

## **BMI-DST-ABSA DIRECTED RISK RESEARCH CONFERENCE – 2 JUNE 2016**

### **GENERAL ISSUES RAISED**

Dr Phethiwe Matutu

Investigation should be launched into the relationship between the excellent performance of South African financial sector and the high absorption rate of PhD and Masters qualified employees in this sector.

University of KZN (Mike Murray)

The lack of available data from the banking sector makes it very difficult for postgraduate students to do research in this area.

Stellenbosch University (Willie Conradie)

Many banking representatives present at DST conference, but where are the asset managers?

Ina de Vry responds: Move toward index-tracking means that Risk is becoming less of a concern to asset managers. Also, where are the insurers?

## **RESPONSES TO “WHY DOES YOUR ORGANISATION HAVE AN INTEREST IN THIS INITIATIVE?”**

(Riaan de Jongh, NWU BMI)

- This is a national initiative, not restricted to BMI or any other individual university
- Imperative to get universities involved in technology-pull research
- Main objective of current programme is to support the needs of the banking sector

BASA (Gary Haylett & Mark Brits)

- Skills being rotated from one bank to another – new skills need to be developed
- They are not thinking purely “banking” anymore – rather “RSA”, i.e. issues that affect the nation globally
- With the BASA announcement of the Centre of Excellence this initiative became more important to understand what the landscape of education currently offers

SARB (Neil Maree)

- They have a cross-banking industry view – resources are being recycled => need for resources
- Not only quantitative skills. Also needs skills to effectively convey message to management
- Need for a long term sustainable solution as an industry (Lot of new regulatory requirements)

BANKSETA (Angie Naidoo)

- Key responsibility to develop skills for banking and micro-finance sector.
- Skills planning & funding of PhD’s – last funding window generated fewer than 20 requests for funding. Will open another funding window.
- They provide support any type of industry-relevant PhD study across the banking sector.
- Digitization / big data is one of the key drivers of change in banking sector – need BMI type training and research programme in collaboration with one or more universities.
- Strategy session with BANKSETA Board coming up – how to allocate 2017/18 funding – want to focus more on Masters and higher level skills development.
- Problem is that the qualifications that banks seem to find valuable are international and BankSETA is not allowed to fund those => better level of cooperation between local and international universities required.
- Also put out a call for proposals to universities to establish a post-school training facility, with no response from public higher education institutions. Private institutions do respond, but at exorbitant prices.

IRMSA (Sheralee Morland)

- IRMSA focus to date has been qualitative – challenge is how to move across and meet up with the quantitative environment.

NEDBANK (Sheralee Morland)

- Given the level of Absa’s involvement in sponsoring the development of risk skills, she would like to see a stronger involvement from Nedbank’s side (Want the equivalent of Neels’s Absa slide with green blocks).

NATIONAL TREASURY (Bheki Gutshwa)

- Risk management seems to be a bit on an isolated track in the Treasury – maturity level in Public Sector is too low. Interested to see what is available and how they can reposition themselves to get the skills.

## INDUSTRY NEEDS WITH RESPECT TO RISK MANAGEMENT THAT UNIVERSITIES CAN RESPOND TO

1. (Eddie Lindeque, TRANSNET)
  - March 2015 launched project with Dept. of Public Enterprises to do feasibility study on quantification of risks for State-Owned Enterprises – lost traction, nothing has happened, due to lack of skills.
  - Big need for risk modelling beyond financial risks
  - Big investment in infrastructure development, with a strong requirement for project risk management (quantification and contingency planning). Also on portfolio level – how to assess program risk?
2. (Ina de Vry, BAG)
  - A number of the problem statements focused on “market factors” and modeling stock price movements, which would be of interest to traders, but not to people from a risk perspective.
  - Risk people are interested in risk measurement, for example how to handle low default portfolios, scorecard building, the use of big data in scorecards and survival theory/methodologies in the development of credit models.
  - The biggest part of the bank revolves around credit, hence the importance of credit risk models.
3. (Riaan de Jongh, NWU BMI) We have identified with UP (Eben Mare) five risk themes that are important in banking a) Market Risk b) Credit Risk c) Operational Risk d) Regulatory Risk d) Systemic Risk – we see far too little work being done in credit risk, and we need to increase the level of expertise there.
4. (Ina de Vry, BAG) How to measure sovereign and country risk is also a problem.
5. (Bheki Gutshwa, Treasury) Research must address industry needs, i.e. must be solution-based. Post graduate studies should address a particular problem. (e.g. as done by MCom in Applied Risk at NWU’s VTC).
6. (Riaan de Jongh, NWU BMI) Everyone will be allowed to participate in the process going forward – People from industry / Public Sector / Parastatals can formulate problem statements and submit these to Phillip Mashele and we will push them through the process and offer them to universities to respond to.
7. (Diane Wilcox, WITS) Access to data is a problem if they want to work on credit risk. Problem also mentioned by Mike Murray (UKZN) – need a generic pool of real, desensitized data.
8. (Riaan de Jongh, NWU BMI) They find that by doing projects for Absa they have access to data and gain insight into it. When done with the project, it provides a useful basis for a paper, subject to the data being suitably desensitized. Many of the projects that BMI classified under the “B” category (Projects without a DST Problem Statement but with immediate and obvious practical application) comes from this source
9. (Chan Naidoo, Sasol) Most of the risk training programs have a strong financial focus, whilst risk is actually a much bigger topic. Outside of the financial sector there are manufacturing and other industries with a host of other operational risks that are critical to be measured and managed for their efficient operation. There seems to be little flexibility from academic institutions to apply risk research to wider fields - The only program that he could find that provided some flexibility to tailor it to his needs was the MCom at the NWU VTC Centre for Applied Risk Management.
10. (Riaan de Jongh, NWU BMI) Universities are reactive in this process – one of the main reasons that the BMI programme has progressed so far is because of the seeding backing by Absa. Cue for other members of industry to do something similar to gain skills in managing the risks that concern them?
11. (Chan Naidoo, Sasol) This has created an opportunity for a lot of short courses by private training providers, which are prohibitively expensive – this is an opportunity there for the taking by universities.
12. (Mark Brits, BASA) They have been struggling for a while to gain access to data on an aggregate level from the banks, which has been aggravated by the introduction of the POPI act – the regulator is the only

institution that is legally entitled to have access to such data. To provide such a pool of data will mean that these legal issues have to be resolved.

13. (Riaan de Jongh, NWU BMI) They found that when proposing to write a paper on a project that they have done for Absa, confidentiality is invariably a problem. Inviting the industry client to be a co-author for the paper helps to resolve these issues.
14. (Ina de Vry, BAG) Privacy is a huge issue for banks, and they will only provide data if it has been suitably scrambled and desensitized, subject to a strict set of criteria. We need to find a way, as Mark said, to address the legal requirement in order to generate a suitable pool of desensitized anonymous data.
15. (Freek van der Walt, BAG) Internationally, there is a global credit consortium GCD (Global Credit Data), a data sharing service that is run by a European Institution, which all the banks contribute to. The data gets anonymized, and then you can source data back. They do have an initiative for academia, where you have to submit a proposal to specify what data you require for what purpose. Their data is structured to estimate LGD (Loss given default) in credit risk. This is mostly in the wholesale space, where availability of data is a problem because of its low frequency.
16. (Neels Erasmus, NWU BMI) There is also the ORX database for operational risk losses, which works on a similar principle.
17. Freek van der Walt, BAG) GCD has also extended their service now to cater for the estimation of probability of default. They were called PECDC = Pan European Data Consortium before
18. (Riaan de Jongh, NWU BMI). BMI tried to access the service before but did not complete it because of other priorities – this service is however an opportunity for other universities.
19. (Jackie Young, UNISA) Suggests that this be repeated annually? Already experienced the benefit that he has as a PhD student working on frameworks for Public-Private Enterprises, and he would like to invite Eddie Lindeque to come and sit in on some of their colloquiums.
20. (Hermien Zaaiman, NWU UARM) We would like to have the program expanded to also include the more qualitative aspects of risk management, and look at issues such as strategic and people risk, which includes behavioural, conduct and reputational risk, all of which ultimately culminates in managing the risk culture in an organisation. This type of risk cuts across sectors and the traditional risk types
21. (Machiel Kruger, NWU BMI) If the focus is going to be stronger on big data, then consideration will also have to be given to provide universities with the capacity to store these massive data sets as well as the ability to move these data sets between the customer and the university.

#### **Summary with respect to availability of data:**

- WITS: Access to and availability of data is a big problem especially in Credit Risk space. Industry should look into creating a pool of generic data.
- BASA: The legal aspects are problematic, but BASA is looking into this.
- Absa (Ina): Is there not a way of scrambling/anonymising bank data and making this available to academia?
- Abas (Freek van der Walt): Global PECDC database is available – must look into how this can be utilised.
- BMI (Machiel Kruger): Must keep in mind that the moving and storing of “Big data” is a major issue.