



Stakeholder Engagement Report 2021/22



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ABOUT US

HISTORY

The World Economic Forum, Global Competitiveness Report, has previously rated the South African financial sector amongst the top ten in the world and as a sector, is by far the most significant contributor to the countries overall ranking. Within the financial sector, both the Johannesburg Stock Exchange and the banking industry were consistently ranked in the top three and top six in the world, respectively.

South Africa provides a financial centre for the African continent and in the State of the Nation Address on 11 February 2016, the president announced that The Banking Association South Africa would establish a centre of excellence for financial services and leadership training in support of this national objective.

The board of The Banking Association South Africa approved the establishment of a centre of excellence in financial services at their annual general meeting, and an independent non-profit organisation was registered on the 23rd of December 2016.

OUR VISION

Our vision is to bring together thought leaders, both local and international, to interrogate the role financial services can play in achieving national and international objectives, in collaboration with industry experts and academics.

OUR MISSION

Our mission is to identify friction points in the financial services sector and initiate appropriate research to engage policy makers, regulators, and industry participants by initiating broader public dialogue through credible thought leadership



EXECUTIVE DIRECTOR REVIEW

As we emerge from the National State of Disaster, and the mask wearing protocols of the Covid-19 pandemic are no longer visible, society is beginning to return to a new normal. Remote work has become a viable alternative as many businesses, particularly in the financial sector, scale down premises and move to a blended model, where staff work one or two days a week in the office.

The R350 Social Distress Relief grant, that was introduced to support those with no income during the pandemic, is likely to be converted to a more permanent basic income grant, while many citizens that preferred cash for its convenience, have transitioned to digital banking and on-line shopping out of necessity.

Unfortunately, there were also challenges like the national vaccination programme of government in response to the Covid-19 pandemic, where a decline in vaccination rates resulted in around eight million doses of Pfizer vaccine being destroyed. Much work still needs to be done to better equip government and society to be able to respond to a global crisis such as Covid, or a local crisis such as the recent flooding in KwaZulu-Natal, as these events potentially become more frequent.

The post pandemic research agenda resulted in COEFS being awarded a tender to do research for the South African Reserve Bank Financial Sector Contingency Forum titled “*Building an inventory of lessons learnt from the Covid-19 pandemic*”. This important piece of research necessitated the expansion of our team and has provided COEFS with an opportunity to substantially engage the broader financial sector on an important topic.

Our research paper titled “*Measuring competition in banking*” was published, and from the research we were able to conclude that simple mathematical models provide no meaningful information for policy makers. The research paper has been well received and we have started a follow up research paper to identify where practitioners in banking see competition by interviewing both current a retired senior executive.

The South African Bank Lending Practices Survey is used as an important input into economic models run by other organisations and has provided a platform to engage with the heads of credit in the banking industry, on topical subjects like the effects of the July unrest on bank credit stance, the effects of the

Russian invasion of the Ukraine, the potential grey listing of South Africa by the FATF and support for the government localisation programme.

The Industry Directed Research Unit continues to source problem statements from banks and other organisations in quantitative risk research, cybersecurity, and data science. The value of the programme over the years has been evidenced through the co-funding of over 300 masters' students and 23 doctoral students, producing 182 papers with some achieving local and international awards.

The Centre of Excellence in Financial Services has an accomplished board with many decades of financial sector experience. Their support and guidance are invaluable and greatly appreciated. Our chairman, Mr Bert Chanetsa is always available, and his counsel is invaluable.

The generous support provided by The Banking Association South Africa remains a key success factor for COEFS, reducing not only the operating cost, but also enabling necessary insights into emerging trends. Our small team of professionals that ensure we comply with the many regulatory requirements and produce quality research are indispensable and critical to our success.

Executive Director

Mark Brits



BOARD OF DIRECTORS



Executive Director
Mr. Mark Brits
Senior General Manager at The
Banking Association South Africa



Chairperson
Mr. Bert Chanetsa
Former Deputy Executive Officer of
Financial Services Board



Director
Mr. Cas Coovadia
CEO of Business Unity South Africa



Director
Dr. Reuel Khoza
Chairman of Public Investment
Corporation (PIC)
Chairman of Dzana Investments (Pty)
Ltd, AKA Capital (Pty) Ltd



Director
Ms. Bongzi Kumene
Managing Director (MD) of The
Banking Association South Africa



Director
Mr. Lumkile Mondi
Senior Lecturer at the School of
Economics and Business Sciences of
the University of the Witwatersrand



Director
Ms. Karabo Morule
Non-executive director Tyme Bank
Non-executive director Public
Investment Corporation (PIC)



Director
Mr. Euvin Naidoo
Faculty member and lecturer at
Harvard Business School



Director
Mr. Sizwe Nxasana
Founder and Chairman of Ikusasa
Student Financial Aid Programme
(ISFAP)



OUR APPROACH TO RESEARCH

The COEFS board takes responsibility for setting the research agenda, ensuring that it resonates with our mission and vision. Drawing on the collective experience of our board members, it is our view that the research produced by COEFS should be future oriented and embrace thought leadership.

Emerging issues in financial services are ever present and provide ample opportunities to research. But research comes at a cost of either time and/or budget and the board is tasked with finding an appropriate balance between the relevance of the research to be undertaken, and the research approach. The board has indicated their willingness to promote the research and produce opinion pieces to shape an emerging dialogue.

The most valuable research produces innovation and new ideas, challenging conventional wisdom through well-structured arguments. COEFS begins each research project in-house by developing a working paper. On the merits of the content of the working paper, a more in-depth research report could be required that may entail external consultants.

COEFS research has been distributed through our website but also strategically, to ensure that selected individuals are provided an opportunity to access the research. Interest parties from as far afield as Brazil, Czech Republic, Egypt, Gabon, Ghana, Greece, India, Indonesia, Kenya, Malaysia, Nigeria, Philippines, Poland, Slovakia, Sri Lanka, Swaziland, Tanzania, the United Kingdom, the United States of America, and Zimbabwe have downloaded our research. Translating one of our working papers from English to French and Portuguese substantially increased its readership.





INDUSTRY DIRECTED RESEARCH UNIT

The Industry Directed Research Unit (IDRU) was established to promote collaboration between the financial sector and South African universities. By providing real world industry problem statements to students, the skills needed to solve practical problems experienced within the financial sector, enabled universities to focus on solutions-oriented research.

Harnessing the talents of our students in the mathematical, science and risk disciplines, benefits the sector and simultaneously nurtures much needed talent for future careers.

The commitment of large financial institutions to provide problem statements and work with students to a satisfactory resolution of these problems, is an important element of this programme. From October 2020 NWU's research Unit for Business Mathematics and Informatics (UBMI) took the position of the lead node and was supported by the Centre for Business Mathematics and Informatics. UBMI continued to follow the funding guidelines from the Steering Committee when allocating funds to other South African universities.



Focusing on data centric research, the programme aims to incentivise the data sciences and stimulate solutions to traditional mathematical models that hamper economic growth, enabling financial institutions to better understand and thereby manage risks in underserved markets.

As the industry grows, the need for data analysts, cyber security professionals and FinTech specialists has introduced a new spectrum of problem statements that challenge traditional boundaries. Renewed focus on payments and fraud, together with several internationally applicable legislative interventions, has broadened the landscape for problem statements providing new opportunities for research in mathematical sciences.

During the past year, problem statements submitted to the IDRU were predominantly grounded in risk disciplines with some focused-on credit and operational risk. In 2021, a bursary scheme was introduced in the programme due to the need to recruit more masters and doctoral students from previously disadvantaged backgrounds. A request was sent to different university representatives to nominate students.

MSc bursary support was offered to 4 students who qualified for the bursary and were in need of financial support in 2021. The value of the programme over the years has been evidenced through the co-funding of over 300 masters' students and 23 doctoral students, producing 182 papers with some achieving local and international awards



RESEARCH REPORTS

Measuring competition in banking

The research report “Measuring competition in banking” has been published on the COEFS website. The report takes an in-depth look into the measurement of concentration and by default competition in the banking industry. The report examines 17 different measures of competition and suggests that the Herfindahl-Hirschman Index, the simplest and most popular measure, provides no guidance to policy makers on the state of competition in the banking industry. The research introduces the concept of a banking franchise to explain why highly regulated organisations like banks behave so similar.

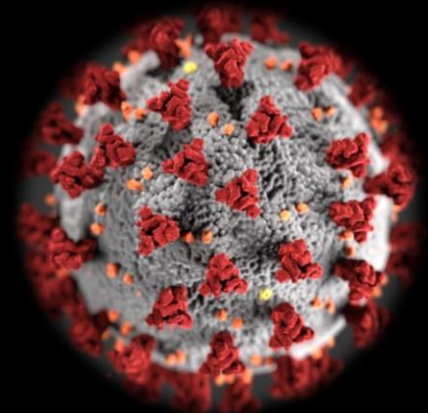


We shifted the focus away from shoehorning the banking industry into a market structure like a monopoly or perfect competition, to rather focus on the impact of banking on society.

The research paper has been well received and we have started a follow up research paper to identify where practitioners in banking see competition by interviewing both current and retired senior executives.

Building an inventory of the lessons learnt from the COVID-19 pandemic

The South African Reserve Bank (SARB) has appointed COEFS to conduct the research study: Building an inventory of lessons learnt from the Covid-19 pandemic. The research focuses on the calendar year 2020 covering the period between December 2019 to January 2021.





WORKING PAPERS

South African Bank Lending Practices Survey

Our publication, the South African Bank Lending Practices Survey (BLPS), supported by the heads of credit of the South African banks, provides an opportunity to capture lending sentiment within the banking industry.

The data collected from the South African Reserve Bank BA 900 returns, has shown a high degree of correlation between the BLPS forecast and actual outcomes, evidenced by the data. In 2021, we decided to conduct interviews with the heads of credit of the big 5 banks based on the July unrest. This exercise was undertaken to see if we could extract further insights on the impact the July unrest had on credit sentiment. In these interviews the banks stated the tools put in place during the COVID-19 pandemic enabled them to respond to the July unrest in a more efficient and timeous manner.



Measuring sentiment in the credit industry is a leading indicator of likely economic activity, and our experiences thus far have shown that this sentiment is consistently evidenced in the growth of lending portfolios. We have begun engaging the broader non-bank sector to determine if there is more value to be derived in broadening the credit focus and perhaps providing a platform for engagement.

We are planning to split the survey into two parts.

Part 1 will be the South African Bank Lending Executive (SABLE) Survey which will be consolidated survey results from the member banks with supporting interpretation. This will not be publicly available. Part 2 will be the Bank Lending Practices Survey, which will include an analysis of the BA 900 returns compared to the survey results received from all the heads of credit and various topics on credit.



EVENTS

Measuring competition in banking

At the invitation of the Southern Africa-Canada Chamber of Commerce, the executive director was invited to speak at Eduvos University on the research undertaken by COEFS into measuring competition in banking. It was well received by all the participants, and this was a positive endorsement for our brand.

