THE BANKING ASSOCIATION SOUTH AFRICA

BASA TRANSFORMATION REPORT 2024

krutham
An Intellidex Company

About this report

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Krutham was commissioned by the Banking Association South Africa (BASA) to produce this 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 Amended FInancial Sector Code (2017).

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 of data on banks and empowerment, complemented by a narrative that analyses and explains trends in the statistics.

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Banks exceed targets but a growing economy will accelerate transformation

South African banks are meeting the challenge of transformation but increased regulation is unlikely to result in further sustainable transformation, writes BASA managing director **Bongiwe Kunene**. Already, banks' financing of transformation and inclusive economic growth far exceed what is required of them by legislation and banks are likely to be able to do much more if there is a supportive operating environment for business and an expanding economy.

South African banks are coming under increasing legislative, regulatory and social pressure to fast-track transformation in the financial sector and the whole economy. They are meeting the challenge.

The 2024 Banking Association South Africa (BASA) Transformation Report shows that:

- Banks are ahead of the Amended Financial Sector Code (FSC) targets on black ownership and economic interest in banks. Overall black ownership is at 38% for 2023, against a target of 25%; and black economic interest – the right to share company profits – is at 29%, against a target of 25%.
- Banks are on track to meet or further exceed black management control targets. Ninety percent of junior managers in banks are black, above a target of 80%. This drops to 68% (target 70%) for middle management, 51% (target 60%) for senior management and 36% (target 60%) for top senior managers. While senior and top senior managers are noticeably below target, the strong pipeline of junior and mid-level black managers is a sure indication that senior managers will soon reflect the demographics of the country. Already, 48% of bank directors are black, against a target of 50%.
- Banks' contribution to the transformation of the economy is also beyond the FSC's target of R130bn from 2018 to 2023. In 2023, banks provided R337bn in empowerment financing, of which a total of R180bn went to affordable housing, transformational infrastructure and black small and agricultural businesses.
- Financial inclusion provides individuals and businesses with access to appropriate and affordable financial products and services, making them part of the economy by helping them to save and have responsible access to credit. South African banks provided 23-million financial products in 2023, which are considered to facilitate economic inclusion – 53% above the FSC target.

Nine banks – including South Africa's biggest – have already reached level 1 B-BBEE status, which means that fully empowered banks have over 83% of the South African market share (by assets). Except for 2022, when South Africa was still reeling from the economic impact of the Covid-19 pandemic, banks have been increasing their performance on key transformation metrics every year.

However, concern remains about access to credit for black South Africans. As BASA has pointed out in the past, while every bank has its own business and risk criteria for extending home loans and other forms of credit – race is not one of them. BASA and its members are opposed to unfair discrimination of any kind. To date, no BASA member bank has been found guilty in a court of law of systemic or institutionalised racism.

The Financial Sector Conduct Authority (FSCA), among others, is responsible for the regulation aimed at ensuring that banks do not unfairly discriminate against their customers in any way. Consumers may also take their complaints to the National Financial Ombud Scheme, which has the jurisdiction to adjudicate complaints against banks and their products and services.

Lending by South African banks is strictly regulated by the relevant authorities to ensure that they do not lend recklessly and that those who are lent depositors' funds are able to repay their loans. The National Credit Act, for example, sets out the affordability criteria for responsible lending, to which banks must adhere, to ensure that customers do not become over-indebted.

Despite a weak economy and high unemployment, which limited South Africans' ability to afford loans, banks provided R45bn in lending for affordable housing and R40bn for black small and medium-sized enterprises in 2023.

To further support small businesses, banks spent R2.02bn on supplier and enterprise development. While affordable housing loans dropped by R3bn from the previous year, this was primarily because higher interest rates made buying a home unaffordable to many.

Given the high levels of poverty and inequality in South Africa, it is understandable that the banks, along with other financial sector institutions, are called upon to do more to bolster transformation and inclusive economic growth.

BASA again calls for the FSC Charter review – a process that began in 2018 – to be completed to see what successes can be built on and to address shortcomings. Leadership changes mean there is more hope this year that the policy and ideological logjams and weak administration in the Financial Sector Transformation Council (FSTC) will be resolved and good faith and pragmatic discussions about further meaningful transformation in the financial sector can take place.

As has been pointed out before, banks appreciate that the financial sector scorecard is essential for tracking banks investments to support transformation. However, the scorecard does not effectively measure the outcomes of banks' transformation and empowerment efforts: how they are materially improving the lives to people and communities. Both input and outcomes measurements should be carefully incorporated into future transformation policies to help ensure that programmes are operating effectively and making a real, sustainable difference."

The Conduct of Financial Institutions (COFI) legislation contains proposals to make the promotion of financial sector transformation an explicit function of the Financial Sector Conduct Authority (FSCA). This includes requiring all licensed financial institutions to have a transformation plan and empowering the FSCA to take reasonable regulatory action against financial institutions that do not uphold transformation commitments as set out in their plans. The FSCA already has a strategy in place for promoting transformation in the financial sector, while the Broad-based Black Economic Empowerment (B-BBEE) Commission and the Employment Equity Amendment Act both target increased empowerment in the financial services sector.

Banks will abide by the letter and spirit of legislation and regulation aimed at sustainable transformation and inclusive black economic empowerment. BASA has long acknowledged that the racial inequalities in wealth and ownership in South Africa have their roots in apartheid and has partnered with government to bolster inclusive economic growth and the transformation of the economy.

However, as has been said before, more legislation and regulation, which often cannot be effectively enforced, are not likely to achieve the desired outcomes. In any event, banks' financing of transformation and inclusive economic growth far exceed what is required of them by legislation. The FSC targets do not begin to reflect banks' true contribution to inclusive economic growth. In 2023 banks provided R325bn for sustainable economic development, R366bn for manufacturing, R215bn for infrastructure and R209bn for agriculture. Small businesses received R261bn in retail loans. 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.

Banks can do much more if there is an enabling operating environment for businesses. But the large corporations and small businesses, as well as households, that banks lend to, have had to contend with a stagnant domestic economy, the deterioration of vital economic infrastructure, inefficient municipal and other government services, corruption, theft and vandalism. This has hampered their confidence and ability to invest, expand their businesses and create jobs.

The government of national unity, formed after the 2024 general elections, has boosted confidence in policy stability and implementation in South Africa. Government's partnerships with business to provide secure energy, improve transport and logistics infrastructure and operations, ease red tape and to reduce crime and corruption, have begun to deliver tangible results.

As a result, while many challenges remain, the South African Reserve Bank (SARB) forecasts only 1.2% gross domestic product growth in 2024. While this possible expansion of the economy is still far less than what is necessary, but it will make it easier for banks to meet FSC targets that depend on growth in targeted lending and employment opportunities, among others, in the year ahead.

Transformation and economic growth are mutually reinforcing goals for the banking sector

The B-BBEE Commission supports BASA's emphasis on the significance of measuring transformation based on impact rather than merely numbers as this will position the banking sector as a force for inclusive growth as well as a facilitator of financial transactions.

By Tshediso Matona, Commissioner: B-BBEE Commission

The 2024 transformation report of the Banking Association South Africa (BASA) is a welcome depiction of the banking sector's contribution to the country's critical mission of transformation to achieve a growing and inclusive economy, which the new government of national unity (GNU) has adopted as an apex priority in its statement of intent. Broadening the participation of black people in the economy remains a central part of this task, guided by the Broad-based Black Economic Empowerment (B-BBEE) Act and Codes of Good Practice.

The banking sector's contribution to this mission is anchored by the Financial Sector Code (FSC), relying on its levers of equity ownership, management control, procurement and enterprise development, skills development, empowerment funding and socioeconomic investments to support the participation of black people and enterprises in the sector and the economy at large.

The report covers the post-Covid 19 period of an economy still in recovery from the pandemic, and yet according to Q2 2024 data the financial sector shows resilience in its achievement of 1.3% growth in the quarter, and a contribution of 0.3% to the GDP growth.

Encouragingly, the overall report card shows that the banking sector has achieved most of its transformation targets for the period. This is a commendable demonstration of the sector's commitment to transformation. This is important as it has an instrumental role in developing our economy and in advancing transformation, under the prevailing circumstances of lack of access to finance, which is a much-decried impediment to growing the country's entrepreneurial and industrial base.

> The report card challenges the sector to redouble efforts to improve its under-performance and regression in several priority areas.

The two major B-BEE deals of Absa and Capitec between 2021 and 2023 are positive signals of confidence in the sector and hold promising prospects for its continued contribution to transformation and to addressing shortfalls in its BEE sector scorecard.

The report card challenges the sector to redouble efforts to improve its under-performance and regression in several priority areas that are crucial for building the foundation for transformation and inclusive growth, such as enterprise and supplier development; preferential procurement; empowerment financing; skills development,

as well as employment equity. Employment equity features appointments of black top senior executives and directors, where the sector's performance has most public visibility.

As part of its oversight, the B-BBEE Commission analyses major BEE transactions (of R25m and above), and since 2017 to September 2024 has examined 702 major BEE transactions with a cumulative value of R809.64bn. For example, of the 41 registered transactions in 2022/2023, only two were funded through bank loans. Moreover, the bank loans were on standard commercial terms, and not preferential funding linked to access to finance or empowering funding elements of the FSC.

Considering the private sector (including banks) accounts for over 92% of deals registered with the commission, the banking sector bears huge responsibility and is expected to play its part in funding the gap, as required by B-BBEE legislation and the FSC. Extraordinary and bold efforts are called for in this regard.

The factors cited in BASA's report as reasons beyond the sector's control for its under-achievement of some of its targets in the FSC are well-noted and acknowledged, such as energy security, slow economic growth, high unemployment, and the persistent problem of of red tape in conducting business, among others.

Indeed, transformation can thrive only in a conducive environment achieved by concerted efforts by government, the private sector and other relevant stakeholders to overcome various challenges facing the economy. The GNU is seized with this imperative, and there is work in progress to address these challenges, through public-private partnerships and initiatives like Operation Vulindlela, which is coordinated by the presidency.

But this should not mean that transformation and the implementation of BEE and the FSC should be paused or postponed in the meantime, as if transformation is not core to the business of government and the private sector. On the contrary there is an army of aspiring black entrepreneurs and industrialists with ideas and innovations to contribute to solving the challenges cited by BASA, if given the opportunity and access to finance, markets and supply chains.

Indeed, this is how transformation will be achieved, when inclusion and growth are mutually reinforced and pursued together. The economy will grow and expand when everyone who has something to offer and gain from it is enabled and empowered to be a participant; when all hands are on deck. This is the rationale and purpose of B-BBEE policy and legislation.

I believe BASA has the social capital to influence such an understanding and approach in its industry networks and with policy authorities, in the ongoing engagements to find solutions for the challenges facing the economy and the country.

The B-BBEE Commission endorses the BASA Transformation Report's emphasis on the importance of measuring transformation based on impact, not just numbers. This will position the banking industry as more than a facilitator of financial transactions, but also as striving to be a force for positive change, dynamism and innovation for inclusive growth.

I am encouraged that, notwithstanding its under-achieved targets and economy-wide challenges, BASA's report pledges the sector's commitment to steadfastly soldier on with its contribution to transformation, and to being counted in the collective national pursuit of justice, equality and shared prosperity in our motherland.

As the B-BBEE Commission we will continue to exercise our mandate to safeguard the objectives of B-BBEE, and to provide advice and guidance on the proper implementation of the codes across all sectors.

Driven by two major B-BBEE deals, ownership levels increased from 2022 to 2023 and now exceed targets on all five factors:

Voting rights 38% versus target of 25%

Women voting rights 17% versus target of 10%

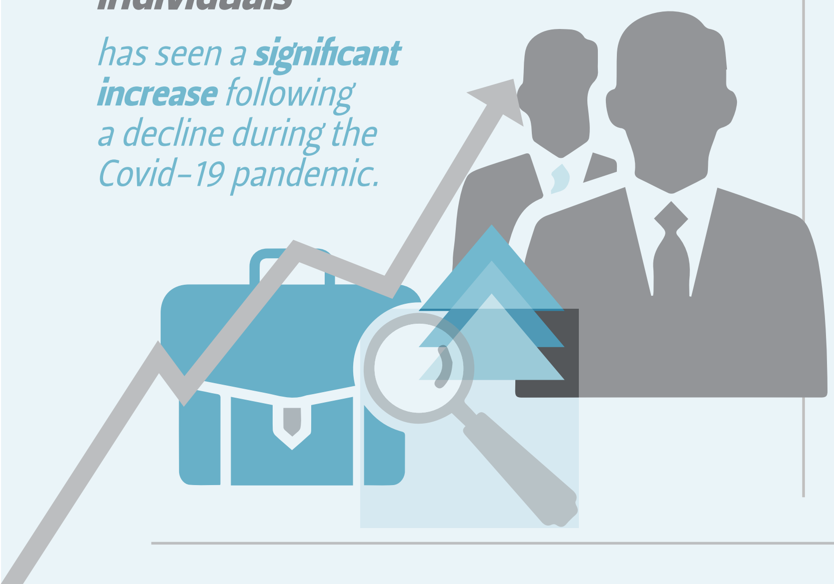
Women economic interest 13% versus target of 10%

Economic interest 29% versus target of 25%

Economic interest of designated groups 6% versus target of 3%

Investment in upskilling both employees and unemployed black individuals

*has seen a **significant increase** following a decline during the Covid-19 pandemic.*



Although the total number of directors has fallen from 195 in 2021 to 142 in 2023, representation of black board members improved marginally,

resulting in an increase in black board members as a percentage of all directors to 48% in 2023 from 37% in 2022 (target: 50%).

However, the number of male and female black executive directors has decreased.

*There were improvements at every level of management and banks have exceeded the 88% target at junior management level with **90% black representation.***

*Middle management at **73%** is close to the 75% target while senior management is at **54% (target: 60%)** and top senior is at **48% (target: 60%)***

Procurement from B-BBEE-compliant suppliers is two percentage points behind the target of 80%,

with procurement from QSEs and EMEs behind target but ahead of target for 51% black-owned companies and for 30% black women-owned entities.

There has been a significant recovery in socioeconomic development expenditure over the past two years, and it is now **58%** above target.

Banks are performing well on enterprise and supplier development.

Supplier development increased over the past two years and is now 25% above target while enterprise development spending fell in 2023 to **34%** above target.

Empowerment financing grew 18% in 2023 with each of its subcomponents contributing to the growth:

transformational infrastructure, affordable housing, BSME financing/BBGF and black agricultural financing.

- This year's BASA Transformation Report covers two years of data, 2022 and 2023, aligning it with the latest available industry data. Previous reports covered only one year and the 2023 report covered 2021.
- Including historical data, this report covers four years of data for each indicator: 2020–2023. The majority of banks have a December year-end except Capitec and Finbond (February), Investec (March), and Bidvest, Firstrand and Sasfin (June).
- All data were drawn from questionnaires completed by participating banks except for the "access to financial services" categories, where information was drawn from the AfriGIS geoscience densification research conducted for BASA.
- Data supplied by the banks are based on the Amended Financial Sector Code (FSC) scorecard methodology, as are targets for each category, unless otherwise specified. In some instances, we have not determined targets for 2020 as net profit after tax figures or salary data for 2019 are not available.
- Ownership data and, where relevant, management data were weighted by each bank's total assets to determine industry aggregates. Weightings give a more accurate indication of what proportion of the sector is managed by black people. Weightings are based on each bank's proportion of total assets across all banks.
- This year's report incorporates data from 20 banks, the same number as last year, but they are not like for like. Discovery Bank, Access Bank and China Bank are first-time participants this year while Grindrod and Ubank were acquired by and reported under African Bank. Additionally, Ithala Bank did not submit information this year. (See accompanying table for list of participating banks).
- The 20 participating banks account for 96.1% of the total of all bank assets. While the number and composition of participants may change slightly each year, this report remains a credible reflection of the banking sector's progress in meeting the transformation targets.

Banks included in historical data 2018–2023:

Bank Name	2021	2022 – 2023
1. Absa	✔	✔
2. Access Bank	✘	✔
3. African Bank	✔	✔
4. Al Baraka Bank South Africa	✔	✔
5. Bank of Taiwan South Africa	✔	✔
6. Bidvest Bank	✔	✔
7. Capitec Bank	✔	✔
8. China Bank	✔	✔
9. China Construction Bank South Africa	✔	✔
10. Citi South Africa	✔	✔
11. Discovery Bank	✘	✔
12. Finbond Mutual Bank	✔	✔
13. FirstRand	✔	✔
14. Grindrod Bank (now part of African Bank)	✔	✘
15. Habib Bank AG Zurich (HBZ)	✔	✔
16. HSBC South Africa	✔	✔
17. Investec	✔	✔
18. Ithala	✔	✘
19. Nedbank	✔	✔
20. Sasfin Bank	✔	✔
21. Standard Bank	✔	✔
22. TymeBank	✔	✔
23. Ubank (now part of African Bank)	✘	✘

INTRODUCTION

The figures in this report cover 2022 and 2023,when gross domestic product grew 1.9% and 0.6% respectively. It was a difficult time for the country, with the economy still heavily constrained by load shedding and external shocks, including the Russian invasion of Ukraine, and an acceleration in global inflation.

Banks' focus was on supporting clients recovering from Covid lockdowns, many of which had their loans restructured. With the repo rate rising by 475 basis points from November 2021 to 8.25% in May 2023, a 15-year high, demand for credit weakened, although the higher rates did support bank interest margins. As part of efforts to reduce costs in response to the struggling economy and the rise of digital banking, significant retrenchments occurred in the banking sector in 2022/23.

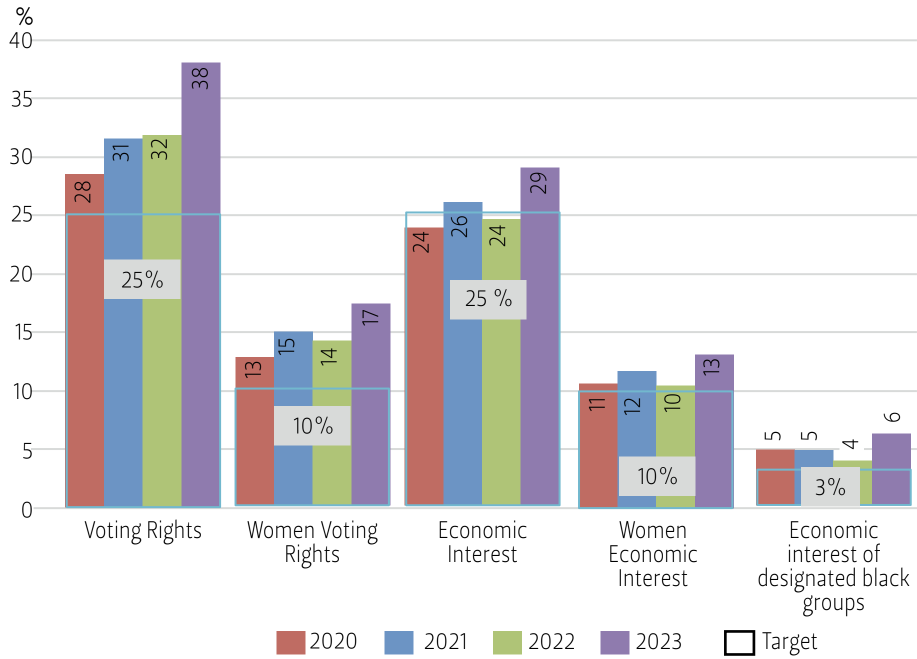
These factors had a direct impact on transformation efforts. In the high-interest rate environment with businesses and consumers being risk-averse, credit demand was low and impairments were gradually increasing. This made it difficult to grow lending in targeted sectors. The exception was renewable energy projects which showed good growth, supporting transformational infrastructure lending.

Despite the negative economic environment, banks still managed to increase performance in most B-BBEE categories.

Ownership

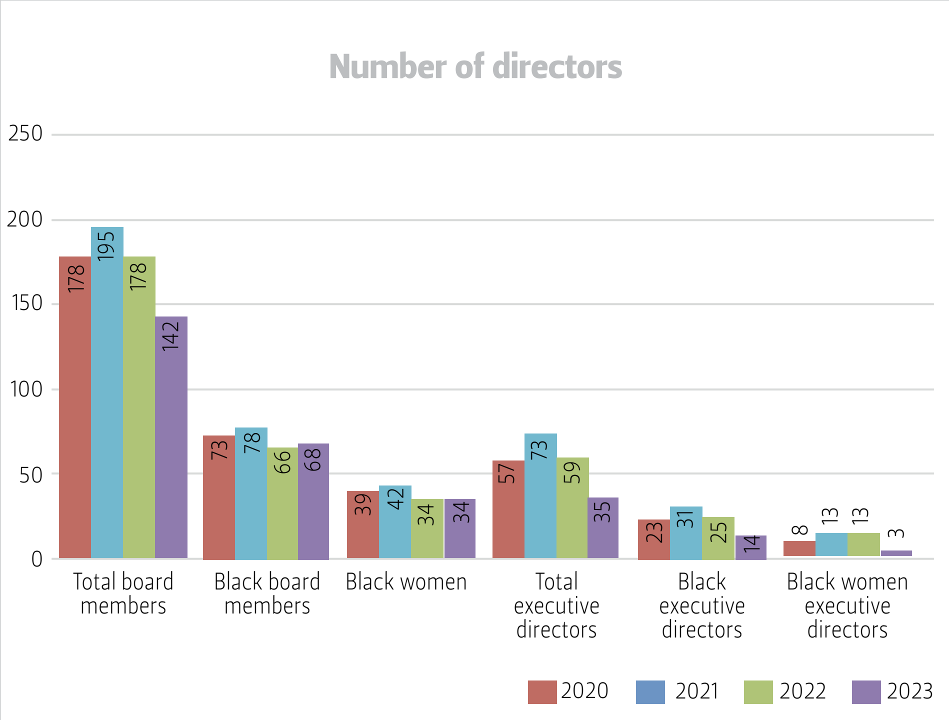
- Ownership levels increased on all measures, exceeding the amended FSC targets. Ownership performance is determined by a combination of ordinary B-BBEE deals, equity equivalents in the form of sale of assets to black-owned companies, analysis of the shareholder base by competent persons, and the ongoing effects of previous B-BBEE transactions.
- Two major B-BBEE deals, by Absa (announced March 2023) and Capitec (February 2022) drove the increased ownership levels.
- Absa's R11.2bn transaction allocates 7% of the total group shareholding to structures that will benefit black South Africans.
- Capitec issued R1bn in new shares for purchase by qualifying permanent employees from previously disadvantaged backgrounds, in a deal approved in February 2022.

Black ownership measurement in banks (weighted)



Weightings are based on each bank's proportion of total assets across all banks

Management control: directors



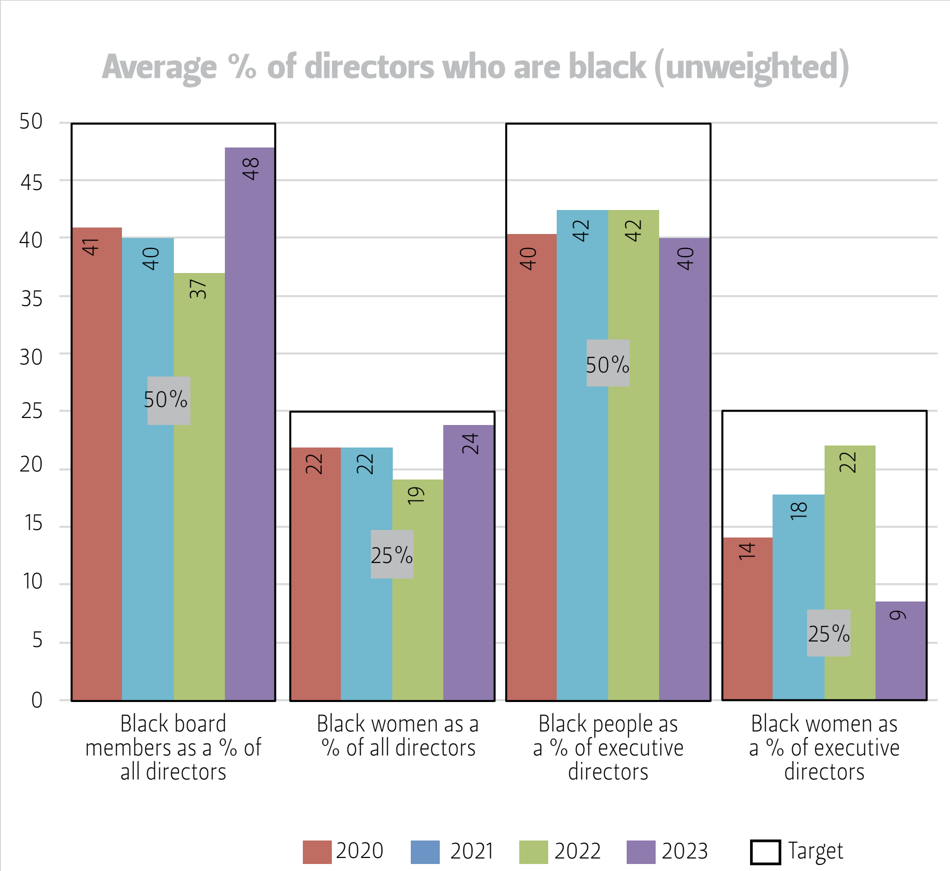
- **The total number of board members fell** from 195 in 2021 to 142 in 2023. This affected black representation, which fell from 78 to 68 during the same period.
- In line with this, the number of **executive directors also decreased**, affecting both black executive representation and black women executives.
- Despite the lower number of total directors, there is a **slight increase in black board members** but a decrease in black women directors and in black executive directors.

Number of banks at or exceeding director targets

	2020	2021	2023	2024
Banks with more than 50% black board members as a percentage of all directors	4	6	6	6
Banks with more than 25% black women	0	1	1	1
Banks with more than 50% black executive directors	7	9	7	6
Banks with more than 25% black women executive directors	1	2	2	1

The total number of board members dropped in 2022 and 2023 largely due to the changing composition of the sample each year. After absorbing Grindrod (19 directors in 2022), and Ubank (10 in 2020), African Bank went from nine in 2020 to 14 in 2023. There were also two first-time participants. Discovery Bank supplied figures for all four years and Access Bank supplied figures from 2021, and these were not incorporated in previous reports. Finally, Ithala did not supply figures this year, so its seven directors in 2022 fell away in 2023.

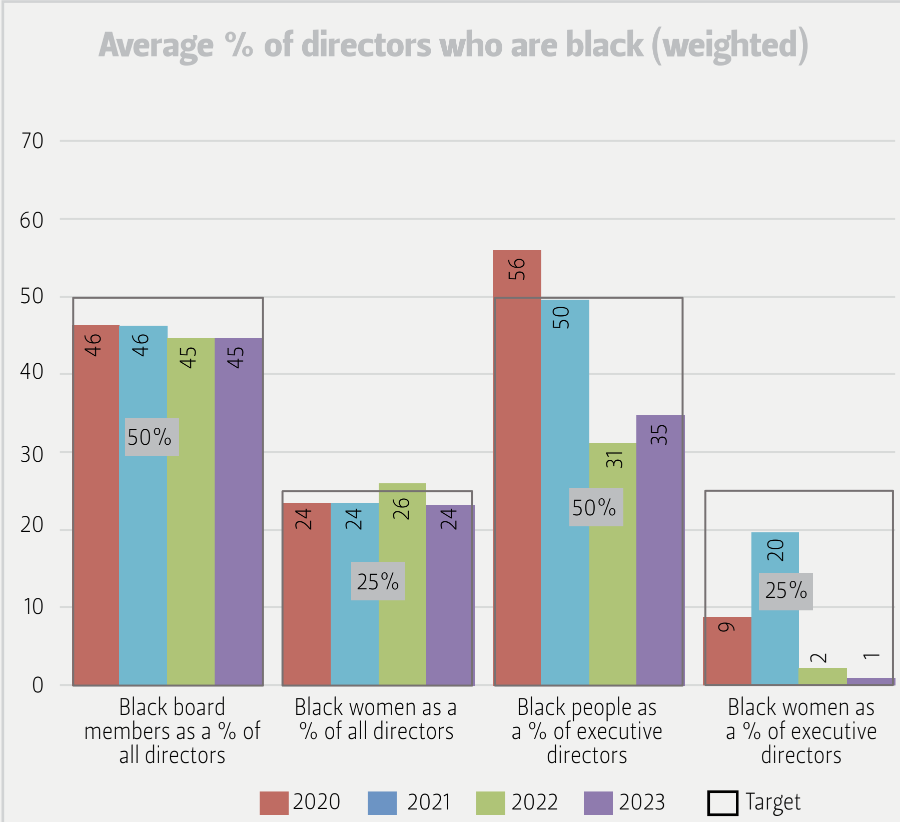
Management control: directors



- Directors categories of management control remain **behind targets on an unweighted basis.**
- Black board members as a percentage of all directors climbed considerably as a result of the decline in the total number of board members (see previous slide).
- There are proportionately more black women directors but fewer black women executive directors.

Management control: directors (weighted)

- On a weighted basis, the percentage of black women directors as well as black women executive directors has **declined since 2021.**
- The percentage of **black executive directors increased** by four percentage points in 2023.

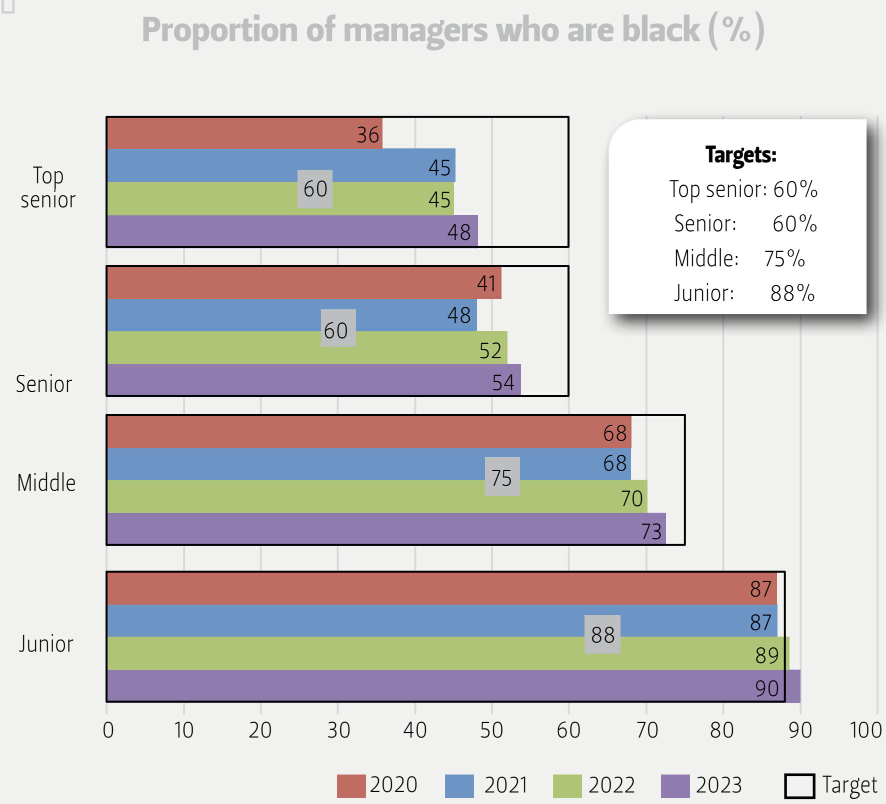


Management control: head count

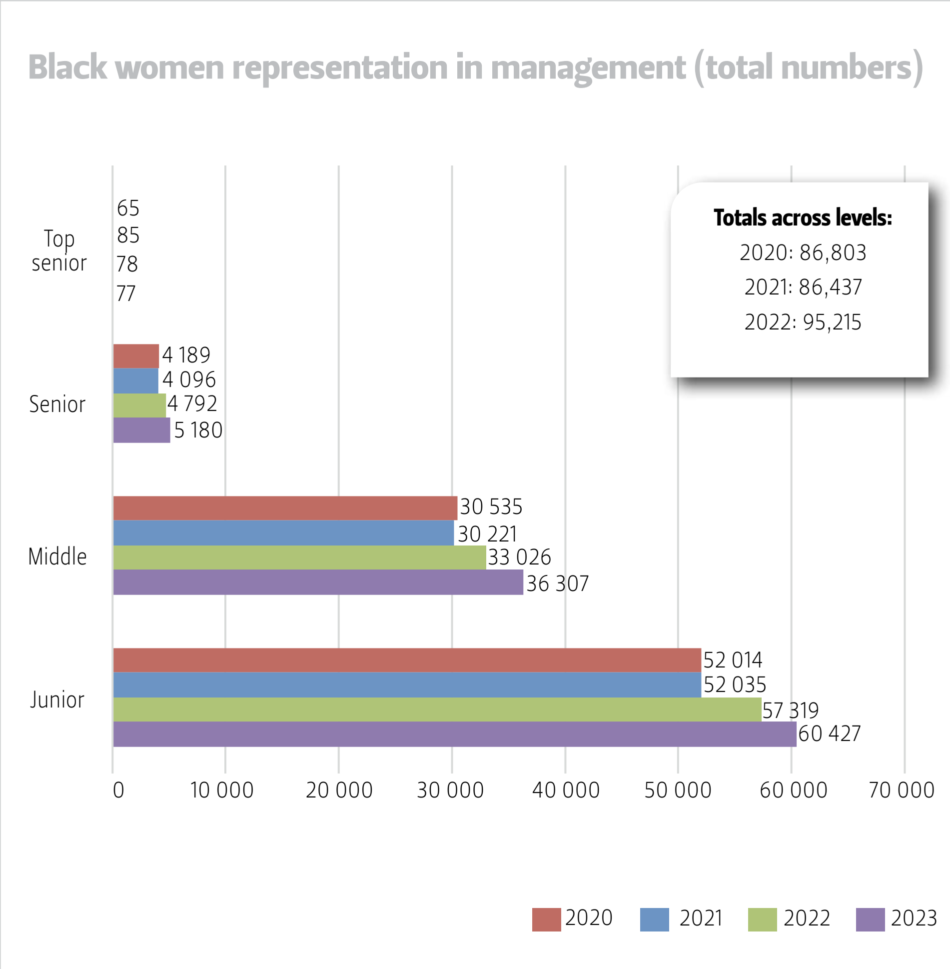
- The number of top senior managers has **dropped from** 188 in 2021 to 160 in 2023.
- **Black representation increased** across all other management levels

Management control: levels

- There were **improvements** across all management levels in 2023.
- Banks have **exceeded the 88% target** at junior management level with 89% and 90% black representation in 2022 and 2023 respectively.
- **Middle management at 73%** is close to the 75% target while senior and top senior management remain behind target despite increases in 2023.



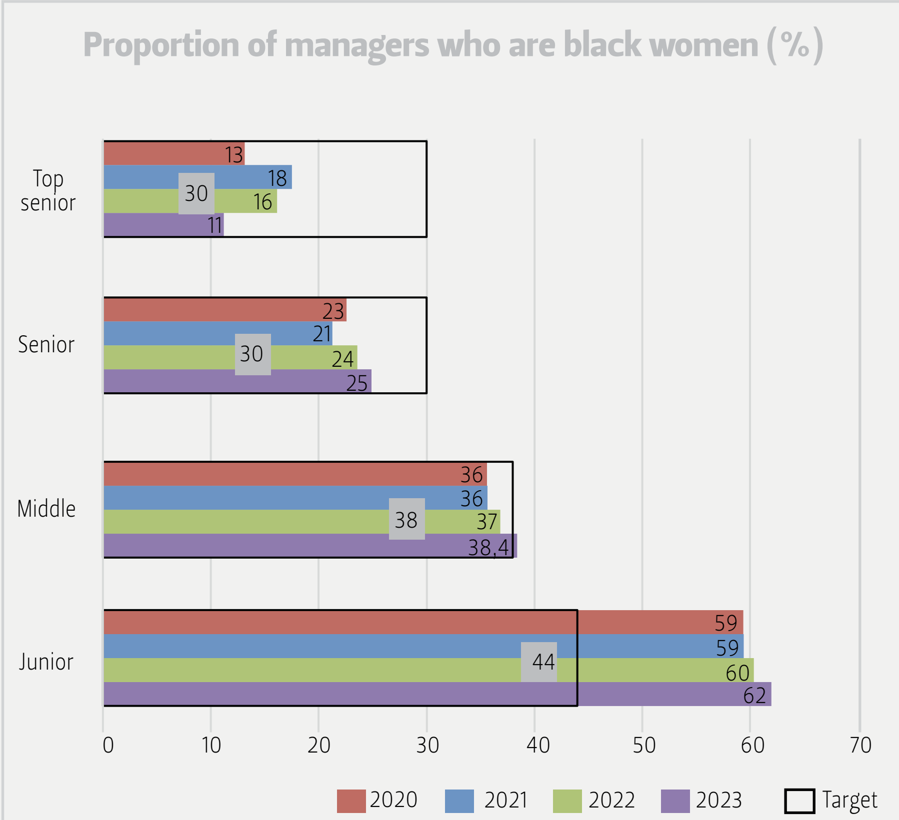
Management control



- Black representation increased across all management levels except top senior, which decreased by one.

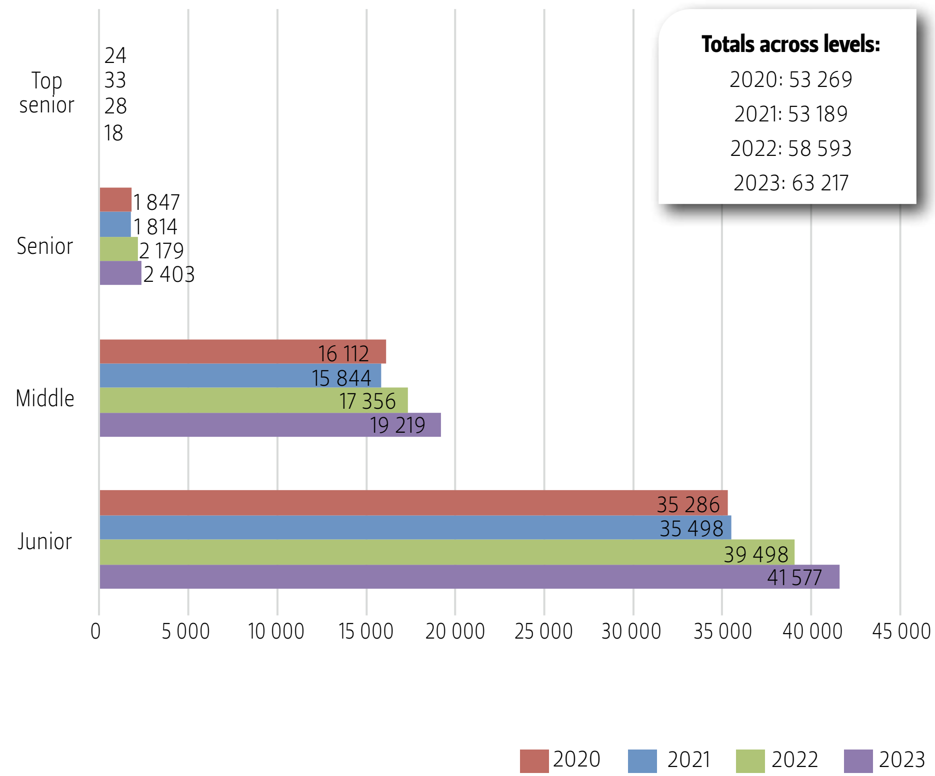
Management control: levels (women)

- In 2023, women saw increases across all management levels except top senior, which decreased by seven percentage points from 2022.
- The banking sector is substantially behind target at top senior and senior levels.
- It is fractionally above target for middle management and 41% above target at junior management level.



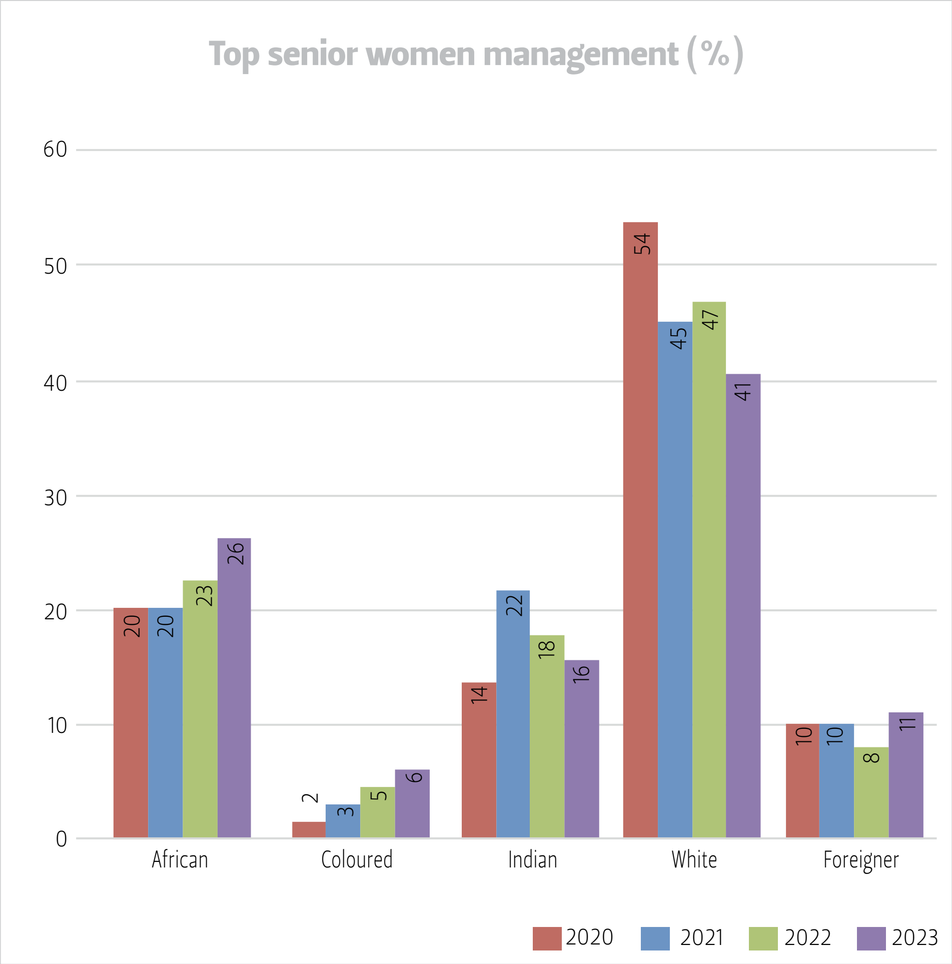
Management control: women

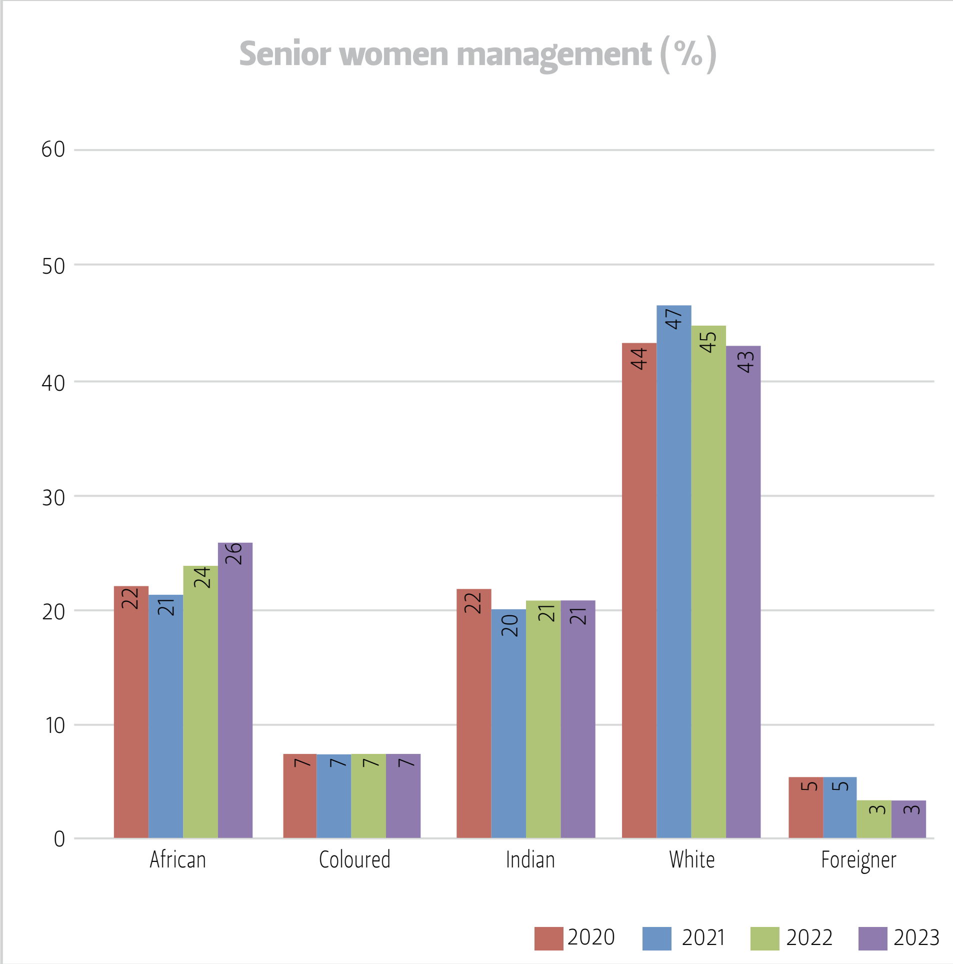
Black women representation in management (total numbers)



- Black women representation increased across all levels except top senior, which has 10 fewer female managers than 2022.

Detailed breakdown of management

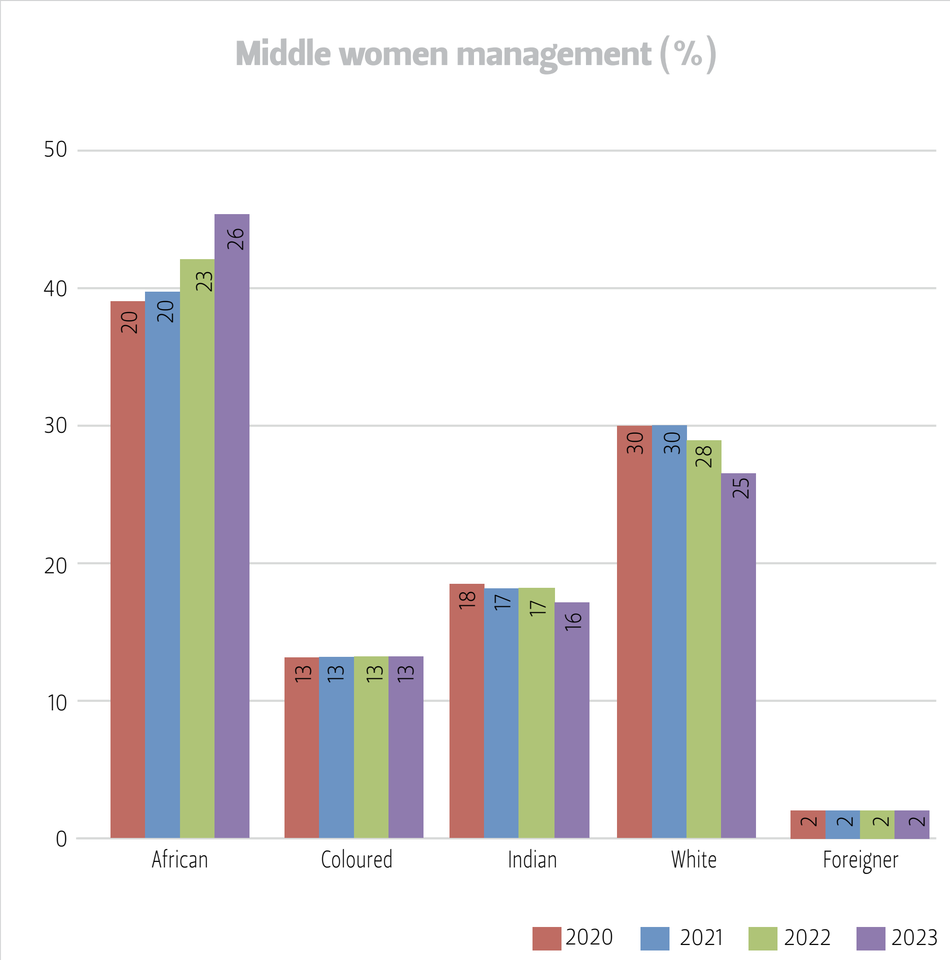


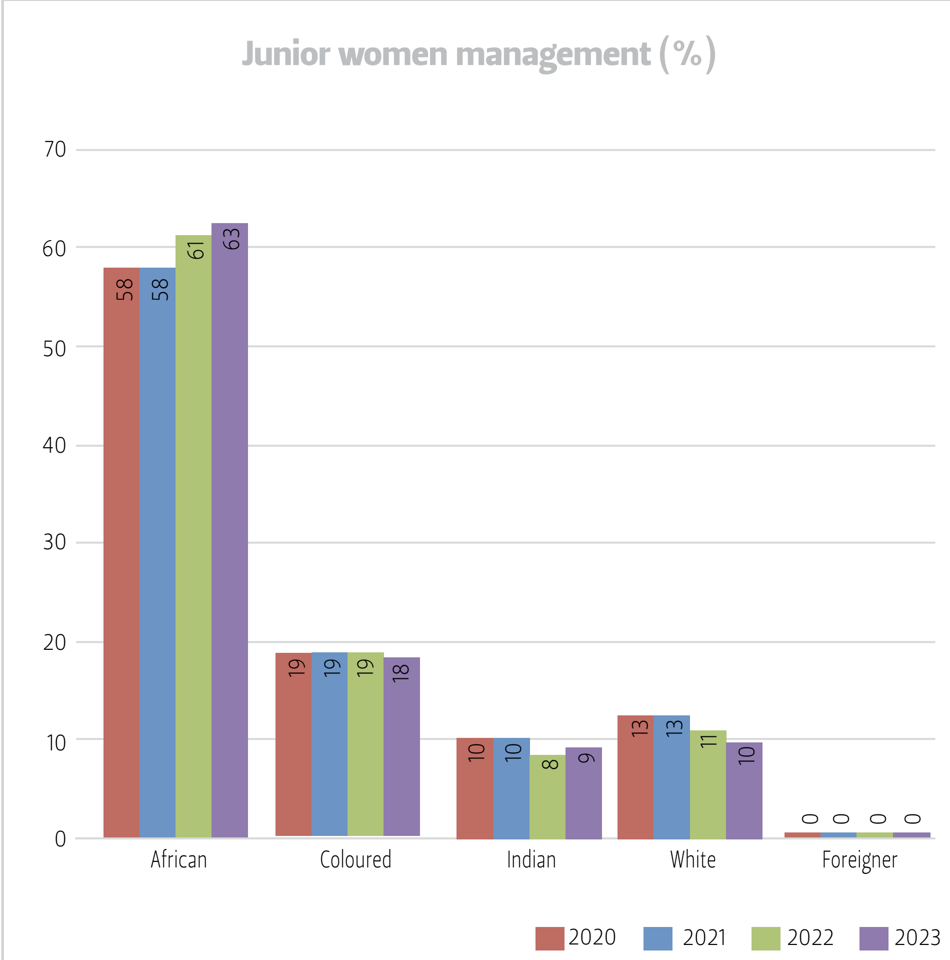


- **Top senior:** The upward trajectory continues for African and Coloured top senior managers. There were decreases in Indian managers in 2022 and 2023 and in white managers in 2023, with the latter still dominating the top senior level.

- **Senior:** White managers have dropped for the past two years while African managers experienced slight gains. The other groups remained largely static.

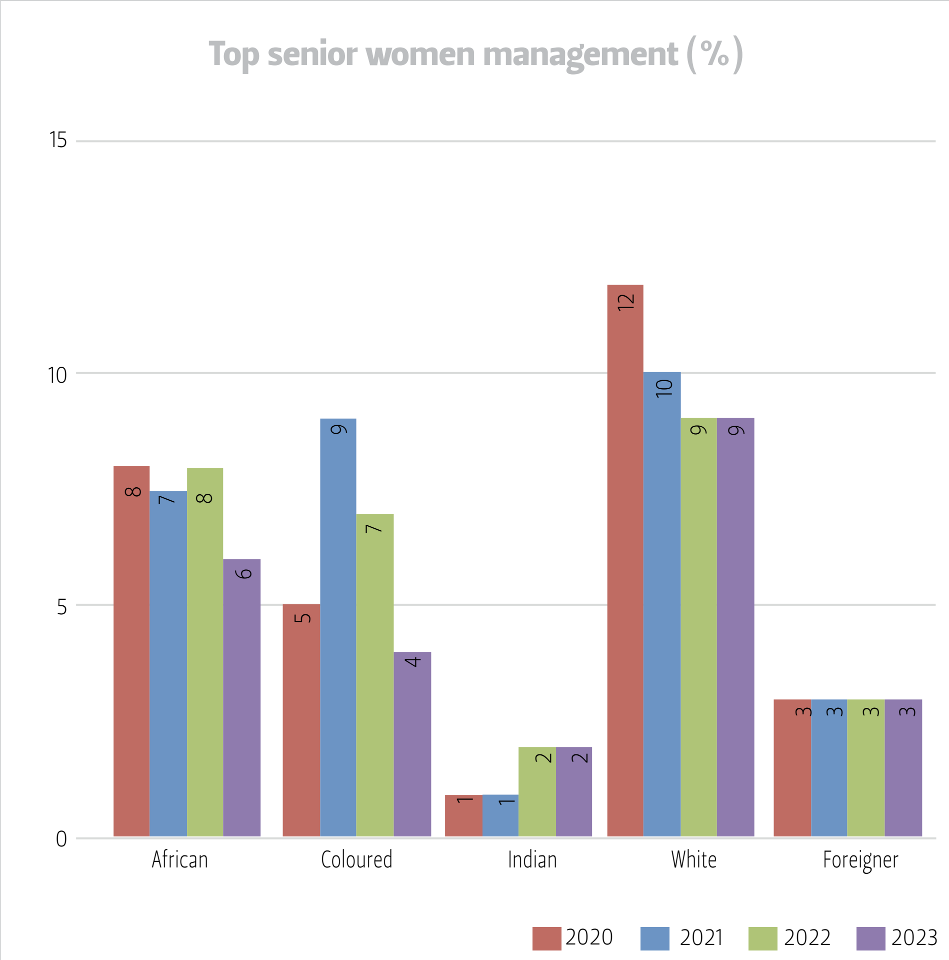
Detailed breakdown of management

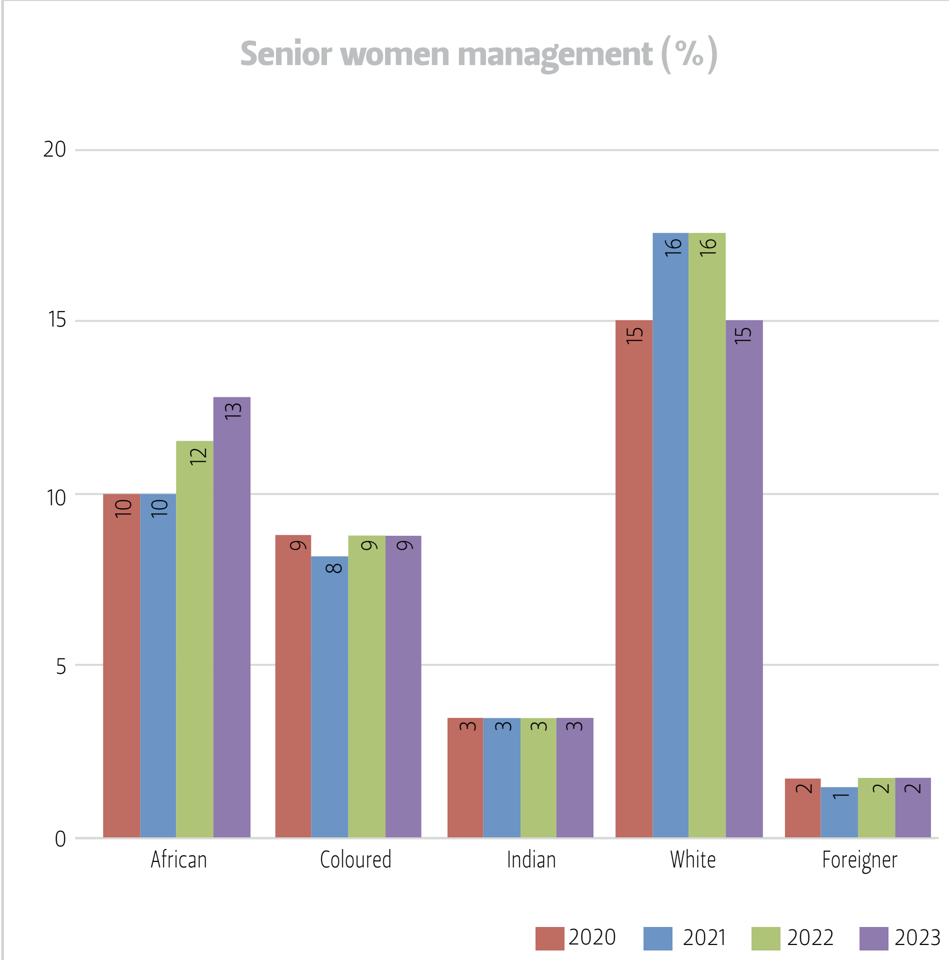




- African managers have the highest representation in both middle and junior management levels, having increased in each of the four years recorded.
- Coloured managers outnumber whites at junior management level.

Detailed breakdown of management
(% of total managers)

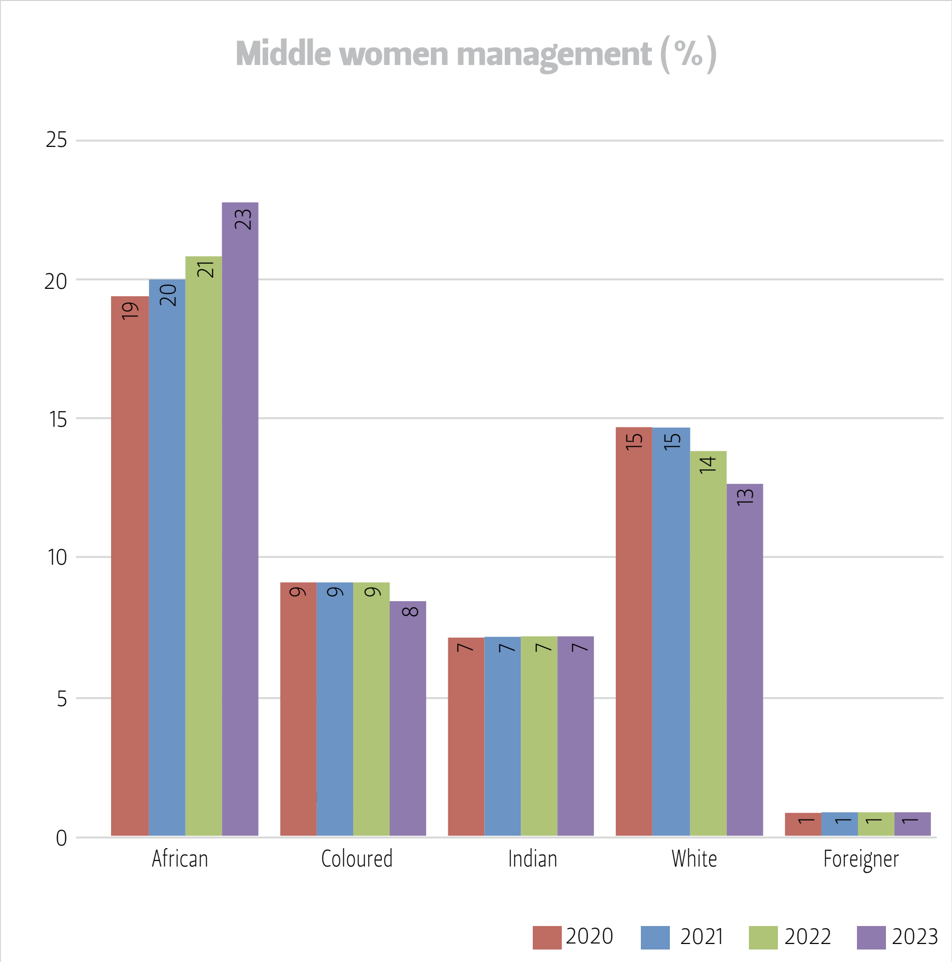


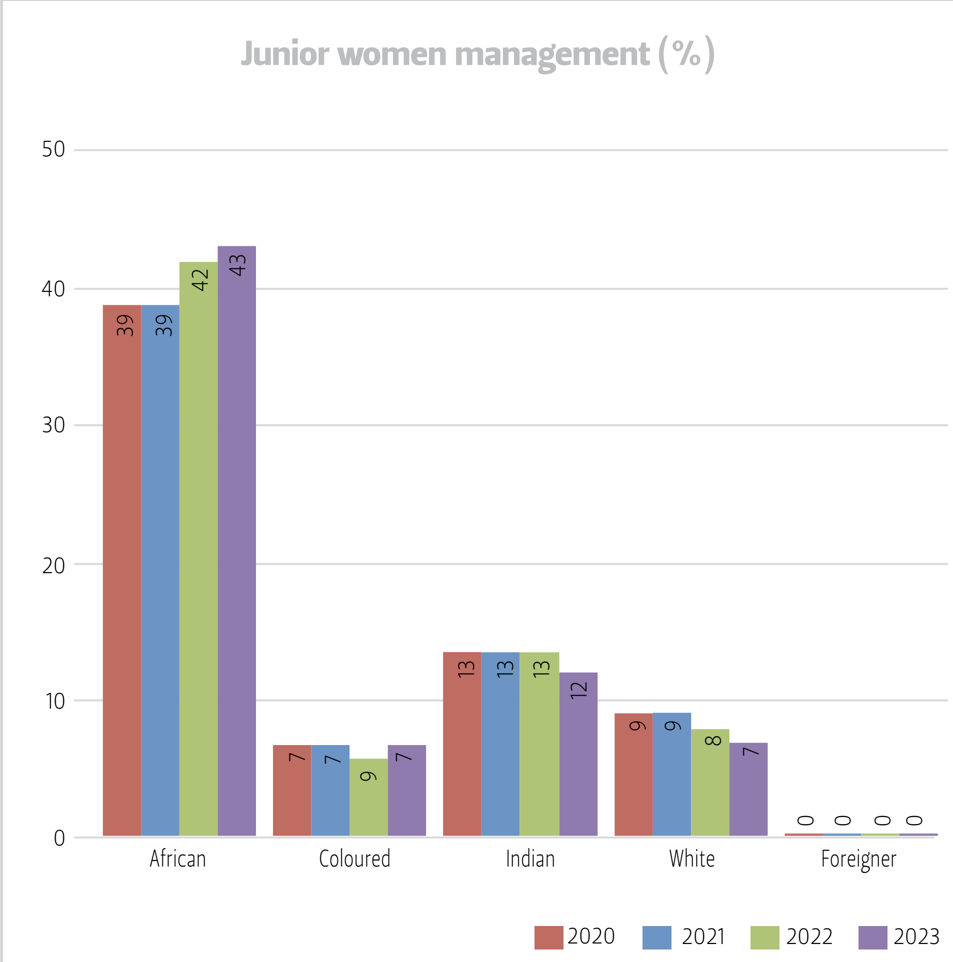


- **Top senior:** Despite declining every year since 2020, white women are in the majority at the top senior level at 9%, with African women next highest (6%) followed by Coloured women at 4% after two years of steep declines. Foreign women managers at 3% outnumber Indian women (2%).

- **Senior:** The proportion of African women managers has been steadily increasing and is now two percentage points behind white women, which has declined for the past two years.

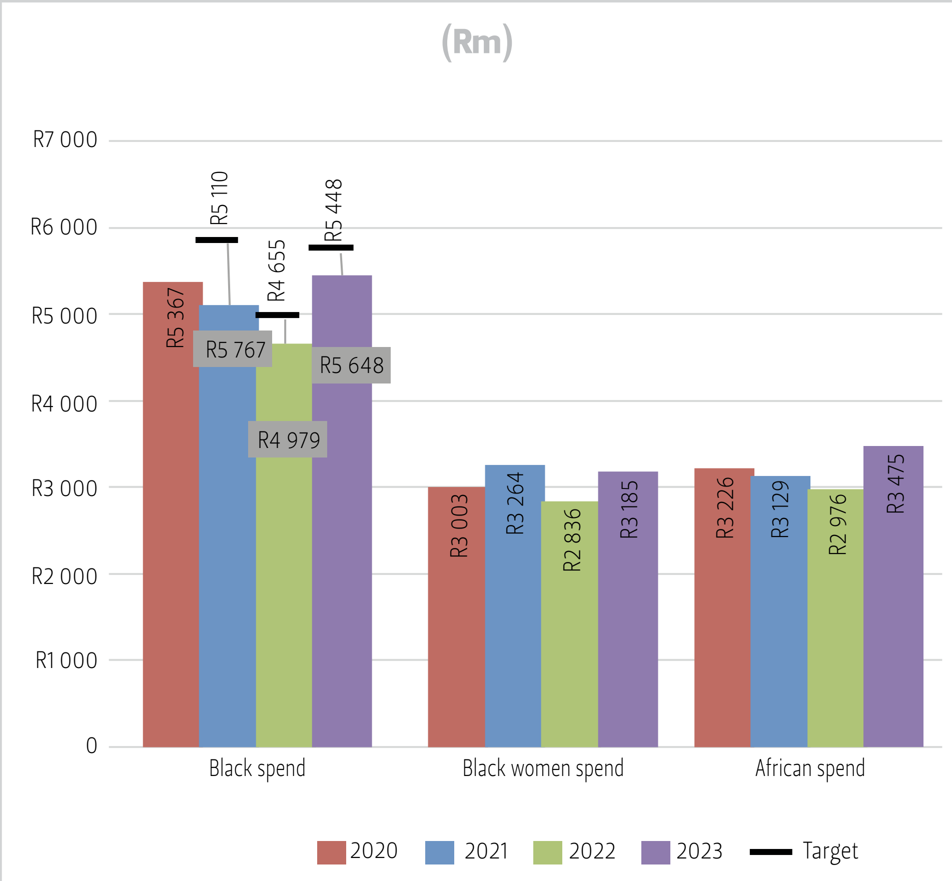
Detailed breakdown of management
(% of total managers)





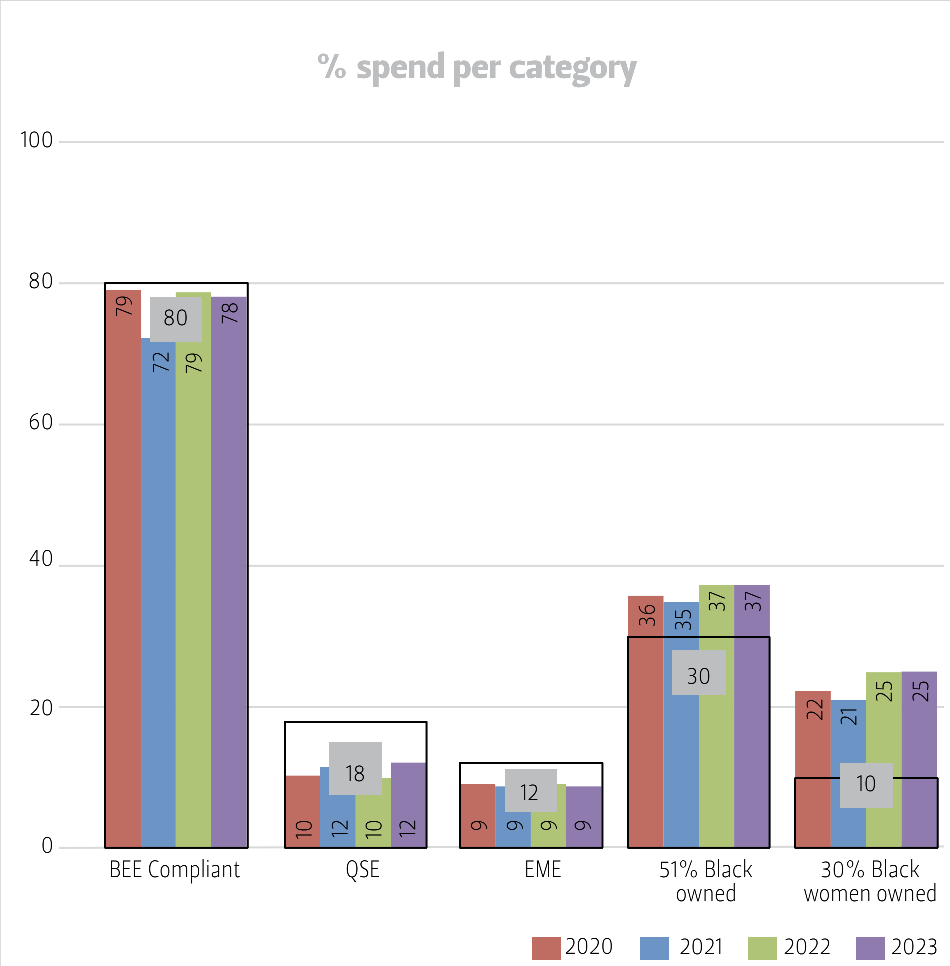
- **Middle management: :** Black African women have the highest representation in middle management and are the only group to experience a steady year-on-year increase from 2020. The other groups declined or remained static.
- **Junior management: :** African women dominate junior management with Indian women next highest. Coloured women experienced a slight increase following a decline in 2022.

Skills development



- Banks increased spending across all categories in 2023 **after a decline in 2022.**
- The amended FSC sets targets for each management level, determined by each bank's payroll for that specific level. That salary information is not available so **we compare spending against the generic scorecard's target of 6% of leviable payroll.**

Preferential procurement



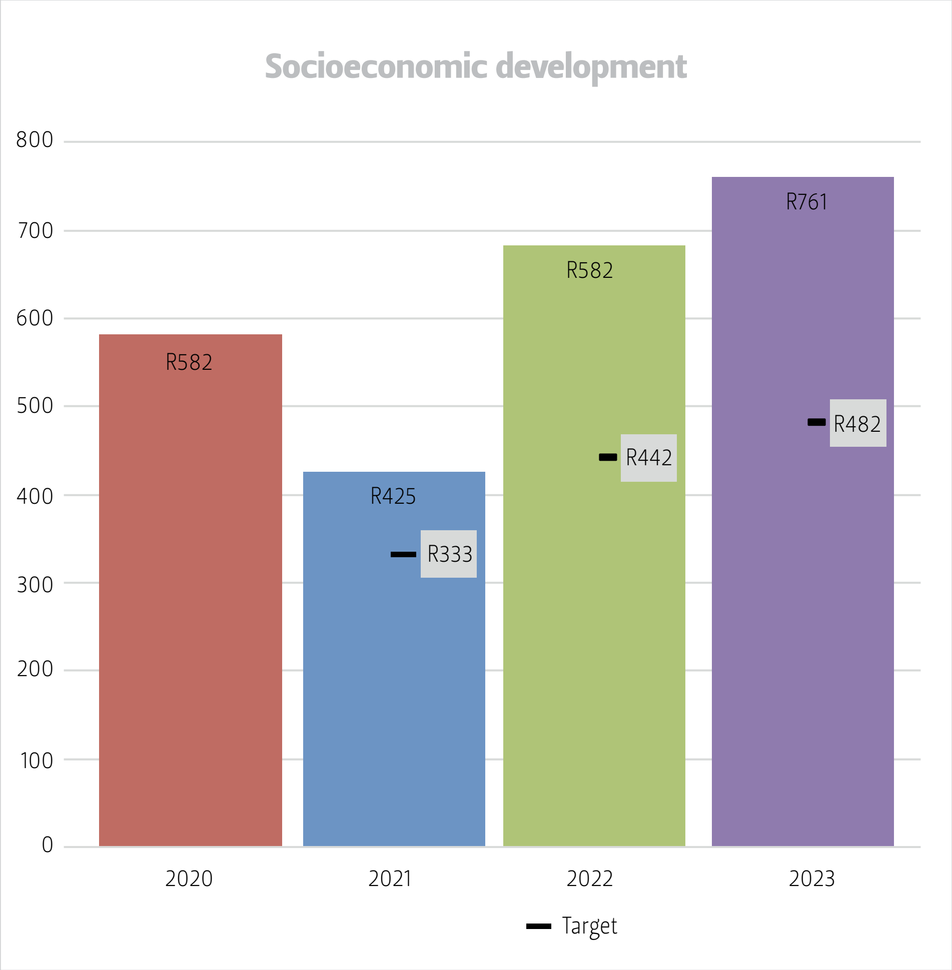
- Procurement from B-BEE compliant suppliers dipped in 2023 and **is 2.5% behind the target of 80%**.
- Procurement from **QSEs is at 66.6%** of target and **EMEs is at 75%.**
- Procurement is 23% above target for 51% black-owned companies and **150% above target** for 30% black women-owned businesses.

Preferential procurement (Rbn)

- Banks' total measured procurement **spend increased by R16bn** in 2023 after rising by R21bn in 2022.

	2020	2021	2022	2023	Target
Total measured procurement spend	R92	R96	R117	R133	
BEE-compliant	R73	R70	R92	R104	R106
Qualifying small enterprises	R9	R11	R12	R16	R24
Exempt micro-enterprises	R8	R8	R11	R12	R16
51% black owned	R33	R34	R43	R49	R40
30% black women owned	R21	R20	R29	R33	R13

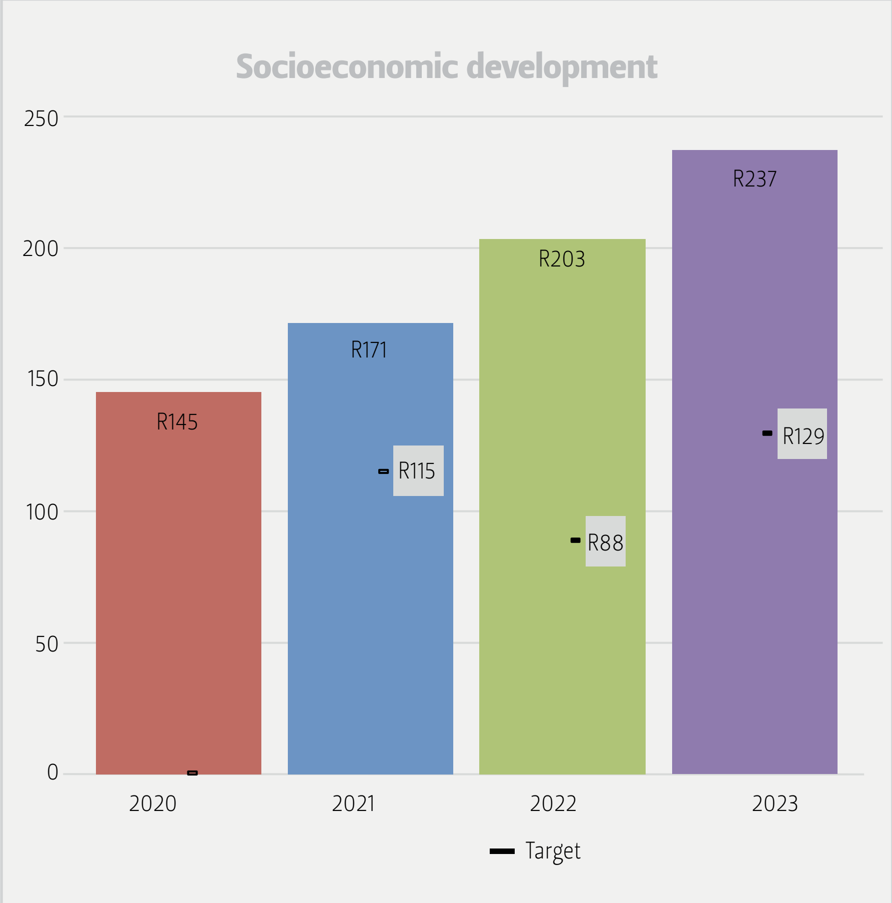
Socioeconomic development



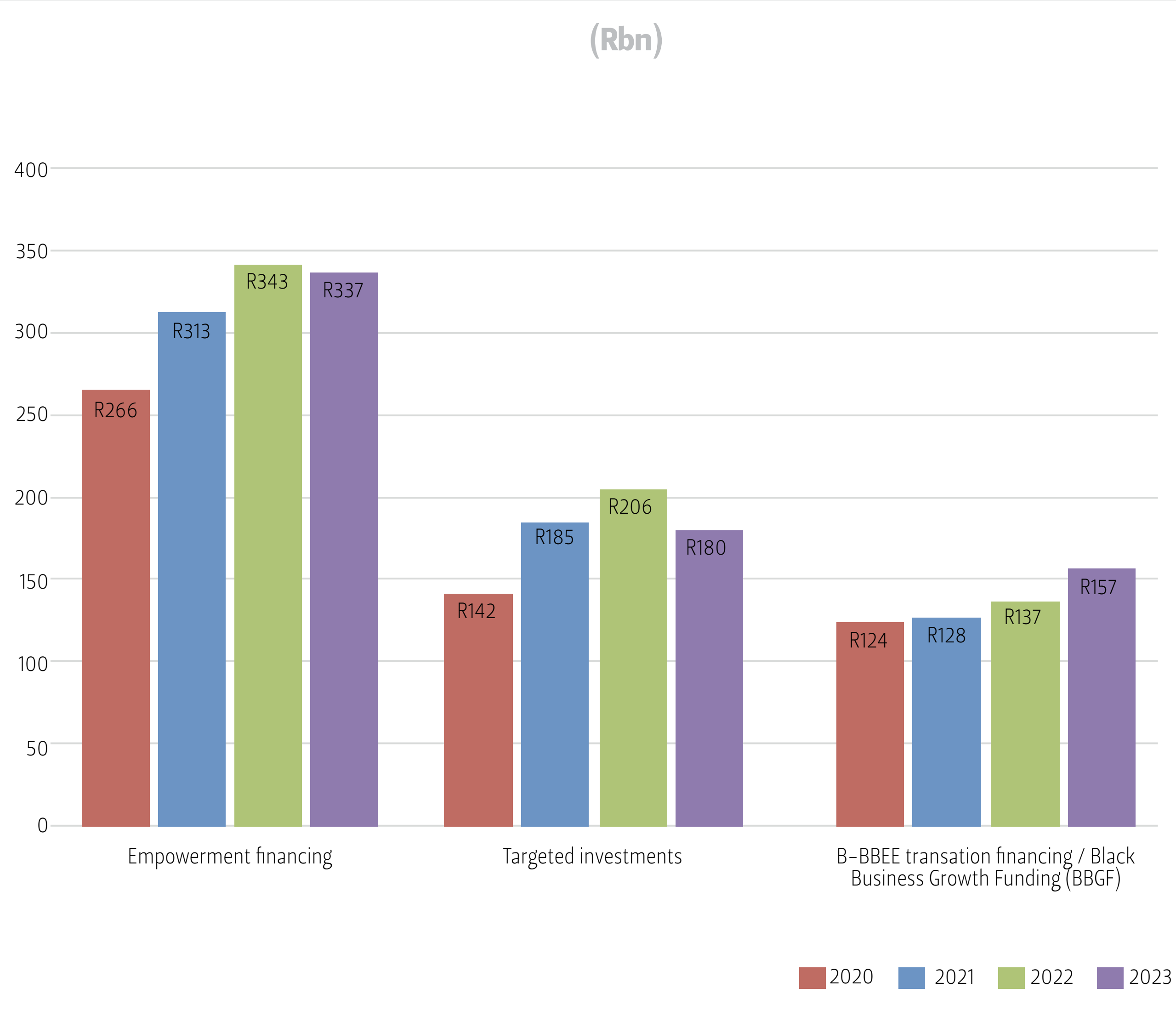
- An increase in socioeconomic spending this year **continues the upward trend that began in 2021.**
- Spending in 2023 is **nearly 58% above the target** of 0.6% of banks' 2022 NPAT.

Consumer education

- Spending on consumer education **continues to increase steadily** and is 84% above target in 2023.
- The targets are 0.4% of banks' retail NPAT for the previous year.
- Graphs based on figures provided **by 16 banks**.



Empowerment financing



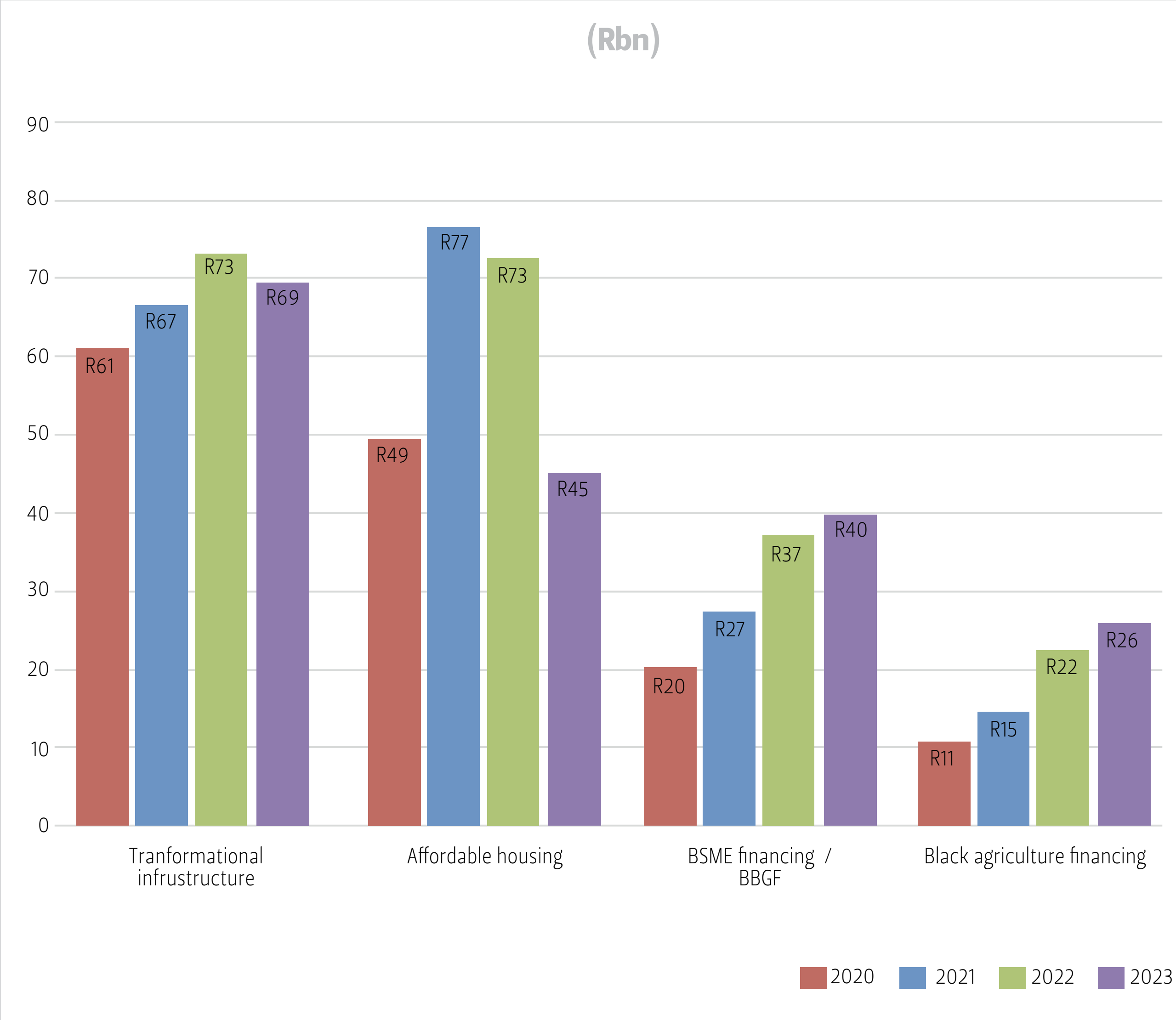
- **Empowerment financing declined 1.7%** in 2023 after climbing 29% from 2020-2022. Targeted investments followed a similar patten.

- B-BBEE transaction financing/ black business growth funding has **increased every year and is up 26.6% since 2020.**

- The empowerment financing value is divided between B-BBEE 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.**

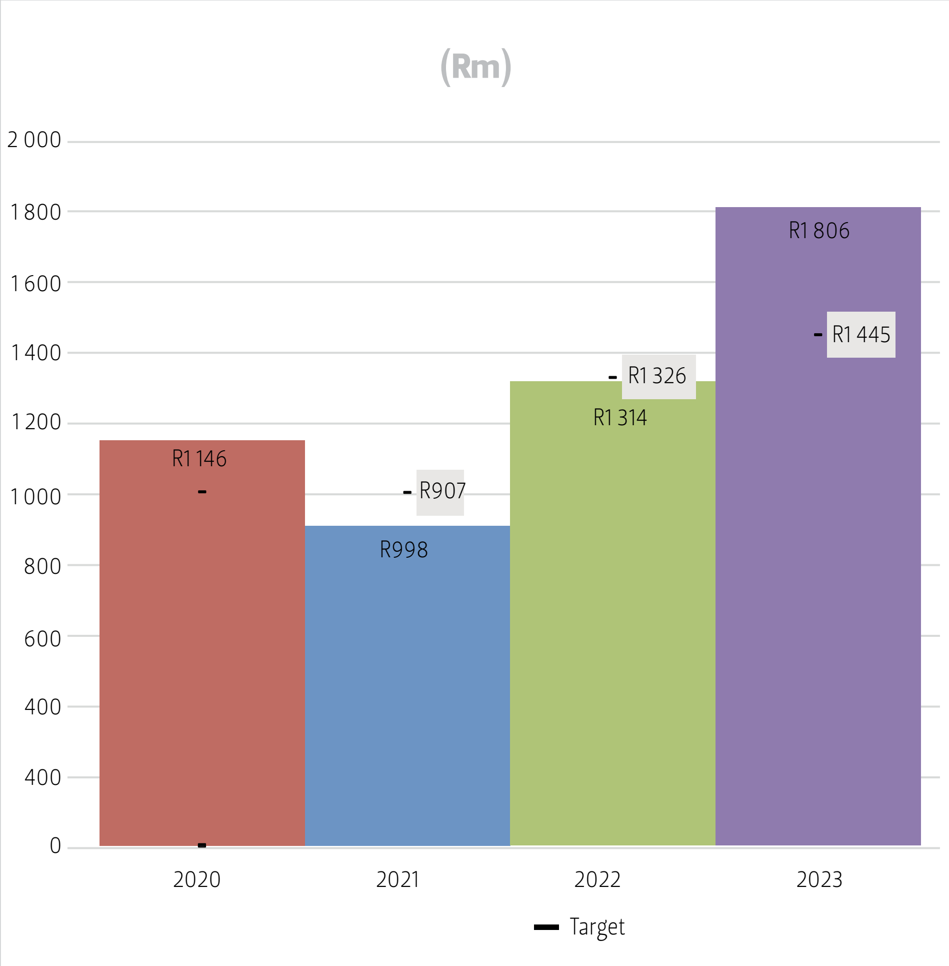
- The industry target of R130bn was for a five-year period from 2018 but was **extended for another year to 2023.**

Targeted investments: components



- The drop in affordable housing was the main driver for the overall decline in empowerment financing. Much of this can be attributed to increases in the repo rate, **from 3.75% in November 2021 to 8.25% in June 2023.**

Supplier development contributions

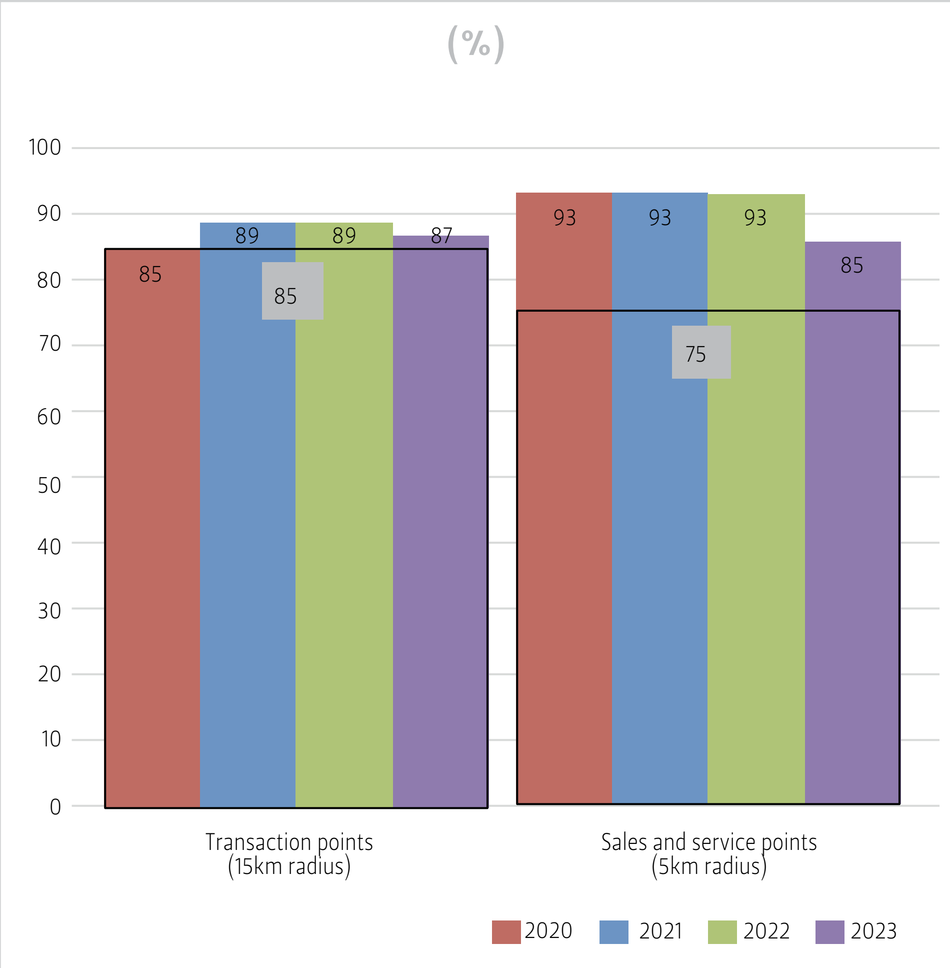


- Supplier development spending increased in 2023 for the second consecutive year after a drop in 2021 due to the Covid-19 pandemic.
- Banks spent **25% above target** in 2023, having been slightly short of target in 2022.
- **Target: 1.8%** of previous year's NPAT.

Enterprise development spend

- Enterprise development spend fell in 2023 but is **34% ahead of target.**
- **Target: 0.2%** of previous year's NPAT.

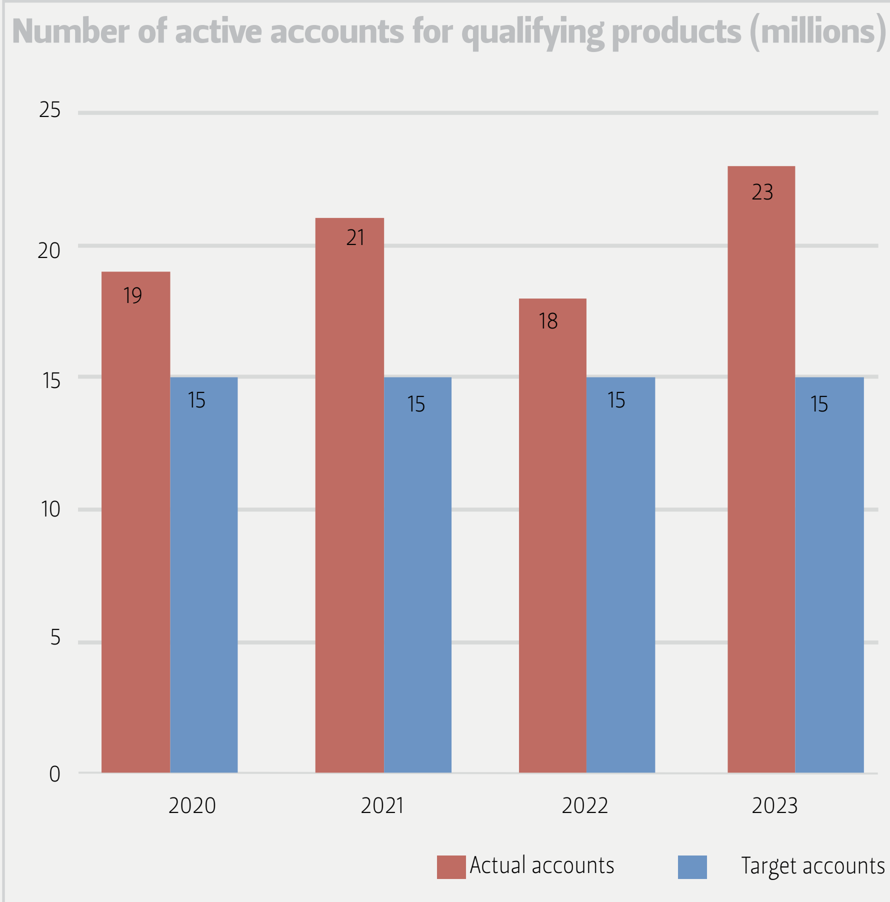
Access to financial services: geographic access



- Transaction points have remained relatively flat despite many banks having closed numerous branches over the four-year period.
- Sales and service points declined 8.6% in 2023 but remain more than 13% above target.

Access to financial services: product access

- The number of active accounts increased 28% in 2023 after declining 14% in 2022.
- They are now 53% above target.



How the banking sector compares

Transformation within the financial sector compares well with available national transformation statistics.

- The 2023 Sanlam Transformation Gauge, reflecting **the scores of 14,542 companies, including 1,076 financial companies,** places the financial sector on level 2 while the national average is level 3.
- The FSTC State of Transformation report for 2020/21 reflects that **nine banks achieved level 1 recognition,** with **one bank on level 2; three on level 3; two on level 4, one on level 7** and **two on level 8.**
- The B-BBEE Commission's National Status and Trends on B-BBEE Transformation Report 2022, incorporated 2,389 scorecards across all sectors. The management control element achieved **58.4% of target in 2022**, **skills development 59.1% of target**, **enterprise & supplier development 55.5% of target** and **socioeconomic development 90.8% of target**.

Ownership target data are not available. Banks are above target on each of those scorecard elements **except management control,** where the sector achieved 96% of target, and skills development (achieved 96% of generic code target).

- The Department of Employment and Labour's 2022/23 Commission for Employment Equity report shows that nationally, 62.1% of top management is occupied by white people and 17.2% by black Africans. For banks, 48% of top senior managers and 54% of senior managers are black Africans.

New laws to drive financial services transformation

Numerous legislative changes over the past two years aim to speed up transformation in banks and increase protection for depositors.The FSCA will play a significant role in promoting empowerment through the COFI legislation. Promotion of financial sector transformation will be an explicit function of the FSCA, requiring all licensed financial institutions to have a transformation plan in place, and empowering the FSCA to take reasonable regulatory action against those that do not uphold transformation commitments as set out in their plans.

By Janice Roberts

Pressure on financial institutions to increase transformation efforts is ratcheting up through new regulations and other measures, with management control a particular focus area. These include proposed new B-BBEE targets for financial services businesses. In addition, the pending finalisation of the Conduct of Financial Institutions (COFI) Bill will give the FSCA more clout when it comes to transformation.

In April last year, the Employment Equity Amendment Act was assented into law by President Cyril Ramaphosa and awaits his signature for the implementation date. This led to the Department of Employment and Labour updating the thresholds for employment equity for each national economic sector, and the following month, the minister of employment and labour published the draft five-year sectoral numerical targets for the identified national economic sectors. Interested parties were given 30 days to comment.

In February this year, a second draft regulation on the sectoral numerical targets was published which provided more detailed guidance on the interpretation of the targets. In addition, the distinction between provincial and national targets was removed, as well as the distinction between designated racial groups (African, Coloured, and Indian). The target now refers to "designated groups" that the Employment Equity Act defines as black people (Africans, Coloured, and Indians), women and people with disabilities. The new draft regulations were open for public comment for 90 days from 1 February 2024.

The proposed targets for the financial services sector include that 46% of top management be made up of employees from the designated groups with a split of 26% males and 20% females. For senior management, the target is a total of 48% from the designated groups with an equal gender split of 24%.

For the professionally qualified level, the proposed target is 64% of employees from designated groups, of which 30% must be male and 34% female. For the skilled and technical level, 88.2% of employees must come from the designated groups; 47.4% male and 40.8% female. The all-encompassing aim is to have 2% of the national workforce represented by people with disabilities, and there is no gender split in this instance.

FSCA, B-BBEE Commission MoU

Another important development in advancing the transformation of the financial services sector was the MoU signed in March this year between the FSCA and the B-BBEE Commission to strengthen cooperation between the two entities. In a joint statement, the parties said: "It is anticipated that the working relationship between the FSCA and B-BBEE Commission will among other things bring to light the gaps that exist in the collection of data on the implementation of B-BBEE in the financial sector. For a while now, the B-BBEE Commission has been concerned about the unacceptable level of submission of B-BBEE compliance reports by the Financial Sector."

In March 2023, the FSCA published its final Strategy for Promoting Financial Sector Transformation which explains how it intends to promote transformation within the current legislative framework, that is, the B-BBEE Act and the Financial Sector Code (FSC), pending the completion of the COFI Bill. The FSCA also published another important document, a summary of the feedback received on the draft FSCA Transformation Strategy. Some key changes include a two-phase plan.

Phase 1 will focus on the role that the FSCA will play within the current legislative framework provided by the Financial Sector Regulation Act, the Broad-Based Black Economic Empowerment Act and the FSC.

During this phase, the FSCA will engage with financial institutions about their existing transformation strategies and the extent to which these have achieved their goals.

Phase 2 will focus on the role that the FSCA will play within the COFI Bill which contains key proposals to strengthen the powers of the FSCA in relation to financial sector transformation. These include making the promotion of financial sector transformation an explicit function of the FSCA, requiring all licensed financial institutions to have a transformation plan in place, and empowering the FSCA to take reasonable regulatory action against financial institutions that do not uphold transformation commitments as set out in their plans.

In July this year, the FSCA published its latest three-year Regulation Plan for the period 1 April 2024 to 31 March 2027 in which it states that it will continue to support National Treasury in developing and finalising the COFI Bill for submission to Parliament. It believes that the development of a holistic, cross-sector, robust and customer-focused regulatory framework under the COFI Bill remains a priority. The bill will shape the future conduct framework, with many of the FSCA's current conduct regulatory projects having some dependency on the COFI Bill's promulgation.

Ownership

The banking sector, meanwhile, has seen its B-BBEE ratings improve in most categories over the years. Ownership ratings received an injection over the past two years with major empowerment deals by Capitec and Absa.

In January 2022, Capitec announced a R1bn B-BBEE employee share scheme. It revised the transaction a few weeks later to partly reduce the tax liability of employees who took up the share offer. While Capitec had initially wanted to issue the R1bn in new shares at a 50% discount and allow staff to fund the purchase of those shares via loans it would provide, it decided to issue the shares at their full price and fund half their value at its own cost. The transaction rewarded employees who were permanently employed by the group for at least three years. The deal increased Capitec's black ownership to above 23%.

In March 2023, Absa announced the implementation of an R11.2bn B-BBEE deal allocating a 7% shareholding to staff and community beneficiaries. The deal is structured with a 4% evergreen Corporate Social Investment component (CSI Trust) and a 3% vesting staff element. Staff employed by Absa's subsidiaries outside of South Africa participated equally in a cash-equivalent staff scheme, equivalent to about 1% of the Absa Group's market capitalisation. The transaction directly affects about 35,000 people employed by Absa and benefited a broader constituency across South Africa through the CSI Trust. The deal boosted Absa's black ownership to above 25%.

> The FSCA will continue to support National Treasury in developing and finalising the COFI Bill for submission to Parliament.

These two empowerment transactions helped drive up the banking sector's overall black ownership levels, with 38% (2020: 28%) of voting rights now held by black shareholders and economic interest (right to share company profits through dividends, etc) at 29% (2020: 24%).

Deposit insurance protects vulnerable depositors

Outside of direct empowerment, two other important developments over the past year affected the banking sector.

The first is the Corporation for Deposit Insurance (CODI), established in April this year with the aim of protecting qualifying depositors, including individuals and non-financial businesses, should a bank fail. According to the SA Reserve Bank, CODI is designed to safeguard the most vulnerable depositors in the country, and it provides cover of up to R100,000 to each qualifying depositor per bank should a bank collapse. This coverage limit fully protects nine out of 10 qualifying depositors in South Africa. Qualifying products include savings accounts, current accounts, transactional accounts, term and notice accounts as well as tax-free savings accounts.

Under the auspices of the Financial Sector Regulation Act 9 of 2017, CODI has established and will maintain and administer the Deposit Insurance Fund, which is supported by, among other options, monthly premiums and loan contributions by member banks, reducing the financial burden on taxpayers.

BASA endorses the deposit insurance framework, MD Bongiwe Kunene says. "All BASA's member banks engaged positively with the SARB in the development and launch of CODI on 1 April 2024 and appreciate the financial stability benefits of having a functioning deposit insurance framework in line with other G20 member jurisdictions."

The second development is a commitment by banks made in September 2023 to promote the rollout of affordable and reliable solar power to residential and business customers. Three banks launched loans with low interest rates that formed part of the national government's Energy Bounce-Back Loan Guarantee Scheme, a plan aimed at incentivising banks to drive the installation of an additional 1,000MW of private solar capacity until August 2024. To enable the scheme, National Treasury provided a guarantee to the SARB for a certain amount of funding. The SARB then lent participating banks part of the funds required to offer low-interest loans for solar power installations. Well over 1,000MW of additional private capacity was added by households and businesses through the loan guarantee scheme, supported also by the 25% tax rebate incentive for first-time installers of rooftop solar, with a cap of R15,000. The incentive ran from 1 March 2023 to 28 February 2024.

This initiative directly contributed to the cessation of load shedding in March this year. South Africa's financial services sector will continue to contribute to the country's economy and its people, while illustrating a firm commitment to transformation.