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The role of financial services IN SOCIETY

Scandals in recent years exposed a number of weaknesses in our financial system. From poorly designed incentive systems to illegal or unethical activities from some market participants, these slights have come with an enormous cost to society. Naturally, this has resulted in significant loss of public trust in financial services as a whole. Taking inspiration from a 2013 thought-piece, published by the World Economic Forum (W.E.F) in collaboration with Oliver Wyman, we consider what the role of financial services should be and the evolution that is required to gain back this confidence from society at large.

The sub-Saharan imperative for a well-structured financial system is more urgent still. The Chairman and CEO of Visa Inc., Joseph W. Saunders in "Special to Roll Call" of 23 September 2009, highlighted the asymmetry in the global economy with less than half the world's population not having access to basic financial services. The Banking Association of South Africa, put Financial Inclusion in context, explaining that in South Africa, 12 million people are considered as financially excluded with 9% informally served. They estimated that the R12 billion that is currently kept "under mattresses" does nothing for the promotion of pro-poor growth or poverty alleviation.

Focusing on the insurance sector there are several ways in which insurance services contribute to economic

development (USAID, 2006), by;

- (i) Promoting financial stability for both households and firms;
- (ii) Mobilizing and channeling savings;
- (iii) Supporting trade, commerce, entrepreneurial activity and social programmes; and
- (iv) Encouraging the accumulation of new capital and fostering a more efficient allocation.

A World Bank study, conducted by Vittas (1998), concluded that insurance companies and pension funds can provide a strong stimulus to the development of securities markets. This relationship occurs because life insurers and pension funds can accumulate large amounts of savings in countries, which, in turn, are invested in businesses through equities and bonds. The result is that as life insurers grow, they channel large amounts of medium to long-term funds through capital markets, deepening the country's financial sector. Non-life insurance supports the achievement of sustainable development through the pricing of various types of environmental risk to help pay for environmental damage. The important contributions to individual and social welfare from effective risk management cannot be understated.

Gaining back confidence in financial services

The Institute of Chartered Accountants in England and Wales (ICAEW) put forward the four strands of thought

leadership in financial services that will help to inspire confidence in the industry.

| Responsible Providers | Responsible Consumers | Better Regulation | Better Information |
|----------------------------------|--|---|---|
| Integrity | Financial literacy | More up to date and innovative regulation | Information flexed to user requirements |
| Independence | Personal responsibility for financial security | Responsive to global business | Balancing transparency and commercial sensitivity |
| Simplify products | More investment in long term saving | Management of regulatory cost through impact assessment | |
| Skill and qualities of workforce | Reduction of personal debt | | |

This self-correction will be a difficult journey but deliberate effort in each of the spheres will result in the sustainable wins in the longer term for all stakeholders.

The bold and innovative action that is required in this industry can come from all corners, and one such example of financial inclusion and developmental finance has been the establishment of the **Young Women in Business Network** who have plans to revolutionise the financial services landscape in South Africa.

Background

The Young Women in Business Network (Pty) Ltd (YWBN) is a broad based women's empowerment company, owned, controlled and managed by women from various professions, businesses and industries who are dedicated to the economic empowerment of young women and women in general.

It began as a long-term investment club based on the traditional stokvel model, but one that spoke to the Broad-Based Black Economic Empowerment Act, which

is focused on black ownership. Now operating as a fully-fledged women-owned co-operative bank, its membership is in excess of 500 members, collective savings of R10 million and have loan options available to its members of up to R300,000 a time.

KPMG spoke to their founder, **Nthabeleng Likotsi** about their journey to date and the opportunities that lie ahead in financial services.

Nthabeleng Likotsi - Bio

Born in the township of Botshabelo in the Free State, Nthabeleng was inspired by her entrepreneurial family. Both her parents, leaders in their own right, had been in business before she had been born – before BBBEE or the dawn of democracy.

She completed her formal education in Gauteng – obtaining a National Diploma in Accounting from the Technikon of Pretoria, a Bridging Certificate in the Theory of Accounting from the University of Johannesburg and a Certificate in Entrepreneurship from the Wits Business School. Before pursuing her entrepreneurial ambitions she worked with KIA motors and Imperial. Nthabeleng holds the title of Chief Executive Officer of the Young Women in Business Network, and is dedicated to the economic empowerment of young women. She also serves as non-executive director on the Boards of various unlisted companies.

What was the driving force behind your motivation?

The motivation and influence comes from home. Growing up in an entrepreneurial family I have always known that while most people need a job, mine was to start a business but the only question has always been what kind of business. I've always been passionate about working with people – whether it was (at the age of 15) talking to communities about teenage pregnancy, alcohol and drugs I've always known that developing people was my calling.

How have you experienced BBBEE?

In 2009, after having left formal employment and doing some research, it was clear that the government had been strongly punting BBBEE. You need to be young, you need to be black, you need to be a woman for all these opportunities and I thought that given my qualifications and experience that this was all I needed. Then I discovered that the market viewed BBBEE as a stereotype of tenders, that it excludes big corporates, that it involves only black men who, after collecting the money, do not complete the job.

I've since researched further into the seven elements of BBBEE and have taken inspiration from WIPHOLD about how this can be done well to break stereotypes. My former CEO Mr. Ray Levin, who is now one of my mentors, broke it down for me – Companies that need to transform do not need me just because I am black – I must be able to demonstrate what I have to offer and this set me on my journey.

Inspiration for me is found in so many places – one of them being another mentor of mine, Mr. Veli Mokoena the non-executive Chairman of Ukhamba Trust – the BBBEE employment scheme for Imperial. They started with investments of R20 million and five years later they had created transformative wealth and were managing a portfolio of some R4 billion.

And YWBN? What inspired this?

When I discovered that stokvels – in the late 2000s – were a market of some R40 billion – I was surprised to hear that they were referred to as the “informal sector”. This practice has been happening for years, for generations in our community but it is not formalised and the banks are now trying to tap into that market. In our communities, I noted that the high bank fees were a deterrent to use formal structures.



IFRS 9

The completion of IFRS 9 marks a breakthrough in financial instruments accounting.

IFRS 9 (2014) Financial Instruments brings fundamental changes to financial instruments accounting.

The impact of the new standard is likely to be most significant for financial institutions. For banks in particular, the effects of adoption – and the effort required to adopt – will be especially great. However, businesses in all sectors will need to identify the impact of IFRS 9.

Let KPMG help you understand how the new requirements and the possible impacts for your business..

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I was then introduced to an investment opportunity in 2011 which is Namlog – Namlog was looking for a group of women to partner and buy 26% of the business. We started the movement and aimed to raise R1 million using the stokvel model – but rather than sharing the money in December of the year we would encourage the participants to invest for a period of 5 years. And this was the start of a great adventure for us.

After a 2014 visit to Switzerland to represent women in South Africa, I was further inspired to encourage the culture of saving and hone into our target market. Since then, we launched the co-operative bank outstripping our initial targets of funding. Now registered with over 500 people in our network, we offer bridge financing akin to development finance to these members.

It was certainly a highlight and a surprise for the Co-operative Banks Development Agency, that in such a short amount of time – just eight months - we were able to submit our registration and raise more than our initial required funding target.

We have aspirations to enter the main stream banking market – and nothing will be off limits for us. After this, we can move into the insurance space with an entry into commercial insurance, given our focus on enterprise funding and then at a later stage we would venture into personal insurance.

Entrepreneurship – Do you think this is something that you are born with or is it something that can be taught?

As it happens, having a masters in entrepreneurship, we discussed this topic often in my classes. In the context of academia we have identified a number of entrepreneurs:

- Opportunistic entrepreneurs, who spot advantages – like if you can tender based on BEE credentials;
- Circumstantial entrepreneurs, who as a result of losing a job are forced to be resourceful;

- Lifestyle entrepreneurs – who get into this to support the quality of life that you want;
- Born entrepreneurs – These are the ones that resonate with me. Normally they will want to create generational wealth that will go beyond their lifetime – to their children and grandchildren - and this is powerful.

With that said, no one type of entrepreneurship takes away from the value of others. Your character is a measure of your entrepreneurial ability – and this cannot be measured. True entrepreneurs know that you have to be resilient: while circumstances may try to break you, you must show that you cannot be broken.

I have met a lot of people that fall into these categories. While not everyone is a born entrepreneur, we can all strive to be entrepreneurial in our thinking – and this can be taught. For a lot of people, they don't understand that the spaza shops in every location is an example of this. But for so many, we are not taught that this is business and that is the message I am trying to instill in people.

Did you know that the hawkers in Johannesburg, Tshwane and Springs make over R4 billion per annum selling vegetables in small plates? That is power and they do not even realise it. What they see is the R1000 that they make, but not the collective R4 billion sold in a year. When you realise this you can understand that you are able to actually compete with some of the biggest retailers.

But it is our responsibility in this generation to go one step lower and bring this awareness to smaller business and teach them about business models and how to make it work. We can go to the *mama* in the corner of the road and inform her of collective bargaining so that she and her friends can use this to transform the profitability of their business. At YWBN we understand that it is often the hardest thing to change somebody's mind set but it is the most important. We need to teach these skills from a primary school level. There is no way with such a

high unemployment rate in this country that we choose to not to act now. Our own graduates can volunteer and bridge this gap. The issue, really, is that we have too many analysts and too few implementers – We need to take all this analysis and recommendations and actually do something about it.

How do you view big business and are you nervous about how they perceive you as competition?

I simply block them out of my mind. We have a completely different narrative – one more akin to development finance. Big banks have a legacy of hundreds of years and as new kids on the block we, need to focus on what our purpose is and getting on with what we do. Some people tell us that we cannot do a lot of things - but we prefer to take on these challenges head on and if we get burnt we just learn from the experience.

What have been the biggest challenges to date?

The biggest issue for us was building up our profile. Sometimes just getting a foot in the door for a meeting is the challenge. From day one of doing research we were referred to the bigger firms to run the process for us – but this comes with enormous costs and is not conducive to smaller startups. This is indicative that the door to business is locked and someone has already thrown away the key. The responsibility rests with you to find that key to open the door.

What has been uplifting is that the YWBN brand has grown and when asked what it means to people that know us, we hear that the brand is one that gives people hope – and in particular the hope for how it may liberate our people out of poverty.

This is a questions that I am often asked and I block the challenges out of my mind. For me it is about finding any means to get to the goal that has been put in front of you. What is important is continuously contributing using our own skills and networks to grow.



IFRS 17

IFRS 17 has the potential of creating greater transparency and comparability in financial reporting, lowering the cost of capital, and enhancing efficiency in the finance and actuarial functions. However, many insurers are still skeptical about the potential benefits, while forward-thinking insurers are planning to capitalise on these developments.

If implementation of IFRS 17 is to reach the best possible outcome for your organisation, we believe that it needs to be seen as more than just a compliance exercise. The initial Assess phase is essential and executives should start by examining successes in previous large-scale projects to avoid past mistakes.

Let KPMG help you understand the new requirements and the possible impacts for your business.

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How or what would you do to manage talent retention in a firm that is supportive of transformation objectives?

Each person needs to demonstrate their value in an organisation, while also keeping transformation in the forefront of people's minds. What cannot be overemphasised is that there should be a preference for the quality of how good the person is – and not only focus on their race or gender.

The other angle will be to make sure there is the right mix of people with legacy in the organisation that can take you through the journey of the entity from scratch. But this needs to be mixed with a new generation who have an energy for change. This mix is important.

People also need to understand that they have agency. Focus needs to be applied to making entrepreneurship real within a business – that each person can be an “entrepreneur”. The open door environment must be fostered so that people have the sense that they are getting the best of both worlds – the stability of a salary each month with the benefit of driving growth and transformative change in a business. I was lucky to have seniors and my managers that were open to me going straight to the top with my ideas. Not all the ideas were good, or feasible – but it was empowering to know that I had the freedom to have the conversations and contribute towards the benefit of a company.

You have been lauded in a number of forums. What are the biggest achievements that you have experienced?

When you are alone and all you have is your vision, it is daunting to stand in front of a lot of people that do not differentiate you from anyone else.

All you have is the email you have sent them and perhaps the sound of your voice. When these strangers are able to show their belief in you by actually becoming a member and making a meaningful contribution in spite of not knowing you deeply – the feeling is incredible. I live for this.

I've been fortunate to travel a lot and have had exposure to many platforms. The achievement that I treasure the most is the respect that I have seen from others. The respect from the people that buy into my vision is incredible. Entrepreneurship is crazy – If your dreams are not crazy then you are not dreaming big enough.

The other major achievement is the team that I work with. If you struggle to find proper human resources your business will not thrive. I've been blessed with a solid support structure, with a team that believes in the YWBN brand – this belief makes them go outside themselves to make great contributions to the organisation every day. When you have such commitment from people nothing can beat that.

Most long-range forecasts of what is technically feasible in future time periods dramatically underestimate the power of future developments because they are based on what I call the “intuitive linear” view of history rather than the “historical exponential” view.

Ray Kurzweil

Author, Computer Scientist,
Inventor, Futurist