and service points in remote areas remains well ahead of target.
- Transaction points are slightly ahead of target in remote locations.



## Financial inclusion – product access



- Banks remain well ahead of targets with steady growth each year.





**Banking Association South Africa**  
3rd Floor Building D  
Sunnyside Office Park  
32 Princess of Wales Terrace  
Parktown  
2193

[www.banking.org.za](http://www.banking.org.za)

