

The Amended FINANCIAL Sector Code

Jenni Lawrence is the Managing Director of Grant Thornton Verification Services, a SANAS accredited verification agency. She completed the WITS B-BBEE Management Development Programme and is a SANAS accredited technical signatory. Jenni heads up B-BBEE verification services nationally, with the mandate of ensuring that the highest standards of compliance are adhered to. Her vast understanding of B-BBEE was built over a decade working across all business sectors. She writes extensively on the topic of B-BBEE and is the author of 'BEE in the Know'.



Jenni Lawrence
Managing Director
Grant Thornton Verification Services

The Amended Financial Sector Code (FSC) was published for public comment on 17th March 2016. It became effective on 1st December 2017 in terms of Section 9(1) of the B-BBEE Act as amended. There was no Transitional Period allowed; therefore any B-BBEE Certificate for this sector issued on or after this date must be issued in terms of the Amended FSC. The South African financial sector is critical to the economy. It holds more than R8 trillion in assets and contributes 21.6% towards our GDP. As the financial services sector is central to feeding other sectors of the economy, the Amended FSC was explicitly designed with unique features to expedite transformation broadly.

The Amended FSC presents empowering features. Of particular interest is the introduction of 'Black Business Growth Funding', as indicated in Ownership Statement FS100:

Paragraph 3.9.1.2 states "A measured entity subject to code FS600 (banks and life offices) can top up the shortfall in its Ownership points through the provision of 'Black Business Growth Funding', as an Equity Equivalent that becomes available on the exit of empowerment partners. Such financing can be provided at an individual company level or in a collaborative effort with other industry players".

The Amended FSC intends to secure the significant participation of 'Black' People in the economy through funding 'Black' Professionals and businesses, so people in marginalised areas have access to transaction, sales and service points.

In terms of human resources, the emphasis is placed on 'Black' Women on the Employment Equity and Skills Development scorecards whereby separate measurement indicators were introduced. However, it is important to note that, in contrast to the Generic Codes, compliance targets in the Amended FSC are not based on the overall demographic representation of 'Black' People, as defined in the Regulation of Employment Equity Act and Commission of Employment Equity report.

Preferential Procurement weighs heavily towards procuring from 'Black'-owned businesses and local procurement. The focus of Socio-Economic Development shifts towards income-generating activities directly to Beneficiaries.

The introduction of the Empowerment Financing and Access to Financial Services on the Amended FSC scorecard aims to support 'Black'-owned businesses. The aforementioned incorporates 'Black' Industrialists and 'Black' Agriculture Funding to aid the land reform process. Transformational Infrastructure Financing will support low-cost housing, as well as previously neglected areas such as townships and rural areas. According to Minister Rob Davies, the sector will spend no less than R122 billion under Empowerment Financing to invest in Risk Capital Finance and B-BBEE Transaction Financing.

The Amended FSC applies to any natural or juristic person conducting a business, trade or profession in the South African financial sector that includes, however not limited to:

- > Banking;
- > Re-insurance;
- > The management of collective investment scheme assets;
- > Public entities involved in the financial sector, e.g. Land Bank;
- > Private equity, venture capitalist, and impact investors;
- > Retirement Fund Administration;
- > Long & Short-Term Insurance;
- > Financial services intermediation and brokerage;
- > Asset management, consulting and administration;
- > Management of investments on behalf of the public, including, but not limited to, private equity, members of any exchange licensed to trade equities or financial instruments in South Africa and entities as part of the financial index of a licensed exchange.

Priority Elements and Discounting Principle

The same Priority Elements and sub-minimum targets apply to Large Enterprises and Qualifying Small Financial Institutions (QSFI) as per the Amended Codes, with the addition of one or more in certain cases.

The sub-minimum requirements for Priority Elements are set out as follows:

- > Ownership - 40% of the Net Value points.
- > Skills Development - 40% of the total Weighting Points, excluding Bonus Points.
- > Enterprise & Supplier Development - 40% of the points for Preferential Procurement, Enterprise Development and Supplier Development sub-categories.
- > Supplier Development and Enterprise Development are not applicable for organisations operating in Empowerment Financing.
- > Empowerment Financing - 40% of the total Weighting Points, which excludes Bonus Points.

Where an entity is exempted from Empowerment Financing, the priority status does not apply to Empowerment Financing.

Eligibility of EME and QSFI

The criteria for an Exempted Micro Enterprise (EME) and a QSFI are as follows:

Type	Turnover	Level	Comments
EME	Less than R10 million	① Less than 50% 'Black' Ownership = Level 4	Only requires an affidavit confirming turnover and 'Black' shareholding.
		② More than 50% 'Black' Ownership (existing equity deal in place) and at least 51% 'Black' Ownership (deals concluded after the commencement date of Amended FSC) = Level 2	
		③ 100% Black Ownership = Level 1	
QSFI	More than R10 million but less than R50 million	① More than 50% 'Black' Ownership (existing equity deal in place) and at least 51% 'Black' Ownership (deals concluded after the commencement date of Amended FSC) = Level 2.	Only requires an affidavit confirming turnover and 'Black' shareholding.
		② 100% 'Black' Ownership = Level 1.	
		③ If there is less than 50% or no 'Black' Ownership, formal verification is required.	
Generic	More than R50 Million	Dependent on the rating.	Must undergo formal verification.

Amended FSC Scorecard:

	Banks & Life Offices	Short-Term Insurers	Stock Exchange & Stock Exchange Members	Other Institutions	Code Series
Ownership	23	23	23	23	FS100
Management Control	20	20	20	20	FS200
Skills Development	20	20	20	20	FS300
Procurement and ESD	15	35	35	35	FS400
Socio-Economic Development	5	5	5	5	FS500
Empowerment Financing & ESD	25	0	0	0	FS600
Access to financial services	12	12	0	0	FS700
TOTAL	120	115	103	103	FS700

Ownership

There are variances between the Amended FSC Ownership Scorecard and that of the Amended Codes. The targets remain the same, however, the Weighting Points for Economic Interest and New Entrants differ slightly. The points are 3 for both Economic Interest of 'Black' People and New Entrants. This is opposed to 4 and 2 respectively in the Amended Codes. The following Bonus Points apply to the Ownership Scorecard:

"The Amended FSC was designed to drive transformation through the sector."

Direct/Indirect 'Black' Ownership more than 15%	3	10%
Economic Interest and Voting Rights above 32.5%	2	1 point @ 32.5% and 1 point @ 40%.

The following table represents indicators and methods for local branches of foreign banks:

Ownership	Weighting	Target	Notes
Additional 'Black' Industrialist financing or other qualifying equity equivalent contributions.	20	25	Target is equal to 25% of the value of the measured entity, as at 31/12/2010.
Bonus Points			
Funding of 'Black' Industrialist financing or other qualifying Equity Equivalent contributions in the financial sector.	20	25	



Management Control

This element measures board participation in terms of Voting Rights and Executive Director composition. Furthermore, 'Black' People and 'Black' Women are measured separately for 'other executive senior, middle and junior management'. In each occupational level category, Africans are measured against the National Economic Active Population (EAP) target of 75%. The total achievable Weighting Points, for the Amended FSC for this element, is 20 points, as opposed to the 19 points required in the Amended Codes.

Skills Development

The Amended FSC is unique, in that it measures Skills Development spend against a target for each occupational level that is based on the Leivable Amount of each. Skills Development Expenditure on learning programmes which fall within the Learning Programme Matrix for 'executive, senior, middle and junior management', as well as non-management employees, are measured as a percentage of the Leivable Amount for those particular occupational levels. Points are awarded for Skills Development Expenditure on 'Black' Employees with disabilities, as well as 'Black' People participating in learnerships, apprenticeships and internships. 4 Bonus Points are awarded for the absorption of 'Black' unemployed people at the end of the learnership programme.

Enterprise and Supplier Development

As per the Amended Codes, this element has three categories, namely Enterprise Development, Supplier Development and Preferential Procurement. Targets for years one to three and, after that, three years plus were introduced. The targets and Weighting Points differ from the Amended Codes.

Bonus points, in addition to the Enterprise and Supplier Development scorecard, align with the Amended Codes. These points are awarded for procurement spend from 'Black' Stockbrokers, Fund Managers and intermediaries based on procurement recognition levels as a percentage of the total value of trade allocated.

The Empowering Supplier criteria differs from that of the Amended Codes, although these are not currently in effect per a notice issued by the Department of Trade and Industry on 1st September 2016.

Compliance with at least three of the following five points is required:

- > At least 25% procurement spend must be from local suppliers.
- > 50% of new jobs created during the measurement period must be for 'Black' People and the total proportion of 'Black' People since the last measurement period may not have decreased.
- > At least 25% of Socio-Economic Development contributions must be absorbed in educational activities, or at least 25% of Enterprise Development contributions must be directed towards 'Black' Women-owned businesses.
- > At least 85% of the Leivable Amount should be paid to South African employees by service industry entities.
- > Skills transfer: Organisations must spend a minimum number of days, as indicated in the table below, in assisting Enterprise or Supplier Development Beneficiaries to increase their operational and/or financial capacity. This process may be outsourced.

0-20 employees = 1 day	21-150 employees = 3 days
151-500 employees = 6 days	More than 500 employees = 12 days

Socio-Economic Development

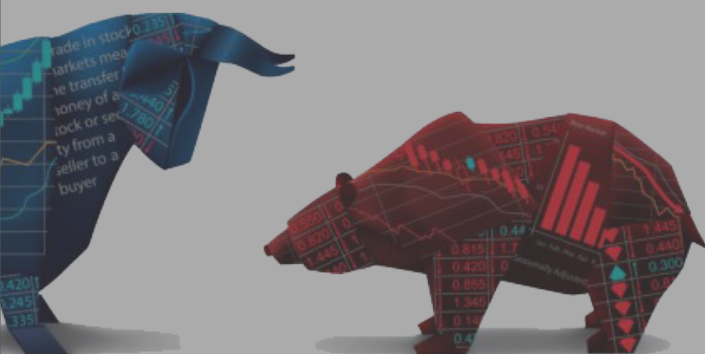
The following table represents the criteria and method used for deriving the Socio-Economic Development (SED) and Consumer Education score in this statement.

Element	Target for foreign branches of International Banks & Re-insurers	Target for other Institutions	Points
Annual value of all qualifying SED contributions by the measured entity as a % of NPAT.	0.7%	0.6%	3
Annual value of qualifying *Consumer Education (CE) contribution by the measured entity as a % of NPAT.	0	0.4%	2
Total	0.7%	1%	5

Bonus Points

Additional CE made by the measured entity as a % of NPAT.	0.1%	0.1%	1
Grant Contribution to Fund is a retail fund.	0.2%	0.2%	2

*Consumer Education is a financial education process that is defined in the guidance note issued by the FSC council, from time to time.



Empowerment Financing and Access to Financial Services

The purpose of these elements is to broaden and expedite the transformation process, to make financial services accessible to those previously unbanked and under-served. The core objective, is to empower previously disadvantaged people through the provision of affordable Empowerment Financing of 'Black' SMME's and agricultural activities. This includes investing in various types of Transformational infrastructure, in order to create the necessary platform to grow the economy on an equitable basis.

This category applies to banks and long-term insurers. Empowerment Financing incorporates Targeted Investments and 'Black' Industrialist financing or investment in transformational infrastructure projects which support economic development in undeveloped areas. This is in addition to contributing to equitable access to economic resources. Such infrastructure projects could be in the following sectors:

- > Transport, telecommunications, water and solid waste, energy, social infrastructures such as health, education or correctional service facilities, as well as Municipal infrastructure and services.

'Black' Industrialist financing will be measured against a combined target with fungibility between the various sub-components, determined by the business model of an organisation. If an organisation is unable to invest in targeted investments in any of these sub-categories, it must invest the value of the targeted investments in Enterprise Development initiatives, with the points thereafter being adjusted accordingly. For banks, the target for targeted investments is R48 million in new balances, and for the long-term insurers, the target for targeted investment is R27 million.

Access to Financial Services

The following Entities are exempt from Access provisions :

- > If a financial institution is a wholesaler, in the sense that it is not a provider of first order financial products and services, it will be exempt from the provisions of Code FS700, unless it opts to be so bound.
- > If the financial institution is a retailer of first-order financial products and services, however, on the grounds presented to and accepted by the FSC Council, it would be inconsistent with its business model for it to extend these products or services to low-income communities, it will be exempt from the provisions of Code FS700 unless it opts to be so bound.

Banking access methods include:

Transaction, service and sales points, electronic access, banking densification and product-related access, each have their criteria and Qualifying Market or Area.

Long-term insurers are measured as follows:

Appropriate Products: Life Products suitable for identified needs. Life products considered are those which address identified priorities of death and serious illness. In the access market, these risks are often insured through funeral schemes and credit life cover; however, other forms of product are possible. A set of minimum standards for Life products is retained, akin to the UK CAT standard approach, CAT= fair charges, easy access and decent terms. This ensures that appropriate products are available to those requiring risk mitigation tools to address identified priorities. A process will be put in place to enable the update of these standards from time to time, which will allow for the creation of new standards. These can be accessed here as published in the meantime: <http://fscharter.co.za/guidance-notes.php>

Transactional access: This is the opportunity to purchase a product, pay premiums due, make amendments to the policy, and lodge claims and payment thereof.

The key measurement of success for the provision of "effective access" is the penetration level or usage of appropriate products within the above target market. Targets for transactional access and penetration will be measured by in-force or on the books business, at the date of measurement.

Short-term insurers are measured as follows:

A maximum sum insured metric has been established as a base for target measurement of performance across the short-term insurance sector. This, however, excludes cell phone insurance and consumer credit insurance, which has been adequately covered elsewhere in the market.

The maximum sum insured metric has been structured to target those areas of the population which have been previously uninsured.

