The African Financial Services Journal

Sharing insights on key industry issues.
April 2013

pwc

www.pwc.co.za/financial-services-journal

Contents

Editor's comments

Tom Winterboer
Financial Services Leader: Southern Africa and Africa
+27 (0)11 797 5407
tom.winterboer@za.pwc.com

Africa is booming and to capture the pace of developments in the financial services sector across the continent, we have broadened our annual Southern African Financial Services Journal to include perspectives from across sub-Saharan Africa. As in the past, the publication addresses current strategic, operational and technical issues and their impact on the financial services sector.

Little more than a decade ago Africa was dismissed as a continent without a future. How things have changed!

In its latest Africa Pulse report, which presents an analysis of issues shaping Africa's economic future, the World Bank notes that the continent's economic growth remains strong at an estimated 4.7%. This compares favourably with projected global GDP growth of just 2.4% in 2013.

Excluding South Africa, the region's largest economy, growth reached 5.8%, significantly higher than the global developing country average of 4.9%.

What's more, about a quarter of countries in Africa are enjoying GDP growth rates of 7% or higher, which places them among the fastest-growing economies in the world.

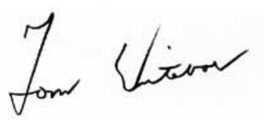
Behind these statistics, Africa is changing quickly and this dynamism is being driven by rising commodity prices, infrastructure development, improved macro-economic structures, capital inflows, urbanisation, growing consumer spending and growth of domestic demand as well as the emergence of new commercial sectors.

While the environment is ripe for financial services companies to pre-empt customer needs and grow their businesses across the continent, they also need to balance these ambitions with negotiating the impact of a host of regulatory and reporting changes on their operations.

In our experience, companies that display the agility to anticipate and plan for change are the most likely to succeed. To inform such a proactive approach, our PwC financial services team has made a concerted effort in this publication to address topical operational and technical issues and their impact on the financial services sector.

As with all our thought leadership publications, we hope to facilitate a deeper understanding of the challenges and opportunities facing the financial services industry and trust that you will find this journal insightful and thought provoking.

We would also welcome your comments and suggestions on this and other financial services publications, as this will help us to ensure that we are addressing the issues that are most relevant to you.



Tom Winterboer
18 April 2013

Dealing with disruption: 16th Annual Global CEO Survey financial services findings

Tom Winterboer
Financial Services Leader: Southern Africa and Africa
+27 (0)11 797 5407
tom.winterboer@za.pwc.com

PwC's 16th Annual Global CEO Survey, released at Davos in January 2013, assesses CEO confidence about future prospects and explores how they are building local capabilities and realising opportunities in new markets. This section discusses findings in the financial services sector.

Key findings in the financial services sector

While 1 363 CEOs from 68 countries took part in the 16th Annual Global CEO Survey, this feature provides a summary of the findings on issues specifically affecting the financial services sector.

It is based on responses from 349 financial services CEOs (149 from banking and capital markets in 49 countries; 92 from insurance in 39 countries; and 108 from asset management in 27 countries).

Download the global report, assess the results and explore the CEO interviews from our 16th Annual Global CEO Survey online at www.pwc.com/ceosurvey

Banking and capital markets

The banking industry is grappling with the severe stresses of a challenging economy, low interest rates, higher capital demands, changing regulation, technological developments, constraints on business, non-core and non-performing assets and lower pay.

Despite the recent economic uncertainty, banking and capital markets (BCM) CEOs are optimistic about their growth prospects with almost 90% anticipating increased revenues in the next 12 months and over the next three years.

In the next 12 months, 81% of BCM leaders anticipate expansion of their key operations in Latin America, 81% in South East Asia and 74% in Africa.

The easing of Eurozone concerns is also reflected in a more confident outlook for Western Europe, with more than half of BCM CEOs planning to step up their operations, compared to less than 30% in last year's survey.

"Banking and capital markets organisations still face difficult challenges ahead. Organisations are facing a 'new normal', which includes the radical impact of new capital, liquidity and customer protection regulations. They will need to address the impact as part of their wider strategic rethink and re-orientation," says Robert Sullivan, Global Banking and Capital Markets Leader at PwC. "But many organisations are now beginning to put the crisis behind them and move onto the front foot competitively. What marks out the front runners has been the decisive way they have cleaned up their balance sheets, simplified and rationalised operations and adjusted to a tougher funding and regulatory environment."

Regions targeted for growth

In the next 12 months do you expect your key operations in these regions to decline, stay the same or grow? Respondents anticipating growth

	Global (170-533)	Banking& Capital Markets (15-42)	All FS (36-125)
Latin America	81%	78%	82%
South East Asia	81%	72%	79%
Africa	74%	88%	78%
South Asia	73%	75%	78%
Middle East	70%	76%	72%
East Asia	66%	71%	75%
North America	62%	57%	61%
Australasia	58%	47%	57%
CEE/Central Asia	57%	50%	51%
Western Europe	33%	55%	40%

Source: 16th PwC Annual CEO Survey. Number of respondents to question in brackets.

China (31%) and the US (23%) top the list of national markets seen as most important to overall growth prospects, although BCM CEOs see the recession in the US and a dip in China's growth below 7.5% as among the most likely and most threatening of macroeconomic scenarios. Brazil is next up at 11%, a fall from 16% in 2011.

The main priority for BCM leaders is building up their share of existing markets. In keeping with this objective, nearly 90% are planning to change their strategies for managing customer growth, loyalty and retention. Building up the customer base and improving service are among the main investment priorities for the coming year.

Few CEOs see the acquisition of alliances as the main route to growth, though nearly half are expecting some increase in deal focus.

BCM leaders once again consider the most significant threats to growth as over-regulation, and uncertain and volatile growth. For many institutions, meeting the new capital and liquidity requirements is going to be a difficult challenge. But they also face the dilemma of how to generate sufficient returns when both capital demands and the cost of capital are going up. These challenges are leading to a rethink of what business is viable in this new landscape.

Further challenges centre on the variations in regulation around the world. For example, the Independent Commission on Banking in the UK suggests ring-fencing the retail businesses and allows proprietary trading.

BCM CEOs are also concerned about the shifts in consumers spending and behaviour. Nearly three-quarters of CEOs are planning to increase investment in technology and more than two-thirds to develop their capacity for innovation. A key part of this will be how to use all the payment, social media and other digital trails people leave.

Key findings

- Almost 90% of BCM CEOs are seeking to engage more closely with customers and more than 60% are working on a framework to support the culture of ethical behaviour. This is in response to the fallout from a number of recent scandals ranging from LIBOR to mortgage mis-selling, which have dented the image of the industry.
- Nearly 80% of BCM CEOs are looking at ways to engage more closely with investors. Many investors complain that a lack of transparency and effective communication is making it difficult to comprehend the risks BCM organisations are running, how they are being managed and the business models that underpin them.
- More than 70% of BCM CEOs are planning to change their organisational structure and more than 60% are pursuing a cost reduction initiative over the next 12 months.
- More than half of BCM CEOs see the limited availability of skills as a barrier to growth, though less than a quarter are planning to invest in filling talent gaps.
- Competition over pay is still intense, with nearly 70% of BCM CEOs believing that they need to match the rewards their organisations offer to retain top executive talent. However, sustaining this compensation model will be difficult if returns continue to be under pressure.

The organisations that are moving efficiently in the challenging and competitive environment are:

- Exiting underperforming businesses and assets;
- Simplifying operations and identifying opportunities for competitive advantage;
- Looking at regulation to manage cost and strategic impact more effectively;
- Improving customer transparency while sharpening customer targeting and cross-selling opportunities; and
- Taking advantage of changing technologies to improve customer service, lower costs and increase speed to the market.

Insurance

Insurance CEOs are upbeat about their prospects, with nearly 90% of industry leaders at least reasonably confident about revenue growth over both the next 12 months and the next three years. This optimism is broadly in line with other financial services sectors.

Despite most insurers' optimism about revenue growth in the near term, most see the prospects for the overall economy as tentative at best, with only 15% of CEOs believing that it will improve over the next 12 months. Nearly a quarter expect the economy to decline, though this is a much less pessimistic outlook than last year, when nearly half anticipated worse times ahead.

With growth slowing in mature markets, many CEOs see greater potential in the still largely under-penetrated emerging markets of South America, Asia, Africa, and the Middle East (SAAAME).

Customers in particular, are looking to insurers to help them manage a more complex and uncertain environment, protect increasing wealth and fund longer retirements at a time when people are living longer and face potentially lower state welfare benefits.

At the same time, we are seeing the beginnings of a transformation in customer expectations of products and services, how insurers design, underwrite and sell them. Nearly 60% of industry leaders are concerned about the shift in consumer spending on insurance products and related behaviour, a significantly higher proportion than in banking (50%) and in asset management (44%).

Moreover, the survey findings raise questions about whether or not insures are moving quickly enough to keep pace, with only 16% anticipating the fundamental strategic shifts that they may need to make.

Reflecting how crucial technology is in providing insurers with the necessary insight and operational agility, 86% of industry leaders plan to increase investments in technology over the next 12 months, more than any other commercial sector in the industry.

A significant percentage of insurance CEOs (64%) are concerned about the availability of key skills. More than half of insurance CEOs (57%) see the increasing tax burden as a threat to business growth and 55% also view the lack of trust in the industry as a potential business threat to growth prospects a higher proportion than both the banks (54%) and asset managers (44%).

Barriers to growth

How concerned are you about the following potential business threats to your growth prospects?	Insurance (92)	All FS (351)
Increasing tax burden	57	58
Availability of key skills	64	56
Energy and raw materials costs	17	30
Shift in consumer spending and behaviours	58	50
Speed of technological change	43	42
New market entrants	42	34
Inability to finance growth	39	45
Lack of trust in your industry	55	52
Supply chain disruption	18	20
Inadequacy of basic infrastructure	34	36
Inability to protect intellectual property and customer data	34	31

Source: 16th PwC Annual CEO Survey

The availability of talent is seen by insurance CEOs as the biggest threat to their growth prospects, although it is surprising that less than 30% see filling talent gaps as a key investment priority. Around three-quarters of industry leaders are planning to change the way they manage talent and organise their businesses.

Competition over pay is still strong, with nearly three-quarters of insurance leaders believing that they need to match the rewards their peer organisations offer to retain top talent. However, sustaining this compensation model will be difficult as returns continue to come under pressure and tax demands in many markets increase. More than 80% of insurance CEOs believe that risk should be factored into performance evaluation and pay. Around a third have changed the way they set executive pay in response to pressure from shareholders and other stakeholders.

Key findings

- The top three investment priorities for insurers over the next 12 months are growing their customer base (71%); improving operational effectiveness (52%); and enhancing customer service (59%).
- 90% of insurance leaders are strengthening their engagement programme with customers and clients; 80% with supply chain partners; and 87% with users of social media.
- Nearly all insurance CEOs say that governments and regulators influence their strategy, though it's noticeable that fewer of them (76%) are looking to engage more closely with government than they are with customers, supply chain partners, or users of social media.

The speed with which insurers are able to anticipate and adapt to change, rather than simply reacting to events, will be a key differentiator in the transformation ahead.

To stay in the game, they will need to think and act at the same rate as technology and customer expectations evolve.

They will need to know how competitors are making better use of new sources of data and analytical techniques in order to engage more closely with customers and price more keenly, as well as if new competitors are even going to come from inside the industry.

Asset management

The asset management (AM) sector continues to search for opportunities and growth amid volatile and unpredictable markets, unremitting regulatory changes that impose significant costs and new risks, together with investors demanding enhanced returns and greater transparency. Each of these factors creates its own set of challenges and increases the complexity of business.

Asset managers are looking to joint ventures, alliances and mergers as new ways of broadening their capabilities and gaining access to emerging markets, such as China, India and Brazil.

Under pressure from mounting regulation and fee reductions, they are re-engineering their organisations. By investing in new technology and outsourcing to specialist providers, they are improving reporting, becoming more efficient and cutting overheads.

When viewing their own businesses, 78% of asset management CEOs anticipate growth in the next 12 months and 86% predict growth over three years, reflecting the likely improvement in economic conditions.

These confidence levels are similar to those in 2012's survey, although significantly lower than the 2011 study, when all CEOs surveyed expected their businesses would grow over three years.

The largest proportion of CEOs, 39%, sees organic growth in their domestic markets as offering the greatest potential. But reflecting the strategic challenges they face, many are looking to deploy more fundamental measures such as mergers, joint ventures, strategic alliances or establishing new operations in foreign markets.

While many insurance CEOs have fixed their sights on the immediate challenges of low interest rates, slowing demand in mature markets and the resulting pressure on share values, they can't afford to ignore the transformational changes on the horizon. As our 'Future of Insurance' project highlights, the industry is facing significant challenges and opportunities: trajectories of growth in different parts of the world are diverging; customers are demanding more transparent and accessible products; technology is revolutionising risk analysis and customer profiling; and, the speed of change is putting existing business models at risk. The insurers that come out on top will focus keenly on the customer and have a superior capacity for innovation and reinvention.

***David Law,** PwC's Global Insurance Leader*

More than half (58%) plan an acquisition, joint venture or strategic alliance in 2013 – by comparison only 32% and 49% of their banking and insurance peers respectively plan such radical courses of action. In addition, 35% of AM CEOs are planning to divest their businesses, which shows how they are shuffling their product capabilities to meet investors' changing requirements.

CEOs are also looking to countries such as Turkey for growth, whether through setting up local operations or attracting assets from local institutional investors such as sovereign wealth funds. They have high hopes for the Middle East, India, Latin America and Southeast Asia. Because of its economic difficulties, Western Europe is the region which they expect the least from.

CEOs acknowledge the need to reshape their product offerings in order to meet changing customer needs, with 36% of CEOs placing mergers and alliances among their investment priorities for the year, while 18% put innovation high on the agenda.

Volatile economic growth and government austerity policies remain the biggest economic and policy threats to growth, according to 81% and 77% of CEOs respectively.

A significant percentage of CEOs (71%) named over-regulation as a threat. Many alternative managers will be regulated for the first time under the US Dodd-Frank Act and AIFMD in Europe. Regulators are also debating curbs on 'shadow banking' activities such as money market funds, while Basel III's higher bank capital standards and OTC derivative controls are affecting investment strategies.

Regarding potential business threats to growth, 55% of CEOs consider the increasing tax burden as the biggest danger. But 46% also see the shortage of portfolio management talent as an issue.

Reflecting the general dissatisfaction with financial services following the credit crisis and serial scandals, 44% of CEOs voiced their concern about lack of trust in the asset management industry.

They are reacting by designing products that reduce risk and protect their investors against uncertainty.

Potentially damaging scenarios such as a slowdown in Chinese economic growth , US recession or Eurozone break-up are all events that CEOs believe would damage their firms' prospects. Also high on the list is a cyber-attack or major disruption of the internet.

However, AM CEOs do not rate this as highly as their peers in insurance, suggesting that the sector may still be under-prepared for cyber threats. Some 62% of AM CEOs stated it would have a negative effect against 80% of insurance CEOs.

Key findings

- CEOs say their clients have more influence than any other stakeholder on their business strategies, with 90% stating this to be the case.
- While asset management firms have been slow to adapt to the social networking phenomenon, 50% of CEOs now acknowledge its influence.
- 55% of CEOs plan to increase their investment in creating a skilled workforce over the next three years.
- Only 41% of CEOs agree that the government has returned the financial sector to stability after the financial crisis.

Global banks' response to industry reform – positioning for growth in the new equilibrium

Johannes Grosskopf
Banking Leader
+27 (0)11 797 4346
johannes.grosskopf@za.pwc.com

Keith Ackerman
Partner, PwC South Africa
+27 (0)11 797 5205
keith.ackerman@za.pwc.com

It is well documented that the global financial crisis has triggered a seismic shift in regulatory reform in the banking industry. The intention of these reforms, at a high level, is to ensure that banks are better capitalised, more liquid and more securely funded.

Although there have been crises and reforms before, the depth of the crisis and the determined nature of the regulatory response probably mean the industry will settle into a new equilibrium that will be very different from the past. In response, many banks are aggressively adjusting their business models with the aim of restoring return on equity (ROE) to as near pre-crisis levels as possible by following a new mantra of risk-weighted asset (RWA) optimisation and other initiatives. In our view, banks' responses to regulatory reform are a mixed bag comprising the following:

- **The good** – In many institutions globally the banking boom years masked the onset of a number of problems such as poor cost control, ill-disciplined investment, poor culture and weak risk and financial control. Regulatory reform has prompted banks to refocus on their core business and to introduce a new emphasis on the sort of cost, investment, risk and financial discipline that should have been in place all along. This is obviously a healthy development.

- **The bad** – The sheer scale, complexity and urgency of regulatory change mean that it is nearly impossible for banks to respond in a considered and efficient way. In addition to the fragmentation, overlap, overspend, delay and even error that can stem from this, the fact that the regulatory goalposts are either blurred or keep shifting, brings a degree of paralysis to the situation.

  Furthermore, attention and resources are being diverted away from a host of initiatives that are crucial to banks' long-term growth aspirations, such as researching and responding to customer needs or investing in new talent, technology, products and services.

- **The ugly** – At the more extreme end of the spectrum, we see banks' responses to industry reform potentially causing significant and lasting damage to their businesses, the industry and the wider economy. Potentially damaging responses include overcorrecting on price in response to false cost signals, unnecessarily distorting business portfolios, exiting superficially underperforming (but fundamentally sound) business lines and exacerbating asset price deflation and pro-cyclicality by selling non-core assets in fire sale conditions to comply with regulatory requirements early.

While efforts to restore ROE and optimise regulatory capital are laudable on the face of it, the performance expectations and decision rules formed in the pre-crisis era are no longer valid, largely due to the substantial restructuring and de-gearing of bank balance sheets.

Investor expectations will shift eventually

Investors are, however, not being asked to accept worse performance. They are merely being asked to accept a different risk/return proposition to the one they had become used to during the boom years.

As illustrated below, there are very plausible conditions in which a banks' economic profit (the excess profit after all economic costs including capital costs have been met) would be unaffected, or even enhanced, by the equity injection required by the regulatory changes.

This largely stems from the expectation that cost of equity (COE) will fall because the changes to bank capital requirements and funding structures will reduce balance sheet gearing and, therefore, risk. Consequently, ROE expectations and targets should reduce in a similar manner.

Impact of regulatory changes on economic profit

Recapitalisation case	Geared capital structure	Less geared capital structure
Balance Sheet		
Equity	400	500
Debt – retail	2250	2250
Debt – wholesale	1350	1250
Debt – long term	500	500
Total assets/liabilities	**4500**	**4500**
Profit & loss		
Operating profit	250.0	250.0
Interest	-166.6	158.8
PBT	83.4	91.3
Tax	-30.4	-25.6
PAT	58.0	66.7
Risk measures		
Equity beta	1.25	1.00
Debt beta	1.10	1.10
Asset beta	0.20	0.20
Performance measures		
ROE	13.3%	11.6%
COE	10.6%	9.5%
Economic spread	2.6%	2.1%
Economic profit	10.54	10.54
Market parameters		
Risk-free rate	5%	
EMRP	4.50%	
Retail deposit	2%	
Debt margin	1.50%	
Interest premium	0.10%	
Tax rate	36.4%	

Market parameters

Risk-free rate	5%
EMRP	4.50%
Retail deposit	2%
Debt margin	1.50%
Interest premium	0.10%
Tax rate	36.4%

Source: PwC analysis

The key insight shown here is that although ROE comes down with the addition of new equity, so too does COE.

Even though the reduction in the COE is less than the reduction in the ROE (i.e. economic spread narrows), that spread yields the same economic profit (EP) as before when applied to the higher capital base.

Banks need to reinstate 'economic' decision tools and not get drawn further into regulatory models

There is a significant risk of over-interpreting regulatory formulations and allowing them to displace economic considerations in areas such as pricing and portfolio management.

In the case of pricing, individual banks are interpreting the extent and cost of industry reform in different ways. We observe a tendency for banks to price in capital costs, based on Basel III Risk-Weighted Asset (RWA) calculations, regardless of the actual economic risk charge and irrespective of whether they are capital constrained.

Anecdotally, some banks are taking a lead in reformulating their pricing models to take account of what they see as the new regulatory reality, but in so doing are getting undercut in the marketplace. Those not taking a lead are happy to grow market share as they have a positive hunch that the leaders are overreacting.

In the case of portfolio management, RWA optimisation is an example of regulation displacing economics. At its most extreme, this can take the form of RWA utilisation being given first-order prominence in portfolio optimisation decisions and in setting overall bank strategy.

Although our starting point remains that banks should endeavour first and foremost to alleviate portfolio constraints (i.e. fix the problem on the supply side), for many banks it is true that the Basel III capital rules will kick in before they have had the chance to build up their capital. Therefore, they have no option but to find ways to reduce their regulatory capital needs.

Most organisations in this situation have identified the 'low-hanging fruit' such as cleaning up data and models, restructuring capital to ensure favourable tiering treatment and disposing of genuine non-core assets. Where it gets trickier is when the low-hanging fruit doesn't get them far enough, fast enough and they need to make tougher decisions.

This might include cutting back business lines that, while attractive from a long-term strategic perspective, are hard to justify in the context of short-term capital constraints. The key question is how these optimisation decisions should be taken.

The blunt approach is to rank businesses according to their contribution, relative to RWA usage, and then to weed out the weakest until the constraint is satisfied. A more strategic approach would first aim to relieve that constraint or at least anticipate future periods in which that might be possible, before performing irreversible surgery.

Consideration should also be given to the long-term integrity of the business in terms of its brand and customer offering, recognising that individual businesses do not perform in isolation from each other, either commercially or operationally.

This should prevent the business from getting bent out of shape by arbitrary regulation or short-term market frictions.

Furthermore, it is important to recognise that actions of competitors (who are subject to the same pressures, constraints and regulatory prescriptions) might change the commercial landscape.

For example, if a large part of the industry is forced or induced into less RWA-intensive product areas, it will compress margins, thereby creating opportunities in more RWA-intensive product areas for those with the capital resources to exploit them.

Tackling the confidence crisis as an absolute priority

While we accept that there may be big obstacles to raising fresh private-sector equity to resume investment and growth in the current climate, we believe this has very little to do with gearing and dilution. Rather, it is the result of a more fundamental crisis in international investor confidence fuelled by the steady flow of embarrassing errors and misdemeanours.

The possibility and impact of further government and regulatory intervention also play a significant role in investors' reluctance to inject fresh equity into the banking sector. Turning this around will take a great deal of effort. So alongside presenting the positive side of the shareholder value proposition, we see tackling the confidence crisis as an absolute priority if the industry is to restore access to equity markets.

The good news is that the fundamental customer need for banking products and services has not disappeared and the opportunity in the long run to service that need profitably has not gone away. Neither banking overall, nor any part of it for which there is legitimate customer need, have become uneconomic as a result of regulatory change.

However, a period of capacity reduction and specialisation is under way, with industry reform acting as the catalyst rather than the cause of it. The true cause is that banks became overstretched and over-geared during the boom years. The reversal of that position, while undoubtedly painful, is now both natural and desirable.

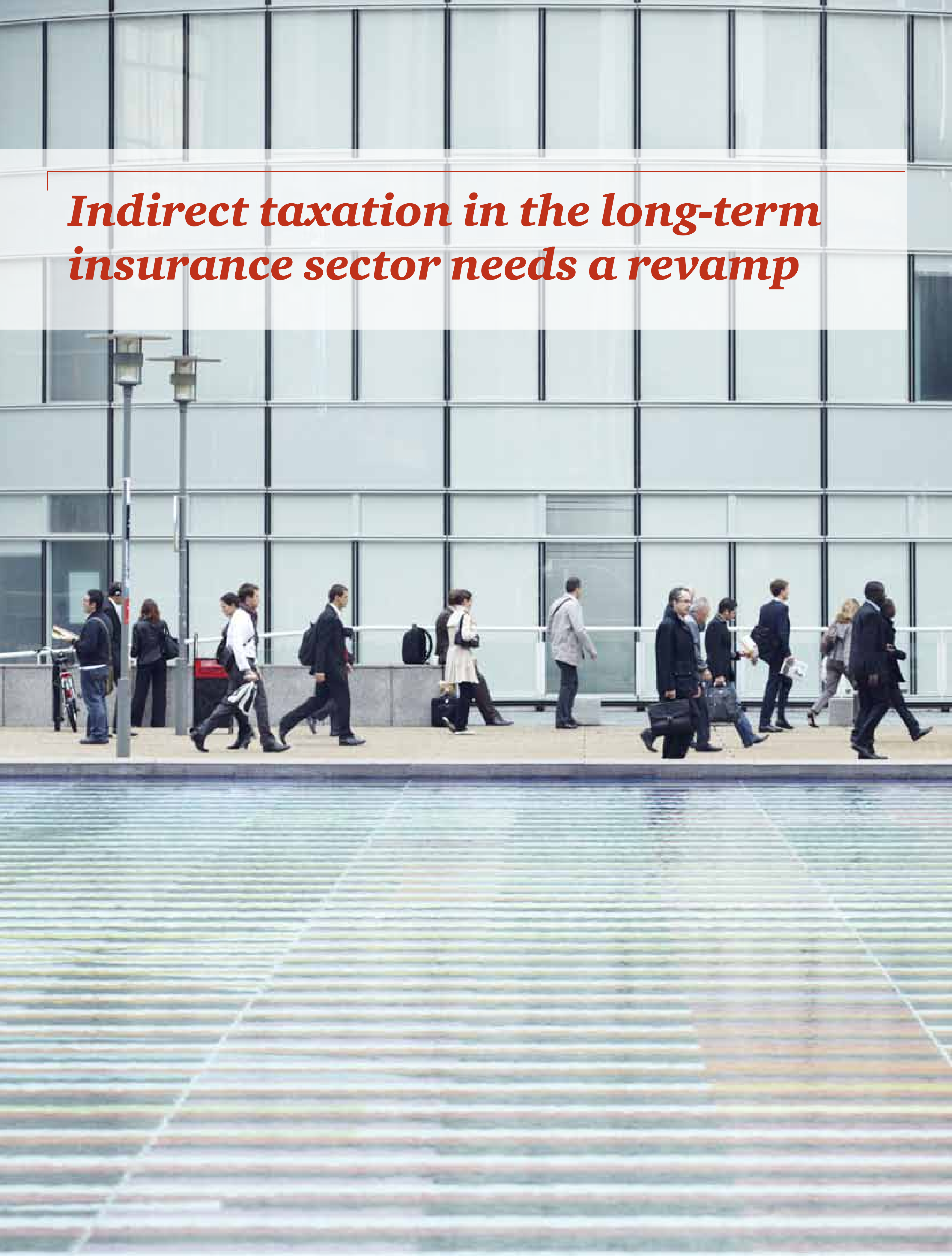
As with any change, there will be relative winners and losers. The winners will be those that manage through this transition most effectively, with sights clearly set on longer-term goals and emerge in the new equilibrium with their franchises and balance sheets in the best shape.

In a nutshell, there is everything to play for. Against this backdrop, it is crucial for banks to develop a clear vision of the future equilibrium and their place in it and to tailor their strategies, business models and customer and investor propositions accordingly. But first they need to qualify to play – not just in terms of regulatory approval, but by renewing their licences in a much broader sense with investors, the wider public and customers.

Investors will need convincing that the new equilibrium of leverage, COE and ROE is both inevitable and does not leave them worse off (probably better) in value terms. The wider public is important because it is their attitude that fuels the political and regulatory agenda.

Banks cannot resume control of their destinies without first restoring the confidence of the societies they serve. Finally, customer endorsement, through their enthusiastic take-up of bank products and services, is critical to sustain banks in the new equilibrium.

Indirect taxation in the long-term insurance sector needs a revamp



Matthew Besanko
Senior Manager
+27 (0)21 529 2027
m.besanko@za.pwc.com

The concept of insurance refers to the elimination or spreading of risk that an event will occur. What is now commonly known as 'life insurance' originated in ancient Rome where a system was devised to assist families of injured or ill members, and to assist those in need of financial assistance to pay for the burial of their loved ones. Life insurance continued to grow through so-called benevolent societies and friendly societies during the 17th century where people donated amounts of money to a general pool that would be used for various forms of emergencies.

While early forms of life insurance were directed towards protecting against death or illness, in the modern context, the life insurance industry has grown to include product offerings geared towards retirement and other savings-related products such as savings bonds, endowments and annuities. Where once life insurers and banks operated in separate markets and offered distinct services, both industries have since grown to encompass and compete in the wealth management arena in terms of their product and service offerings.

In the South African context, long-term life insurance premiums represented 22% of household savings for the period 1999 to 2010, while retirement fund contributions, which often incorporate some element of life insurance, represented a further 35%.[1] By international standards, the coverage of the life insurance industry in South Africa is very high, and contribution rates are also high as the system seeks to provide millions of South Africans and their dependants with risk benefits in the case of premature death and income during retirement. According to a recent report issued by National Treasury, 'total assets under management make South Africa's retirement funds industry one of the world's largest relative to gross domestic product'. One reason for the growth and success of the industry in South Africa is the substantial income tax incentives afforded for retirement savings and the ease with which workers are able to participate in the system.

[1]*Strengthening Retirement Savings* – An overview of proposals announced in the 2012 Budget. South African National Treasury, 14 May 2012

While National Treasury launches further review into the industry to determine ways to increasingly promote retirement savings by reducing retirement funding costs, which will no doubt result in further amendments in the income tax treatment of life insurance and retirement savings products, little emphasis has been placed on the indirect taxation implications for the sector and the role this plays in ensuring broader social security for South Africans.

While the life insurance and retirement savings industry has indeed changed over the past 21 years, the value-added tax (VAT) treatment has, in general terms, remained relatively unchanged. The basis of a value-added type of indirect tax system is to impose a tax or charge on the value added to any product or service at each level of a supply chain, thereby resulting in a tax on the value added in each transaction. A credit is then allowed to the next supplier in the chain for its inputs used to add value, until the good or service is supplied to the final user, who is then not entitled to a credit and who must then bear the total tax cost on the entire value of the good or service provided.

However, the indirect taxation of financial products, including life insurance and retirement annuities, is problematic since it is difficult to determine the margin or the 'value added' across the supply chain.

As a result, no tax is charged on the supply of such financial products, and similarly, no credit is allowed for inputs, meaning that a financial services provider such as a life insurer or bank becomes the final consumer and carries the VAT cost.

While this treatment is common among most indirect tax systems across the world[2], one difference that does distinguish South African VAT from other jurisdictions is the amendments introduced in 1996 and 1999[3], which impose VAT on fees, commissions and other services directly associated with the provision of certain financial products. At the time such changes represented a departure from the norms of the value-added taxation of financial products commonly known and applied in the European context, but little further in this regard has progressed, particularly as the industry has grown and diversified, and as National Treasury once again focuses on ways to reduce the cost of life insurance and retirement savings products for all South Africans.

While the taxation of life insurance and indeed financial products is problematic, one way to ultimately reduce the cost of retirement and other life insurance products for South Africans through the VAT system would be to reduce the VAT burden borne by financial and life insurance providers, thereby reducing the extent to which such costs are built into product pricing.

2 One noticeable exception is the New Zealand Goods and Services Tax (on which the South African VAT is based), whereby since 1 January 2005, supplies of financial services to GST-registered persons whose taxable supplies equal or exceed 75% of their total supplies may be zero-rated, when the financial services provider elects to do so. The amendment seeks to prevent the cascading of tax in a business-to-business environment.

3 In 1996, the proviso was introduced to Section 2(1) of the VAT Act to standard-rate fees and commissions associated with financial products. Furthermore, in 1999, a proviso was added to Section 2(1)(i) to remove the management of a superannuation scheme from the ambit of the exemption for long-term insurance and Section 10(22A) was introduced to provide a valuation rule for the standard-rated supply of the management of a superannuation scheme.

This approach has been adopted in other jurisdictions such as Australia, where the government implemented indirect taxation policies aimed at promoting the country as a financial services centre. In Australia, for example, the A New Tax System (Goods and Services) Tax Act, 1999 (GST Act), provides for a reduced input credit of 75% of the Goods and Services Tax (GST) incurred on certain qualifying expenditure borne by financial services providers, including life insurers.

Examples of qualifying expenditure include back-office data processing, payment systems, processing and clearing costs, statement processing, archives and data storage, and most relevant to the life insurance industry, portfolio management services and brokerage costs associated with selling insurance and retirement policies.

In the South African context, no reduced input credit such as this exists for services acquired by a life insurer. Indeed, in the current system bias exists between functions that are insourced (paying only a salary cost on which there is no VAT), and those that are outsourced.

Another way to reduce the cost of retirement and life insurance products through the VAT system would be to increase the rate at which the life insurer is able to recover VAT incurred. The VAT Act provides that input VAT may be recovered to the extent that it is incurred for the purpose of making taxable (being either zero or standard-rated) supplies. While life insurance and other financial products are usually exempt from VAT in South Africa, changes in the Act recognise that the service and administration aspects associated with superannuation schemes are taxable.

In line with its objective of promoting retirement savings, National Treasury would be advised to zero rate the value-added tax on such services, in line with other so-called ‘merit supplies’ such as basic foods.

Zero-rating would be the most beneficial VAT treatment since no additional VAT cost would be borne and the insurer would have a lower VAT cost base facilitated by additional input VAT recovery. These savings could then be passed on to policyholders and the public at large.

There is no doubt that the life insurance and retirement industry in South Africa is significant, not only in terms of its size, but also from the perspective that it offers many South Africans with some level of social security.

Given changes in the industry over the years and National Treasury’s focus on further reducing the cost of life insurance and retirement savings products for all South Africans, emphasis should now be directed towards how the indirect taxation system can most appropriately be modernised to assist in achieving these goals.

The changing tax landscape facing the financial services industry

Alwina Brand
Associate Director, PwC South Africa
+27 (o) 11 797 5250
alwina.brand@za.pwc.com

Marcus Botha
Senior Manager, PwC South Africa
+27 (o) 11 797 4457
marcus.botha@za.pwc.com

South Africa's financial services industry is a diverse sector comprising domestic and foreign institutions providing a full range of services such as commercial, retail and investment banking, mortgage lending, insurance and asset management. The industry is currently facing numerous challenges arising from global and local economic uncertainty such as credit rating issues and increased regulation.

Apart from the challenging economic conditions that the industry has to deal with, it is faced with an additional challenge in the form of increased pressure from tax authorities. Tax authorities throughout the world are focussing on tax collections and compliance to bolster in-country revenue, resulting in increased tension between tax authorities and taxpayers.

SARS' compliance programme

There seems to be a general global trend in terms of which tax authorities are increasingly assessing the manner in which they enforce the law and organise their tax systems.

In South Africa, this is evident in the five-year compliance programme recently announced by the South African Revenue Service (SARS), details of which are discussed in the SARS publication entitled Compliance Programme 2012/2013 to 2016/2017. In the foreword, the SARS Commissioner states that the publication provides a high-level overview of the plans further to grow compliance with tax and customs legislation over the next five years. SARS plans to do this by focusing particular attention on areas that their research has shown pose a significantly higher risk of non-compliance.

As would be expected, SARS announced that large business and transfer pricing would comprise one of its seven focus areas. SARS stated that transfer pricing by large multinational corporations will come under the spotlight with a comprehensive international review of the practice, up-skilling of SARS staff and greater cooperation with other tax administrations. It is envisaged that there will be concerted efforts to unpack international transactions and to consider the prevalence of permanent establishments (PEs) and the treatment of PEs from a profit attribution perspective.

The increased spotlight on international transactions will have an impact on most of the players within the financial services industry, as it would not only target South African taxpayers with offshore subsidiaries and branches, but also foreign entities with subsidiaries and branches within South Africa. Issues such as the effective management of entities and analysis of activities undertaken in-country and offshore, may come under closer scrutiny than in the past.

Apart from transfer pricing, SARS will also continue to focus on international tax compliance as well as follow-ups on under-declaration of provisional tax to ensure accurate and on-time provisional tax payments.

Anti-avoidance also remain a focus area and SARS will focus on instances in which large corporates exploit grey areas of the law, specifically in relation to structured finance transactions and foreign tax credit schemes. The focus in this instance will be on tax avoidance structures that result in inflated deductions through circular flows of money as well as audits of corporates on a group level, with specific attention to the change in the nature of income from taxable to non-taxable income for purposes of tax avoidance or to reduce the overall group's tax liability.

In terms of the compliance programme, SARS wishes to sustain the levels of willing compliance and also create a climate that is increasingly conducive to full compliance by all taxpayers. In assessing the compliance landscape, SARS will conduct risk assessments within specific sectors and segments. It will also consider issues such as the industry's overall risk rating as well as gaps in policy and legislation.

This approach can already be seen in the specific industry focus within SARS in terms of which the officials in each industry group aim to enhance their understanding of taxpayers by reviewing international trends and best practice, identifying specific cases for intervention and by conducting random audits.

The financial services industry has also been on the receiving end of a number of legislative changes resulting from the perception held by National Treasury that hybrid equity instruments, interest-bearing instruments and insurance arrangements remain open to manipulation by the industry. The result of this has been revisions to the provisions of Sections 8E and 8EA of the Income Tax Act, No. 58 of 1962, the introduction of a new basis of taxation for investment policies, the proposed overhaul of the taxation of long-term insurers and the introduction of a mark-to-market basis of tax, in accordance with International Financial Reporting Standards (IFRS), in respect of certain financial assets and liabilities for financial institutions.

In the face of increased legislative complexity as well as the sophistication of transactions, SARS will be pursuing a risk-based approach to tax compliance. This will see the establishment of a new form of relationship between SARS and large business in which both parties work together to achieve the highest possible level of compliance across all lines of taxation within a particular businesses. SARS hopes to encourage taxpayers to review their own tax affairs and to make voluntary disclosures to avoid being penalised in the next phase of SARS action.

The newly promulgated Tax Administration Act ("TAA"), No.28 of 2011, incorporates SARS' new approach as it makes provision for a voluntary disclosure programme in which taxpayers can regularise their affairs with SARS. In addition to the introduction of a voluntary disclosure programme, the TAA also makes provision for underestimation penalties where there has been an 'understatement', which is construed as any prejudice to the fiscus as a result of:

- A default in rendering a return; or
- An omission from a return; or
- An incorrect statement in a return; or
- Failure to pay the correct tax (if no return was required).

Section 222 of the TAA imposes a percentage-based penalty, determined with reference to the unpaid tax amount and the table set out in Section 223 of the TAA. The table essentially considers the taxpayer's behaviour, e.g. whether the taxpayer is a 'repeat offender' or whether the taxpayer engaged in voluntary disclosure.

The penalty increases where the taxpayer shows repeat delinquent behaviour and decreases where the taxpayer cooperates and discloses information on a voluntary basis. Consideration is also given to the due care exercised by the taxpayer when dealing with the issue at hand, i.e. whether reasonable care was taken when preparing the tax return, whether the taxpayer had reasonable grounds for taking a specific position, or whether the taxpayer engaged in tax avoidance.

SARS' new approach appears to be based on a simple principle: if a taxpayer can show that it has a functioning internal tax control framework, the level of tax audits and detailed queries directed at them may reduce in future.

Tax risk assessment

It is apparent that the financial services industry is faced with an ever-evolving tax enforcement landscape, which may result in financial and reputational risks should it not be compliant with tax laws. Taxpayers should accordingly evaluate their tax risks in line with the changing governance and risk landscape of the organisation, denoting that the tax resources within the organisation would no longer only be responsible for tax technical and tax compliance responsibilities.

This new landscape requires improved governance, adequate risk management practices, improved transparency and disclosure to the board, audit and risk committee and stakeholders in respect of taxes.

The new compliance enforcement strategy adopted by SARS and influenced by the OECD's guidance on tax administration will adjust SARS audit approach towards a taxpayer if that taxpayer transparently discloses relevant information on the internal management of tax and has proper validation systems in place.

It is advisable for organisations to assess their tax functions and consider whether they would be ready to face the challenges posed by the new tax environment, coupled with the complexity and volume of new legislative changes. The focus on an internal tax control framework requires an enquiry by participants in the financial services industry to ascertain whether their organisations are capable of controlling and monitoring their tax environment.

Tax professionals responsible for an organisation's tax affairs may not have a risk, governance and compliance proficiency. Hence, the gap between tax, enterprise risk management and corporate governance may leave organisations exposed and unable to substantiate their compliance landscape.

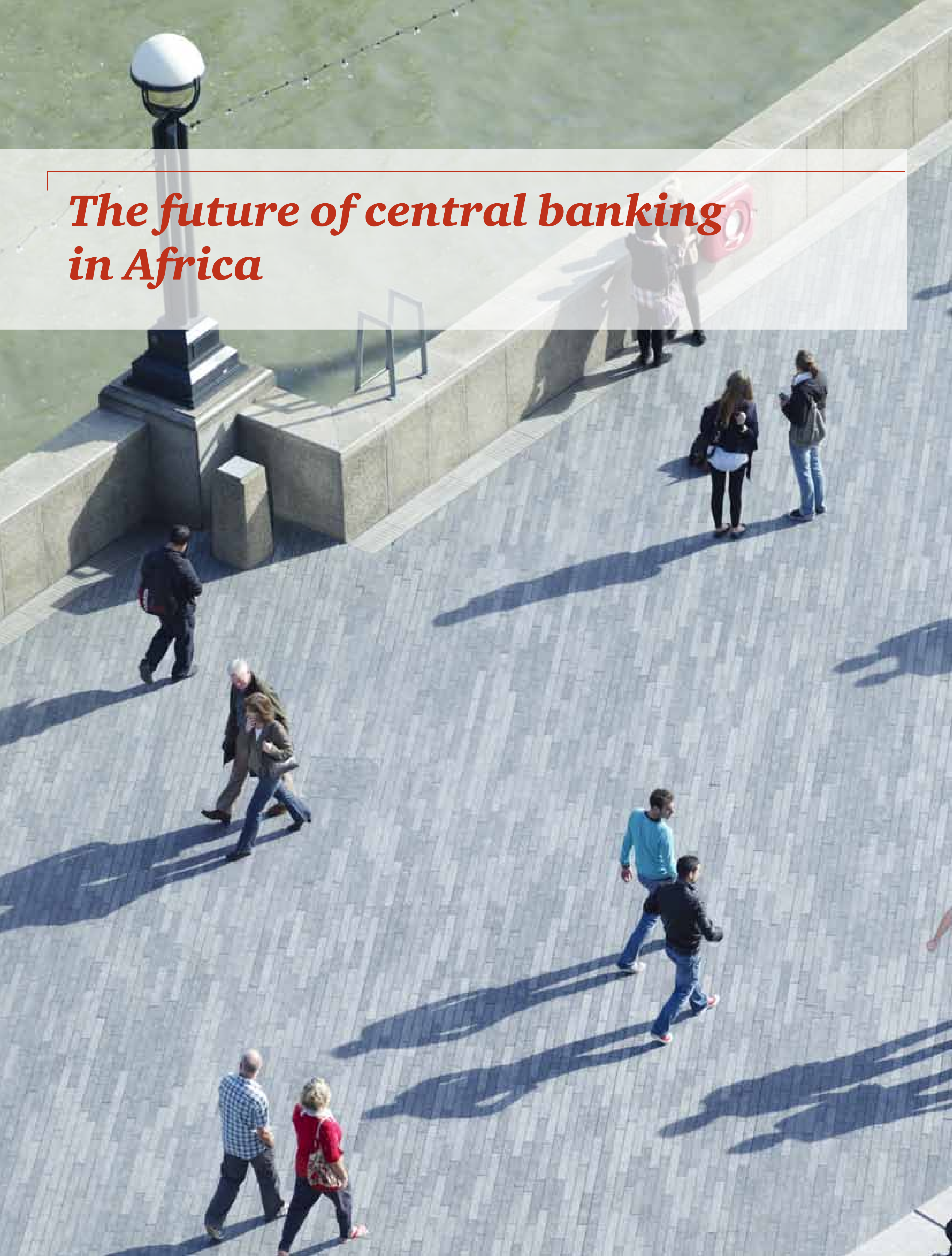
This places further emphasis on risk management and the need for internal assurance, as boards, audit and risk committee members will start raising questions and looking to management teams across the organisation to provide the necessary comfort. Management will therefore be under increased pressure over the next three to five years to provide assurance in response to the concerns of the board, audit and risk committees and external stakeholders, such as SARS, in respect of tax risk and the tax control environment.

Governance, enterprise risk management and the concepts of risks, controls and combined assurance frameworks, should therefore form part of an organisation's tax function lexicon. In order to meet the demands and requirements of stakeholders, there would be an increased need for an organisation's tax function to assist with the integration of tax risk into the organisation's risk frameworks and governance structures.

The tax function will increasingly have to demonstrate to stakeholders such as SARS that it is a good corporate citizen, that risk management requirements are met and that an adequate and effective tax control environment exists.

Having an effective tax function alone will therefore not achieve the value required by stakeholders and the demands that will be placed on a tax function as a result of SARS' new approach. Integration and synergies with co-assurance providers will not only be an enabler for the tax function but will ensure that reliance can be placed on the tax risk control environment.

The future of central banking in Africa



Andrew Nevin
West Africa – Strategy Consulting Leader and IDA leader Nigeria advisory COO
+234 1 2711 1700 Ext 6202
andrew.x.nevin@ng.pwc.com

PwC's Project Blue framework together with the Project Blue Point of View 'Forging the Central Bank of the Future' report provokes new thinking around the future of central banking, especially in emerging markets in South America, Africa, Asia and the Middle East (SAAAME).

Project Blue is a global PwC project centred on the drivers of change in the financial services sector. It highlights the considerations required to adapt to the continuing market turmoil in many parts of the world and the fiscal pressures, regulatory change and political unrest following in its wake.

The Project Blue framework reinforces the view that new thinking is needed on the future of central banking, especially in emerging markets. The global financial crisis has had a profound impact and although some central banks in SAAAME markets have exercised a cautious approach and commendable ability to steer clear of, or contain the problems we've seen in more developed markets, conservative restraint may not be sustainable in fast-growing economies.

Central banks in SAAAME markets have a critical role to play helping to realise the promise of growth. The world was already changing before the global financial crisis, as China, India and Brazil began to emerge as economic superpowers. Rapidly increasing cross-investment and trade flows between SAAAME markets were also reshaping the global economy. The crisis has accelerated the speed and broadened the scope of the shake-up and the immediate priority for central banks is to establish a baseline of stability.

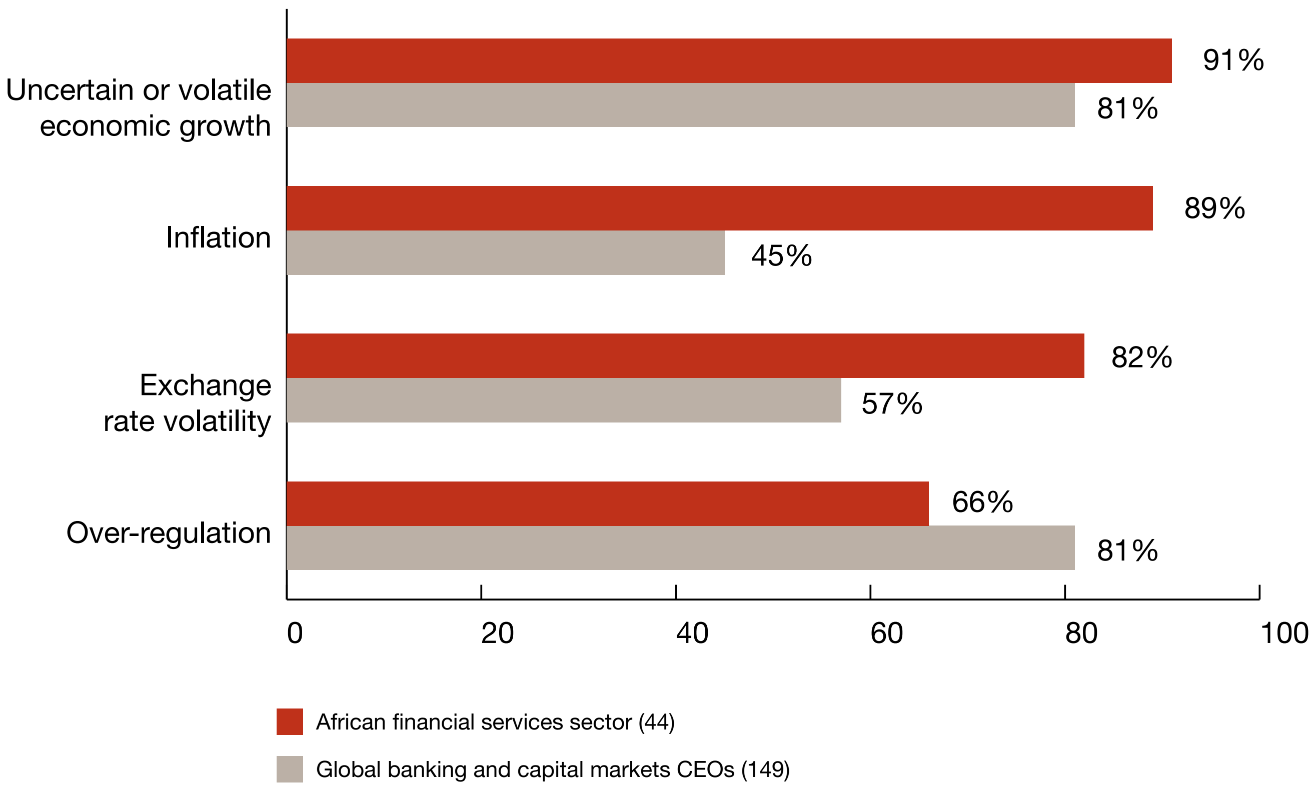
In Africa, central banks oversee a banking industry that is being reshaped by cost-cutting, strategic reorientation, fundamental regulatory reform and an ever-increasing use of technology in the delivery of services as well as very significant growth potential.

The level of development of the central banks in Africa varies from country to country. In our annual CEO survey, results for the financial services sector CEOs in Angola, Ghana, Nigeria, Zambia, Tanzania, Uganda, Rwanda and Kenya confirm that these transformational shifts are very much on the CEO agenda in Africa.

In 2012, 75% of our survey population in Africa had implemented a cost-reduction initiative and 72% anticipate a significant strategic shift within their companies in 2013. Over-regulation is a threat to business growth for 66%, while 93% expect to increase their investment in technology this year.

In Africa, these transformations are driven by confidence in growth. Three-quarters of financial services sector CEOs in our Africa survey are very confident of growth this year, and 84% are confident of growth over the next three years. Half say growth will come from the development of new products and services, while a third look to organic growth in existing markets.

Figure 1: CEOs who are concerned about the following economic threats to growth



Source: PwC 15th Annual Global CEO Survey, 2012

It's no secret that Africa is now squarely on the map of global growth frontiers. Unprecedented gains in security, infrastructure and communications combined with robust commodity prices and favourable demographics have resulted in over a decade of strong economic growth in many parts of Africa and sustain the belief that this is just the beginning.

Sub-Saharan Africa: Real GDP growth, percent change

	2004-8	2009	2010	2011	2012	2013
Sub-Saharan Africa (total)	6.5	2.8	5.3	5.2	5.3	5.3
Of which:						
Oil-exporting countries	8.6	5.1	6.6	6.3	6.7	6.0
Middle-income countries	5.0	-0.6	3.8	4.5	3.4	3.8
Of which:						
South Africa	4.9	-1.5	2.9	3.1	2.6	3.0
Low-income countries	7.3	5.4	6.4	5.5	5.9	6.1
World	4.6	-0.6	5.1	3.8	3.3	3.6

Source: IMF, World Economic Indicators database

At PwC, we share this sense of optimism, but we also believe that central banks in Africa are going to have to play a critical role across the continent if the promise of growth is to be realised. This role includes not only the areas where central banks exercise direct control, like bank supervision and monetary policy, but also the need to more broadly influence overall economic ecosystems. These ecosystems exist within and beyond borders at the local, regional, African and global levels.

Together with potentially destabilising influxes of foreign capital and the increasingly international reach of their domestic banks, these changes have the potential to expose or augment systemic vulnerabilities in many African markets.

Relatively underdeveloped financial services infrastructures, governance systems and supervisory controls struggle to cope with the rapid increase in demand, financial penetration and the sector's size and complexity, for example.

A particular concern highlighted by the global financial crisis and underscored in many markets in Africa is that problems can fall between the cracks in a multi-agency environment. When a number of different agencies (including the central bank) have financial stability within their remit, there is also the potential for diverse or even conflicting policies.

In our recent CEO survey, 59% of CEOs in the financial services sector said that financial sector stability should be a government priority and 73% believe their government has effectively delivered on that promise, but this trust could be undermined by a lack of clear-cut measures for gauging stability and targeting risks, especially as these economies diversify and grow in complexity and sophistication.

The traditional tripartite model of central bank   treasury/ministry of finance   regulator has the potential for conflict, not just in Africa but in many other SAAAME economies. Imagine a central bank wishing to rein in consumer spending in a country where the government wants to expand credit availability to stimulate the economy. We must ask whether central bankers are appropriately equipped to take on some of the new responsibilities being assigned to them and whether the changes afoot will affect the culture and governance of central banks.

To meet these changes, opportunities and challenges, central banks in Africa need a clear management strategy reflecting evolving market circumstances and public expectations. Critically, this strategy must be transparent and clearly explained to win the public's trust; otherwise, central banks could risk creating uncertainty and instability.

Central banks must play a central role in constructing a robust economic ecosystem piece by piece, essentially ensuring that the missing elements (such as rule of law, business impediments, infrastructure bottlenecks, etc.) that threaten to hinder future development, are addressed.

This requires a broad range of technical skills as well as courage. Some of the specific areas that central banks will need to address include:

- Enhancing the quality of banks, through both effective supervision and by actively shaping the structure of the banking industry, such as by encouraging key mergers and consolidations of sub-scale banks and investment by larger foreign banks. One important outcome of this should be lower spreads, benefiting the broader economy;
- Ensuring that the financial system contributes to the real economy through specific interventions and coordination around areas like agricultural finance, infrastructure finance and sustainable finance;
- Conducting excellent macro-prudential oversight, for example by paying particular attention to the risks inherent in a natural resource-based economy where prices for exported goods are highly volatile. By implication, central banks must also play a role in driving economic diversification more generally;
- Building a top-quality statistics function that can underpin proper economic planning;
- Building an effective payment system, including using new technologies to reduce cash usage and create low cost and seamless payments systems, both within the country and internationally;
- Considering the issues and benefits around potential currency unions that would enhance regional economic integration and reduce dollarisation, but come with a loss of national sovereignty over monetary policy; and
- Building a robust and transparent governance framework for the central bank, both internally within the central bank, but also designing an effective relationship between the central bank and the government that balances the need for central bank independence with the need for a more conscientious role in economic development.

Many of these areas came to light during the banking crisis in Nigeria in 2009-2010.

Using a four-pillar strategy developed by PwC, the Central Bank of Nigeria led by Governor Lamido Sanusi waged a radical anti-corruption campaign, saving 24 banks on the brink of collapse.

Governor Sanusi's efforts won him The Banker's annual Central Bank Governor of the Year (Global and Africa) in 2011.

Broadly relevant to central banks across Africa, those pillars are:

- Enhance the quality of banks;
- Establish financial stability;
- Enable healthy financial sector evolution; and
- Ensure that the financial sector contributes to the real (non-financial) economy

Some of the specific elements implemented by Governor Sanusi include tighter supervision of banks, including term limits for managing directors and directors, evaluation of board performance and mandatory training for non-executive directors; moving to a cashless society, with improvements in the payments system and setting up of the Asset Management Corporation of Nigeria (AMCON) to take bad assets off banks' books and allow them to move forward as healthy and well-capitalised institutions.

Governor Sanusi also implemented sector-specific interventions in agriculture and the SME sectors and globally-leading development of sustainable financing principles to ensure that rapid economic growth does not lead to environmental and social destruction.

Asked about his reforms, Mr Sanusi said, "Until now, the banking system was serving the banking sector and not the economy as a whole. What we want to ensure now is that the banking industry serves Nigeria."

This is a challenging agenda, not just for Nigeria, but for many African and other SAAAME economies. Clearly, the game is changing and central banks need to change with it.

Four-pillar strategy for central bank reform

Enhance the quality of banks

- Fixing the problems
  - Data quality
  - Enforcement
  - Governance
  - Risk management
  - Financial crime
- Regulation
  - Tighter regulation
  - Regulatory framework
  - IFRSIN-GAAP
- Risk-based-supervision
- Consumer protection
- Central bank reform
  - Corporate governance
  - Organisation structure
  - Management information
  - People and process development
  - Central bank disclosure

Establish financial stability

- Central bank to lead
  - Financial stability committee
  - Hybrid monetary policy
  - Macro prudential rules
  - FX rates
  - 'Hot money' control
- Central bank to champion
  - Directional economic policy
  - Capital market development (as alternative to bank funding)
  - Counter-cyclical fiscal policies

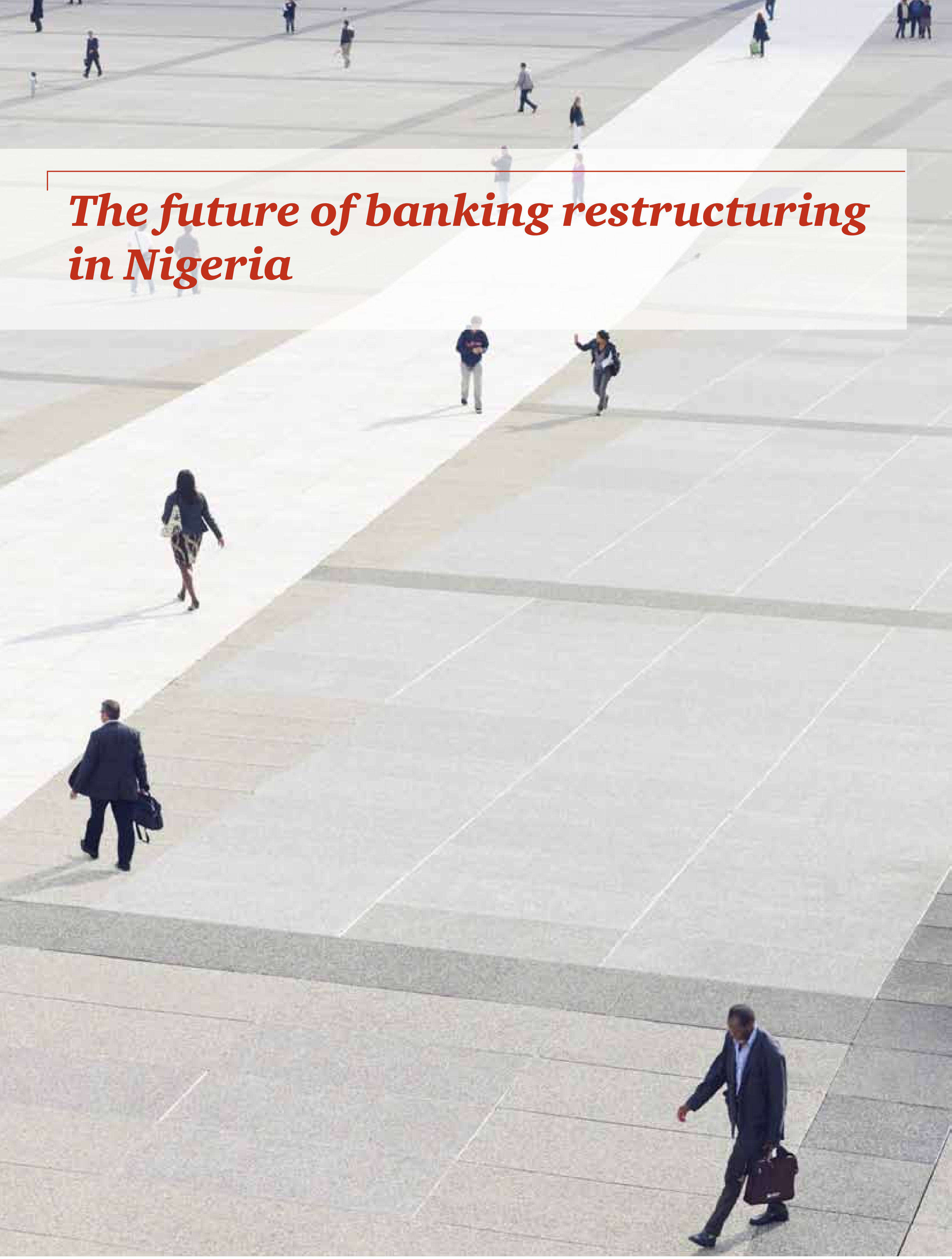
Enable healthy financial sec-tor evolution

- Competitive banking industry structure
- Required infrastructure credit bureaus and registrars
- Improved cost structure of banks through cost control and business process outsourcing
- Reliable and secure payment systems
- Reduced informal sector and greater financial inclusion

Ensure the financial sector contributes to the real economy

- Potential areas for further consideration
  - Central bank Governor's role as advisor to the president on economic matters
  - Measuring the relationship between the real economy and financial sector
  - Effectiveness of existing development finance institutions
  - Examination of critical issues for economic development (e.g. power, port, railways)
  - Venture capital and private-public partnership initiatives for the country
  - Pilot programme in directing the financial sector's contribution to the state's social economic development

The future of banking restructuring in Nigeria



Tony Oputa
Partner, PwC Nigeria
+234 (0) 805 501 2958
tony.oputa@ng.pwc.com

The global financial crisis has taken its toll on financial markets across the world and in many instances regulators are re-visiting the banking model to avert a repeat of this.

Across Africa there have been varied responses to the global financial crisis (and in some instances to local versions of the financial crisis). In Nigeria, the regulator of banks, the Central Bank of Nigeria (CBN), scrapped the universal banking model prevalent across Africa and instituted a series of reforms that require financial institutions to specialise and manage capital risk in a prudent manner.

A key feature of these reforms has been the introduction of a non-operational Bank Holding Company structure for banking groups wishing to offer a boutique of financial services.

The CBN regulations that came into effect on 15 November 2010 require all banks to divest from non-banking businesses and the apex bank has proposed that groups evolve into a new holding company model (HoldCo).

In March 2012, the CBN issued a draft circular outlining its expectation that the transition to a HoldCo structure would be completed within 12-18 months. This is a relatively short time frame to assess and implement a reorganisation programme. Without the luxury of time, banks need to take appropriate action now.

Corporate structures of banking groups in Nigeria vary. It is common for a bank to be the parent company of a group comprising insurance, asset management, securities and mortgage entities.

This structure will no longer be allowed under the new CBN proposals and it has proposed a HoldCo structure to protect depositors by 'ring-fencing' banking business from non-banking activities.

The CBN specifically requires the HoldCo to be a non-operating company that will only be allowed to acquire, hold and administer permitted investments in banking and non-core banking operations in a subsidiary arrangement.

HoldCo groups will be required to comply with the CBN's guidelines, which include a detailed business case for engaging in any non-core banking operations. Subsidiary banks will be licensed and regulated by the CBN and each subsidiary (non-core banking business) will be licensed and regulated by the relevant functional regulator.

Introduction of IFRS

In addition to ever-increasing regulations, banks in Nigeria are also required to bring their financial reporting practises in line with International Financial Reporting Standards (IFRS). All listed and significant public interest entities (including banks) are required to adopt IFRS for years ending on or after 1 January 2012.

Accounting for HoldCo reorganisation under IFRS can be complex, and may differ significantly from bank to bank based on how the reorganisation is executed.

Banks must consider the accounting implications of all potential restructuring options available and take into account the existing group structure, the bank's strategy and the desired business model.

The adoption of IFRS not only entails preparing financial statements to conform with IFRS for the first time, but also preparing an opening IFRS balance sheet on the transition date and IFRS compliant comparative information.

The CBN gave notice in a March 2012 draft circular that it will allow a 15-month grace period from when the reorganisation proposals become effective for all banks to transition to the HoldCo structure, indicating that most of these activities will be undertaken in the period between the transition date and the first IFRS reporting date.

In preparing the first set of IFRS financial statements, an entity is required to apply the IFRS 1 – 'First time adoption of IFRS' standard. The key principle of this standard is full retrospective application of all IFRS accounting standards effective at the first IFRS reporting date.

IFRS 1 provides limited exemptions from full retrospective application, including an exemption to restate business combinations that occurred prior to the transition date.

Group reorganisations occurring subsequent to the transition date should, however, be accounted for in accordance with IFRS and thus the requirements of IFRS 3 (revised) 'Business combinations' should be considered. Accounting for a transaction in accordance with IFRS 3R requires significant effort and disclosure.

Banks therefore must carefully consider how a restructuring is undertaken and whether IFRS 3R will apply. IFRS 3R applies to transactions or other events when an acquirer obtains control of one or more businesses. The standard scopes a combination of entities under common control, but the current guidelines issued by the CBN do not prescribe how such a structure should be achieved.

A number of options are available to banks and the accounting treatment of these transactions will depend on and vary according to how the reorganisation activities are undertaken.

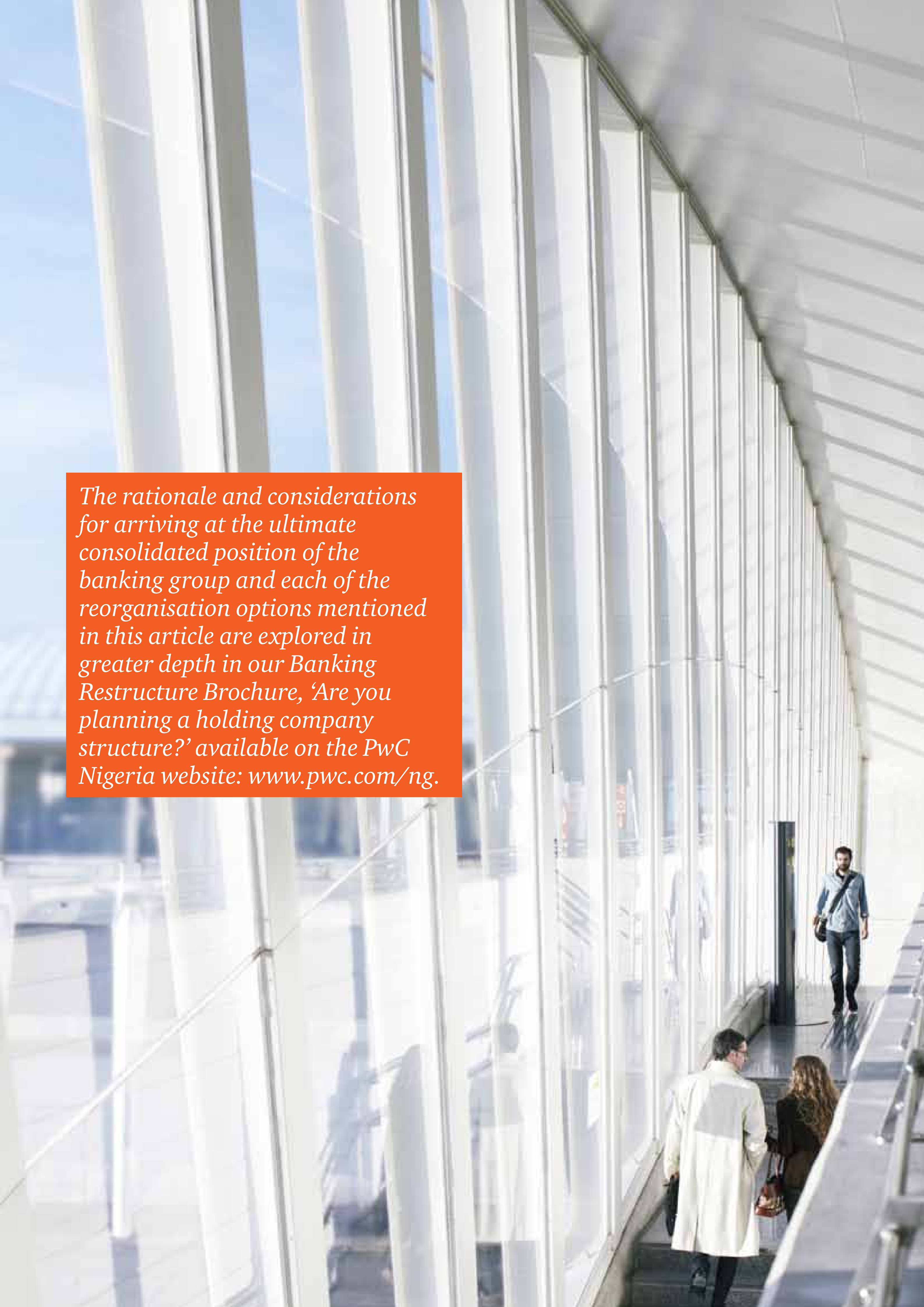
Reorganisation options

The first option is to form a new HoldCo which acquires the bank through a share-for-share exchange. The HoldCo subsequently acquires each of the bank's non-core banking subsidiaries through purchase or a dividend in specie declared by the bank.

HoldCos can also acquire subsidiaries by implementing a capital reduction scheme that is settled by the transfer of shares in subsidiaries to the bank's shareholders (now the HoldCo).

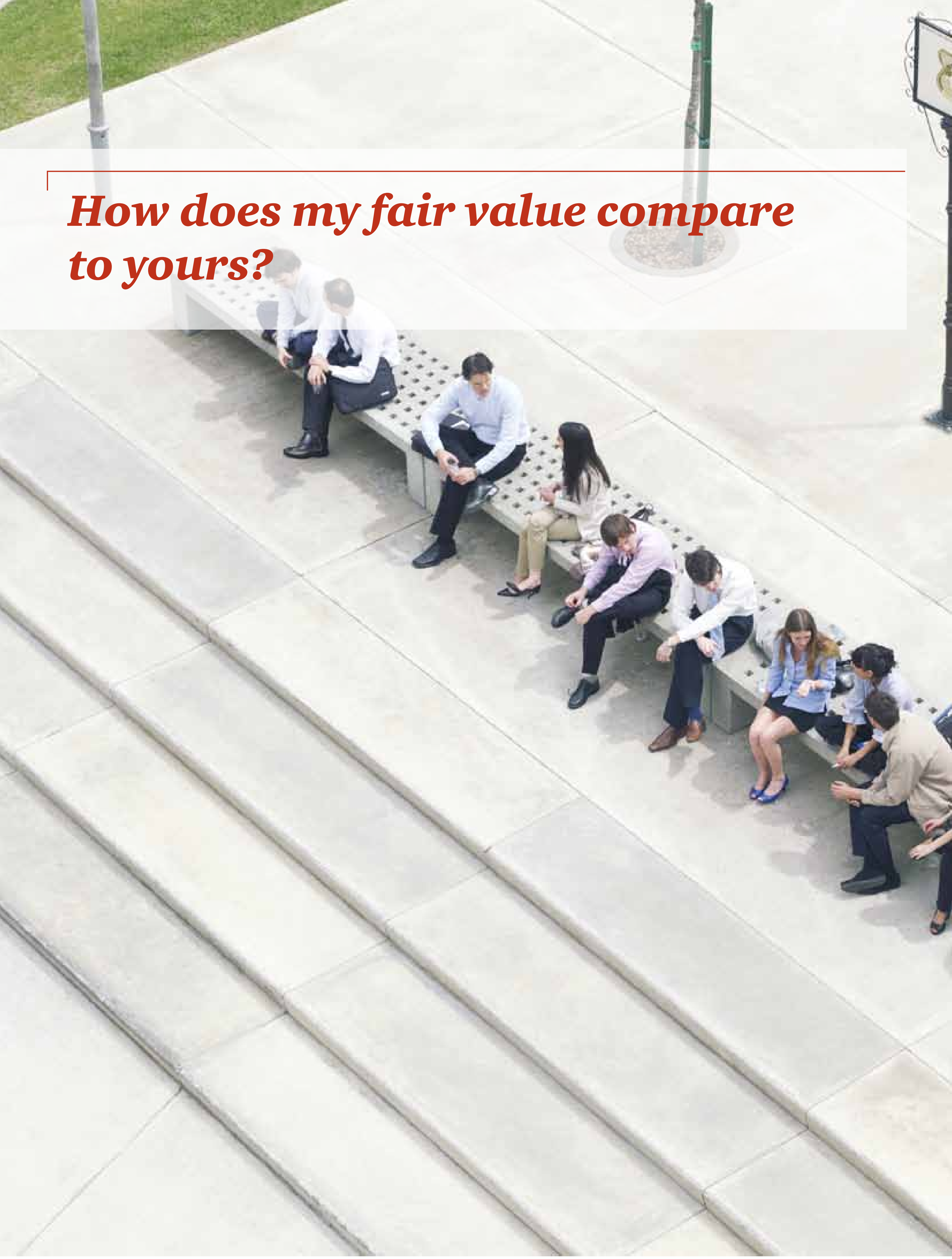
The second option is for the bank, as the current parent company of the group, to set up a new bank which obtains an appropriate banking licence as a subsidiary company. The parent company bank then transfers all of its banking assets and liabilities to the new company, surrenders its current banking licence and applies for a holding company licence from the CBN. The bank (now the non-operating HoldCo) remains the parent of all other non-core banking subsidiaries.

The second option may be popular due to its relatively simple implementation, but the restructuring requirements for each banking group may vary and in most cases, reorganisation will require the transfer of ownership of both the banking and non-banking subsidiaries.



The rationale and considerations for arriving at the ultimate consolidated position of the banking group and each of the reorganisation options mentioned in this article are explored in greater depth in our Banking Restructure Brochure, 'Are you planning a holding company structure?' available on the PwC Nigeria website: www.pwc.com/ng.

How does my fair value compare to yours?



Robert Oudhof
Associate Director, PwC South Africa
+27 (0)11 797 4401
robert.oudhof@za.pwc.com

Pricing and valuation trends in the derivatives market

Principles applied when pricing and valuing derivative instruments are evolving, even for vanilla products.

Driven by the financial crisis, regulatory changes and a renewed emphasis on funding and other costs, banks are aiming to gain a competitive advantage by aligning the pricing and valuation of derivatives with a holistic view of all costs associated with the trade, as well as benefits provided to the counterparty.

This article aims to address some of the key financial reporting implications for both banks and end users. It also provides some insights regarding these developments in the local market, based on a recent PwC survey.

Collateralised trades – Overnight index swap discounting

At the height of the financial crisis, borrowing costs for banks surged and the spreads between interbank lending (IBL) rates such as LIBOR and overnight indexed swap (OIS) rates the rate referenced on overnight cash placements and collateral moved out to record levels due to liquidity constraints and unsecured credit risk in the interbank market.

Following these events and the introduction of Basel III, banks have been incentivised to collateralise or move to central clearing for over-the-counter (OTC) derivatives.

As a result, banks have begun to price collateralised derivatives with reference to an OIS curve, rather than an IBL derived curve, which in their view more appropriately considers the funding costs associated with the collateral.

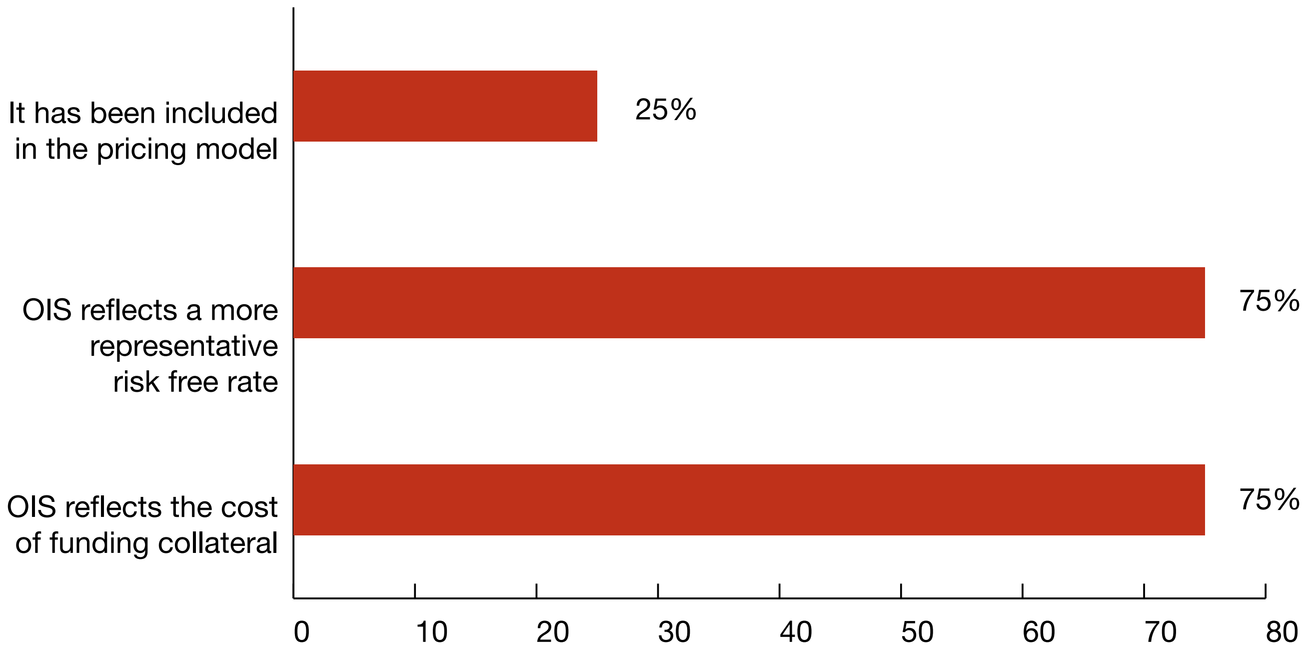
This is supported by the fact that many clearing houses, including LCH Clearnet – the largest clearing house for interest rate swaps – now use OIS discounting to value centrally cleared derivatives for margin requirements.

Based on our survey of the Big Four South African banks, OIS has become a key consideration when pricing trades, particularly when trading with offshore counterparties or when executing long dated, high value local trades.

While there has been a move towards pricing with reference to OIS, only one local bank is currently adjusting the fair value of the affected portfolios for financial reporting and risk management purposes. There is, however, an expectation that the other local banks will follow suit in the near future.

Our understanding of this is based on the following responses provided by survey participants:

Figure 2: On what basis do you believe OIS should be used to discount collateralised derivatives



Source: PwC analysis

If it is accepted that the OIS rate is a more representative risk-free rate, it could be argued that this rate should also be used as the base rate when discounting uncollateralised trades. Further adjustments related to the uncollateralised nature of the trade such as funding costs and counterparty credit risk, would then be required.

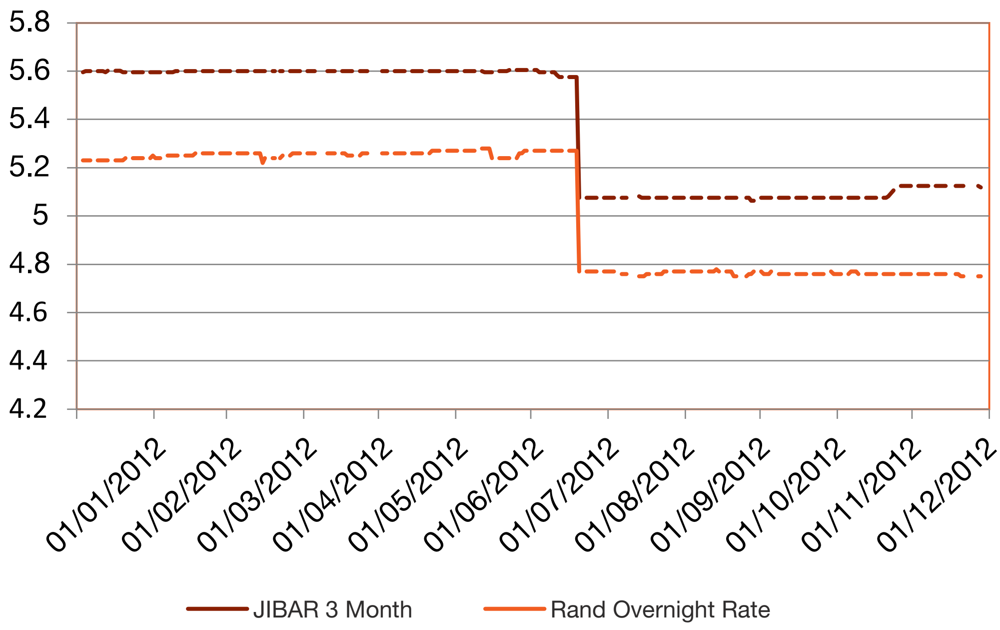
Given that OIS rates are not observable in South Africa, most local institutions regard the SAFEX overnight lending rate as a proxy because it is generally referenced in ZAR-based collateral agreements.

Despite the lack of observability, three of the big four South African banks do not expect the move towards OIS discounting for financial reporting purposes to impact the IFRS 7 fair value hierarchy classification of the derivatives. This is largely based on the expectation that the impact will not be material.

Over the medium to longer term, banks expect to quote their own local curves or participate in consensus pricing to aid in the construction of appropriate curves for the valuation of ZAR-based trades.

The difference between the SAFEX overnight lending rate and the local interbank lending (IBL) rate, JIBAR, is shown in the graph below.

Figure 3: Local SAFEX overnight lending rate vs JIBAR



Source: Bloomberg

The introduction of OIS adds additional complexity in a market in which banks typically hedge their interest rate exposures.

The OIS-IBL approach would be introduced in a scenario in which a bank has back-to-back exposures in which one trade is uncollateralised and the other is collateralised. Banks are likely to hedge this risk to reduce income statement volatility.

Uncollateralised trades – Funding valuation adjustments

Where trades are uncollateralised, certain banks have begun to incorporate the relevant funding costs (including the costs of hedging) into the pricing and valuation of derivative trades, i.e. funding valuation adjustments (FVAs).

These banks believe that those who are not doing so are at risk of being left behind while potentially entering into uneconomic trades with more advanced players. Given the potential magnitude and volatility of a funding valuation adjustment, this has become a significant area of focus for investment banks, with certain large international banks having already adjusted financial and risk reporting to take this into account.

We expect the topic to continue to evolve through 2013 and beyond. Given the historical reluctance of local banks to recognise gains on changes in their own credit risk, the source and construction of the FVA curve is likely to be subject to much debate.

Locally, two of the big four banks are already considering FVA when pricing long-dated, large bespoke trades with international counterparties and all banks expect that transaction pricing of this nature will become more prevalent.

All four of the banks believe that the rise of FVA will potentially result in instances of both competitive advantage and disadvantage given the banks' specific funding profile, system capabilities, availability of data and other resource constraints.

Consistent with OIS, the introduction of FVA adds complexity to derivative valuations.

Some of these complexities are discussed further below.

Appropriateness under IFRS

Entity-specific funding structures raise some questions regarding the appropriateness of these valuation adjustments under IFRS. In the case that two counterparties both apply own-cost-of-funds discounting, valuations reported by each entity would be non-symmetrical, particularly for two counterparties with significantly different funding profiles. It is unlikely that this would be compatible with fair value accounting under IFRS.

However, proponents argue that this adjustment is required to ensure consistency between pricing and subsequent valuation to reduce the possibility of material day-one profits being recognised, assuming all other components of the trade are observable.

Interestingly, some local banks have expressed the view that this debate could be mute as it is unlikely that there would be a material difference between the entity-specific cost of funds of large banks and market average rates within the South African market. This view largely stems from similarities in funding profiles and credit ratings of the local banks.

Consistency between assets and liabilities

Another area of debate is whether the own-cost-of-funding curve would differ for asset and liability positions, i.e. depending on which counterparty is funding the trade. There is no consensus regarding this question either locally or internationally.

However, it has been argued that it could be analogised to the bid/offer spread on an equity trade with institutions incorporating a spread on their funding curve indicative of the difference between providing or receiving funding.

This could partially alleviate concerns regarding the consistency of valuation practices applied within a portfolio and the observability of counterparty funding curves.

Overlap with credit valuation and debit valuation adjustments

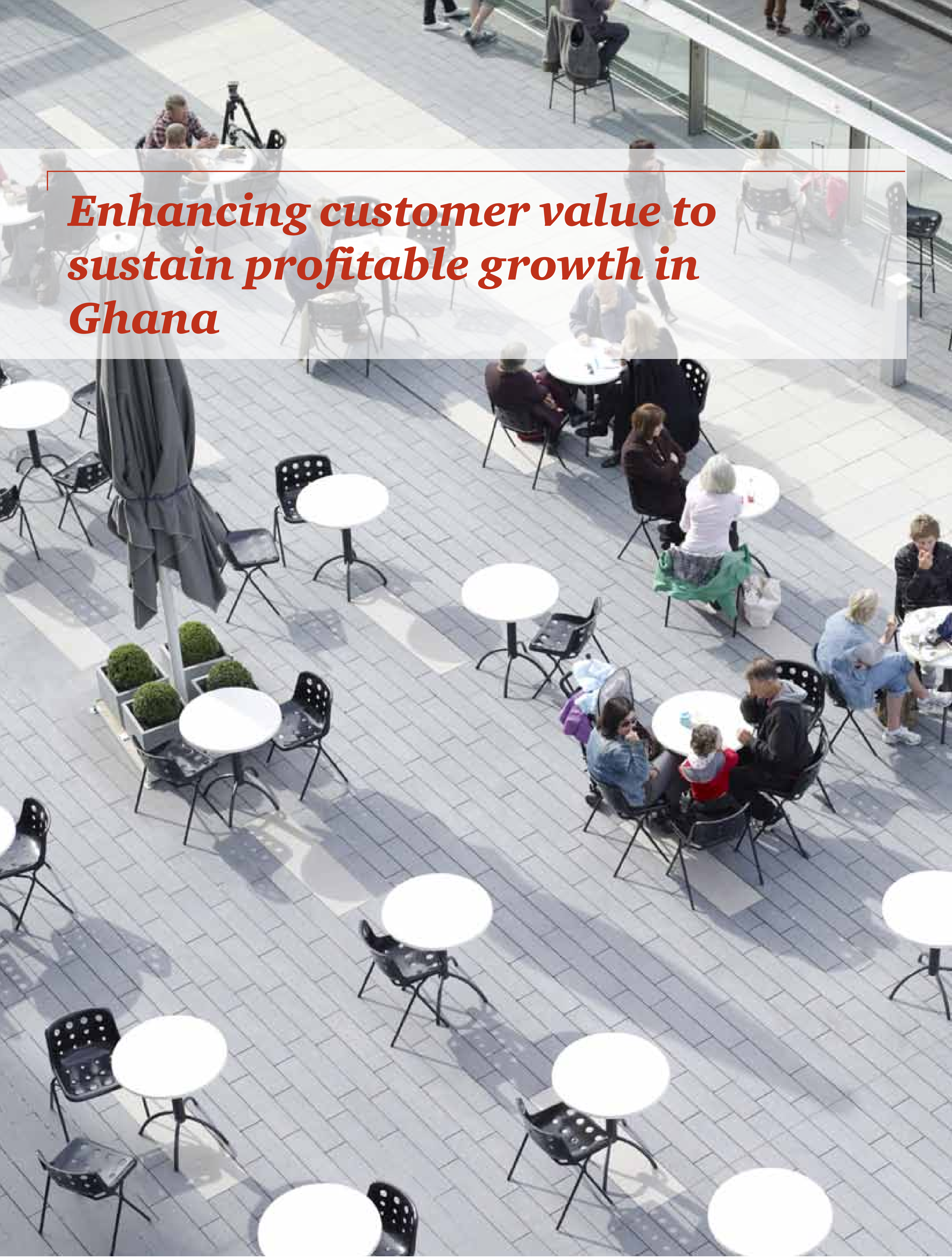
The introduction of FVA is also likely to introduce an overlap with credit valuation and debit valuation adjustment (CVA/DVA) principles, as the cost of funding curve would move in response to changes in an entity's credit spread. This could result in incorrect valuations or risk positions being reported and will therefore have to be isolated and excluded.

The road ahead

The extent to which OIS and FVA is considered when pricing and valuing trades will continue to evolve. The pace of adoption will be influenced by South African banks' interaction with international counterparties, as well as banks seeking competitive advantage, which could play a significant role in market share and profitability.

Corporate counterparties and other end users will also be affected as they often rely on dealer quotations for their own valuations and may be expected to post additional collateral as the new valuations become standard in the market.

Enhancing customer value to sustain profitable growth in Ghana



Oseini Amui
Partner, PwC Ghana
+233 302 761 449
oseini.x.amui@gh.pwc.com

PwC's 2012 Ghana Banking Survey sought the perspectives of senior executives from 24 of the 25 banks operating in Ghana. The focus was on the direction of the industry over the next five years. The survey explored issues of regional relevance in West Africa and beyond, such as changes in the industry, the likely bases for competing in the future and key constraints to growth.

Kwame Akufo
Senior Manager - Advisory, PwC Ghana
+233 302 76 1500 Ext.247
kwame.a.akufo@gh.pwc.com

Andrew Takyi-Appiah
Senior Manager - MCBD, PwC Ghana
+233 302 76 1500 Ext. 254
andrew.k.takyi-appiah@gh.pwc.com

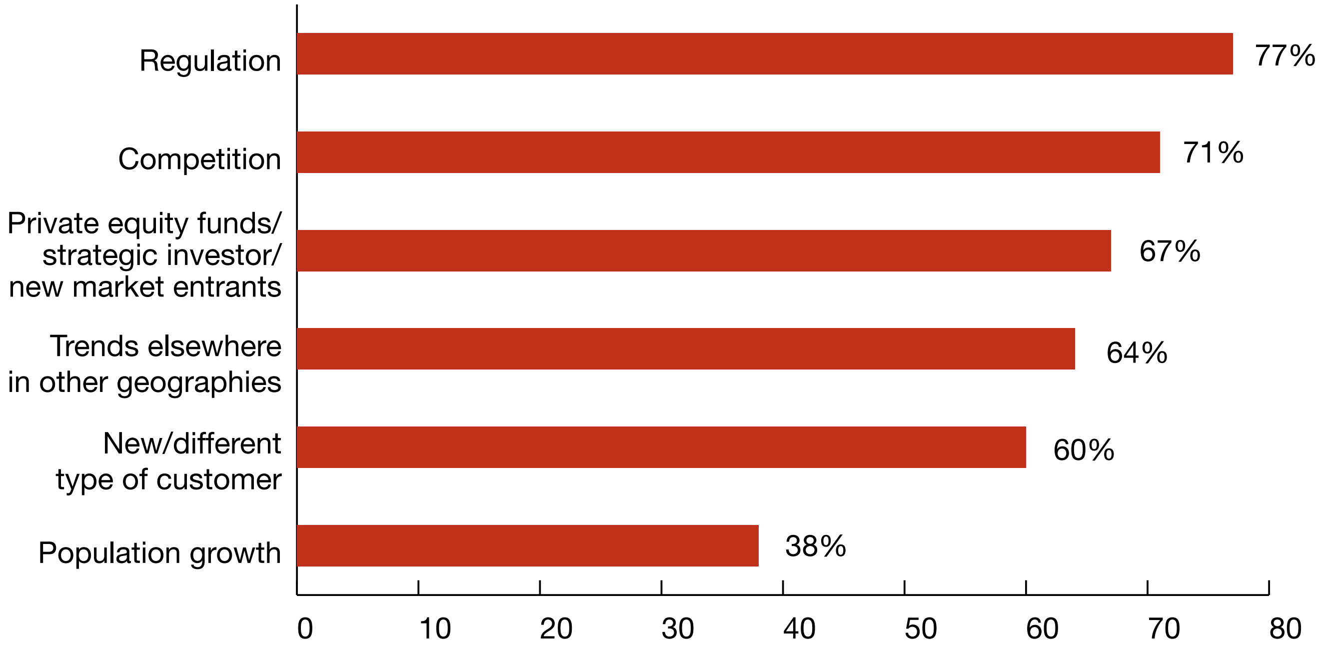
The survey sought respondents' views on these specifically questions:

- What will be the main drivers of change in Ghana's banking industry over the next five years and why?
- Historically, banking in Ghana has been profitable; where will the next wave of high incomes and profits come from?
- On what basis will banks compete over the next five years?
- What are the greatest threats to growth over the next five years?

What will be the main drivers of change in Ghana's banking industry over the next five years and why?

In the survey, bank executives in Ghana identify the Regulator, the Bank of Ghana(BoG), and regulation as the two biggest drivers of change in the near future.

Figure 4: Drivers/levers of change



Source: PwC analysis

Over the past five years, the BoG has played a major role in shaping current trends in the industry. The increase in banks' paid-up capital requirements, adoption of IFRS for financial reporting performance and the introduction of risk-based banking supervision have all and continue to influence activity in the industry.

Banks expect to position themselves so that they are able to contribute effectively to the process of developing regulations and making new regulations more sensitive to banks' operational needs as well as the needs of their investors.

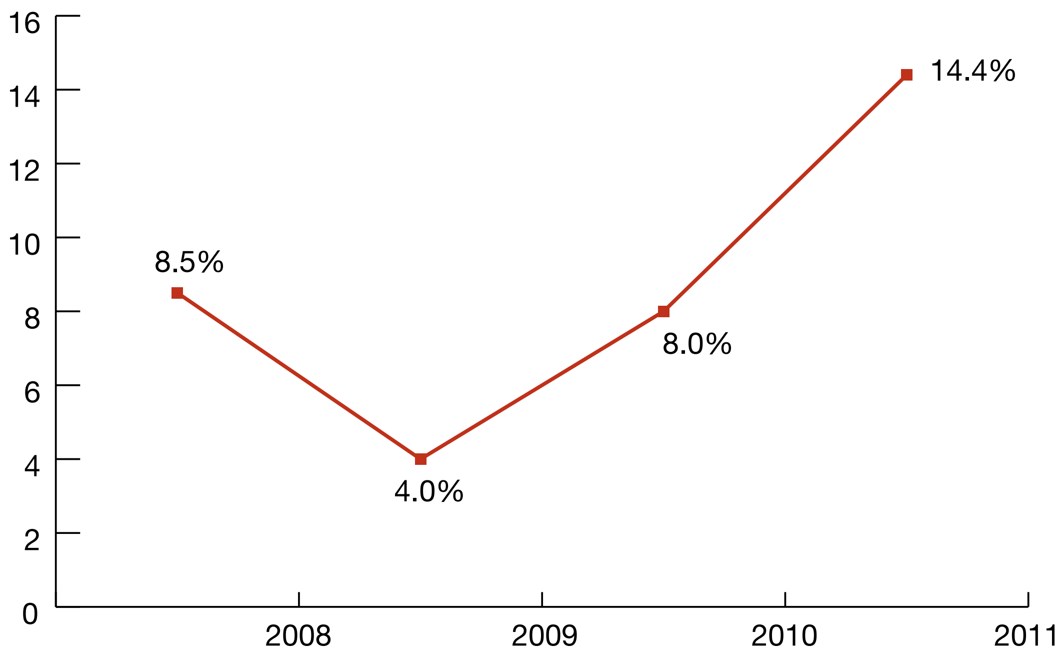
A further driver of change identified by the survey is competition. Bank executives acknowledge that with the additional capital that they have procured, there is even more pressure to deliver above-market-average returns to investors.

Thus, in the near term, banks expect that there will be significant jostling within the industry to secure domestic market share, with competition becoming more aggressive among the domestic banks—rather than from new market entrants.

While the macro-economy in Ghana has posted high growth rates in the past few years and continues to show high growth potential, banking services penetration has been limited to less than 30% of the population.

Low penetration has been attributed to a range of factors, including the existence of a large subsistence economy that seems not to value banking services, cultural mindsets that lack an appetite for banking services and the industry's general failure to produce innovative products that would be appealing to the peripheral consumer.

Figure 5: GDP growth rate



Source: Ghana Statistical Service

Historically, banking in Ghana has been profitable; where will the next wave of high incomes and profits come from?

In responding to this question, bank executives were asked to express their views on business segments, economic sectors and products.

Business segments

Banks expect that institutional banking clients will continue to dominate transactions in the banking industry followed by SMEs. In both 2010 and 2011, more than 80% of deposit liabilities held by banks were of a non-retail nature. As the oil & gas (O&G) sector of the economy develops, related activities from that sector will fuel further growth in the demand for institutional banking services.

The SME subsector is also expected to contribute to profitability. Historically squeezed for credit by the banking industry on the grounds of unstructured governance and high credit default risks, SMEs are being touted more and more as key players in the country's next wave of economic growth. This development has prompted even the most conservative banks to develop products for SMEs.

Economic sectors

Bank executives rate the O&G subsector as the 'most likely' to generate profitable growth for their businesses. In this regard, banks generally acknowledge the need to acquire requisite capability (capital and knowledge in the industry) to convert opportunities into tangible business transactions.

Products

On the assessment of what products would contribute towards the industry's income and profits in the medium term, banking executives identify unfunded income from trade. A highly specialised form of banking conducted within a very well-organised 'international environment', structured trade (and commodity) finance provides the banking industry with a fairly safe source of non-interest income.

Bank executives also see electronic banking playing a more significant role in generating income and profits for the industry. At present, most banks offer some form of electronic banking, allowing customers view-only access to their account balances and transactions through notifications by SMS and email. Electronic banking will increasingly become a minimum requirement for customer satisfaction, if not a source of fee income.

On what basis will banks compete over the next five years?

Most bank executives rate 'people' as the variable that matters most to banks in the battle for the future. Respondents defined 'people' to include employees (including managers), customers and shareholders.

Banks emphasise that increased competition in the domestic industry and access to global capital markets means that customers will increasingly request more sophisticated products and services. This will require specialised skill sets to develop products as well as stringent policies by the BoG to monitor the activities of banks.

Bank executives consider the quality of customers to play a critical role in their businesses as it has an impact on revenues, costs and therefore profits. Additionally, bank executives say that in light of the clout that institutional investors wield in the governance of banks, it is important to have the 'right' shareholders committed to sustaining long-term profitable growth.

Industry players also acknowledge the critical importance that cheap deposits play in the survival and profitability of banks. Banks note that they would consider both brick-and-mortar and electronic channels in extending their reach.

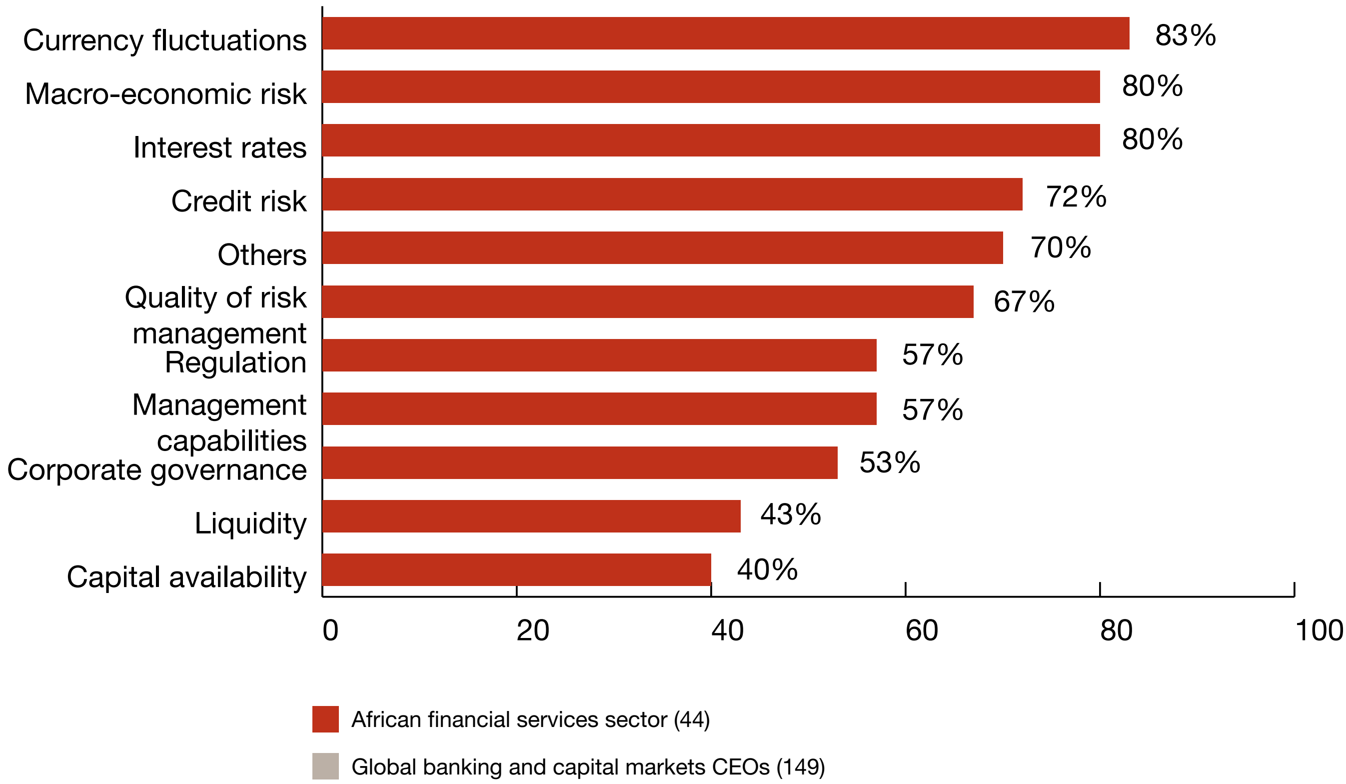
Banks have been slow to deploy IT platforms for product development because of the perception that the Ghanaian market is not ready for electronic channels. In spite of this reluctance, we believe that there are clear signs of change in how banks conduct business through their distribution channels.

What do you see as the greatest hindrance to growth over the next five years?

Bank executives in Ghana see the macroeconomic environment as a key factor affecting growth within the banking sector in the medium term. GDP growth and stable inflation are favourable, but the depreciation of the cedi and rising interest rates threaten sustainable profit and growth.

The consensus is that if the quality of customer credit profiles deteriorates, lending will continue to be a challenge and that this will adversely impact profits.

Figure 6: CEOs who are concerned about the following economic threats to growth



Source: PwC analysis

Quality of risk management, management capabilities and governance are considered factors that could hinder the growth of banks in the medium term.

Bankers believe that inadequate and ineffective governance structures could manifest in exposure concerns and financial losses, thus ultimately impacting growth.

In our view, strong management capabilities to implement strategic decisions are necessary to instil market and customer confidence in banks and sustain growth. To remain competitive banks must review their current risk management framework in line with a growing and sophisticated customer base and develop and acquire the relevant skills sets for strategic decision making.

For more information about the 2012 Ghana Banking Survey including a full copy of the report, please visit www.pwc.com/gh/en/publications/ghana_banking_survey_2012.jhtml

Enhancing trust and transparency for investors into hedge funds

Ilse French
Investment Management Leader,
PwC South Africa
+27 (0)11 797 4094
ilse.french@za.pwc.com

Bryan Ingram
Associate Director, PwC South Africa
+27 (0)11 797 5730
bryan.ingram@za.pwc.com

In line with its objective of strengthening the financial regulatory architecture in South Africa, National Treasury and the Financial Services Board (FSB) in September 2012 issued a proposed framework for the regulation of hedge funds in South Africa.

The FSB believes the proposed framework will formalise a number of the existing structures and governance processes already in place and result in better protection for investors as hedge funds will fall under a separate chapter of the Collective Investment Schemes Control Act (CISCA), which currently governs collective investment schemes.

The framework proposes two types of hedge funds: restricted and retail hedge funds.

A retail hedge fund is marketable to the general public and able to solicit funds from them. Ordinary retail investors will now be able to invest in hedge funds, as opposed to in the past, when only high-net worth sophisticated investors had access to hedge fund investments via closed partnership structures.

In addition, the increased limits provided by Regulation 28 (revised) for investment by South African retirement funds into hedge funds will likely accelerate future growth in the hedge fund industry.

Trust and transparency

Against the backdrop of the expected growth in the South African hedge fund industry and at a time when trust is a topic of much focus and debate in the financial sector, it is critical for hedge fund managers to continue moving towards improving investor confidence, and so gain the faith and confidence of investors. Demanding trust and transparency requirements from both institutional and retail investors will need to be met if hedge fund managers are to fulfil their growth potential and win investors' favour towards the industry.

The South African hedge fund sector's future growth depends on enhancing institutional and retail investors' trust by demonstrating high standards of corporate governance, robust operational controls and strengthened regulatory compliance. Transparency is key to investor trust; providing comfort that there are appropriate controls across the hedge fund value chain – including the fund board, the manager, the administrator and the prime broker.

Investors need absolute clarity that the fund's assets exist and a clear understanding of how they are used (e.g. via rehypothecation, securities lending, etc.) and the degree to which administrators or other appointed 'valuers' perform independent third-party valuations. In the years since the credit crisis, hedge fund managers have travelled a long way on a journey towards working with their service providers and significantly improving transparency, operational infrastructures and governance.

The global hedge fund sector is in the midst of a 'trust and transparency' transition for which the broad framework is in place, but not yet complete. Change driven by the actions of regulators, investors and lawmakers has profoundly impacted the industry. Whether managers are based in the U.S, Europe, Asia-Pacific or South Africa, they are all experiencing similar challenges and opportunities. Each region is developing at a different pace and has different nuances.

While the magnitude of the improvements made must not be underestimated, we've identified a number of measures which will be critical for raising investor confidence. Addressing these areas will, we believe, bring opportunities for growth from institutional investors that are greater than those ever seen before.

Five measures for raising trust

Our global research identified the following five areas that hedge fund managers and their service providers need to focus on in order to complete the emerging 'trust and transparency' framework.

These are:

- **Proactive partnership and alignment of interests across the value chain** – Managers need to build a spirit of proactive partnership with investors. Going beyond standard reporting and communication, some managers are giving investors far greater insights into their businesses and even becoming virtual extensions of their investors' organisations.

- **Standardisation of investor reporting and operational due diligence, balanced with the necessary level of customisation** – Following the 80/20 rule, managers need to standardise the basic information they give to investors, in order to focus on customising the information that investors find most useful.

- **Institutional-quality infrastructure and controls** – Probing investor due diligence and broader and more intense regulatory scrutiny have combined to encourage managers to upgrade their infrastructures across the areas of people, processes and technology. Reviewing whether it's as good as you think it is will also give reassurance that it's fit for purpose, and as such, internal control reports are becoming more popular across the industry's value chain. A growing number of managers are now commissioning them, perhaps gaining an advantage over those that do not by enhancing investors' trust in operational controls.

- **Robust processes underlying the valuation and safekeeping of assets** – Administrators' transparency reporting, such as price and asset verification, is well-received, but there is room for more standardisation. Investors continue to step up their due diligence procedures, seeking to understand administrators'/valuers' precise roles in asset valuations and validations, as well as the detail of controls and service level agreements. Prime brokers also have a challenge to develop innovative but safe ways to use collateral.

- **High standards of fund and corporate governance** – Managers need to respond to emerging fund governance standards, as calls for independent oversight increase. Consideration may need to be given to introducing committees including independent representatives to oversee market risk and liquidity; credit risk; operational risk and valuation. In addition, staff numbers may need to be increased in areas such as compliance, investor relations and risk management.

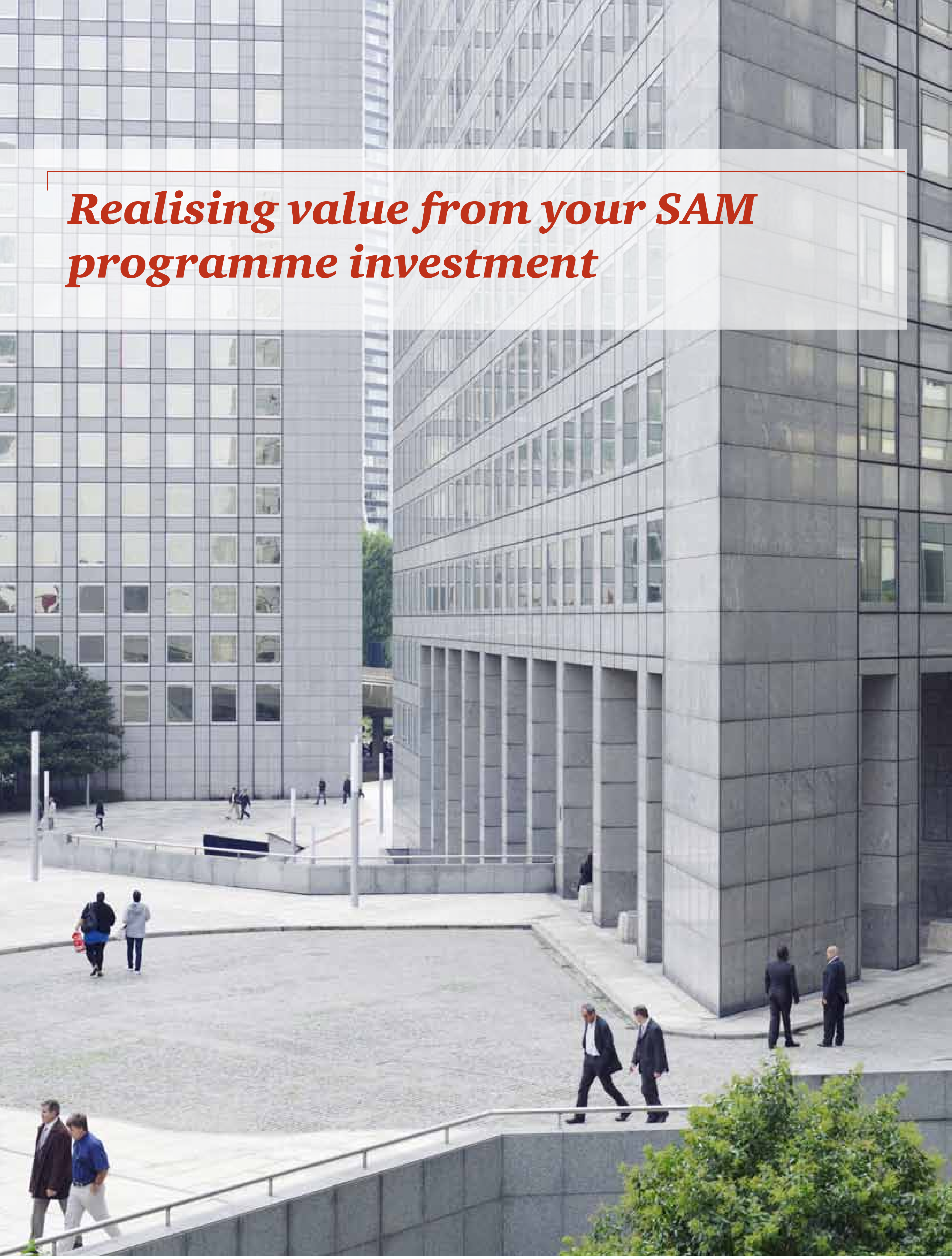
Completing the shift to trust and transparency for investors

The hedge fund sector, including hedge fund managers and service providers, has made significant progress in building trust in the industry. As it continues to do so, it will need to make further refinements and make the process of giving investors and regulators transparency more efficient.

By concentrating on the five key points highlighted above, we believe that hedge fund managers will be able to demonstrate the high levels of credibility, reliability and alignment of interest, all combined with low self-orientation, that lie at the core of greater transparency for investors.

There must be transparency about all aspects of the fund, the hedge fund manager and service providers. Managers need to ensure an 'open-book' policy to succeed in this new, highly-regulated world.

Realising value from your SAM programme investment



Francois Kruger
Partner, PwC South Africa
+27 (0)11 797 4717
francois.kruger@za.pwc.com

Pieter Crafford
Partner, PwC South Africa
+27 (0)21 529 2324
pieter.crafford@za.pwc.com

Realising value from your SAM programme investment

In December 2009 the Financial Services Board (FSB) announced that it will be developing a new solvency regime for South African insurers to be in line with international standards.

The basis of the Solvency Assessment and Management (SAM) regime will be the principles of the Solvency II Directive adopted by the European Parliament, but adapted to South African-specific circumstances where necessary.

As an overarching principle the SAM regime should meet the requirements of a third-country equivalence assessment under Solvency II. At the time of the FSB's announcement to develop the new SAM regime, the implementation date of Solvency II for EU countries was set to be effective from October 2012.

The FSB has indicated for a number of years that current South African insurance regulation and supervision do not fully meet all the requirements of the Insurance Core Principles (ICP) of the International Association of Insurance Supervisors (IAIS). To address the most important issues and requirements, certain interim measures, summarised in the table below, have been introduced ahead of the full SAM implementation.

> *"Solvency II has been viewed internationally as a reference in risk-based regulation of insurance. In that sense many countries have considered elements of Solvency II while developing their own regimes. The lack of certainty about Solvency II implementation is challenging EU credibility in the international discussions."*
>
> ***Gabriel Bernardino,*** *Chairman of EIOPA, Opening speech at the 2nd Annual EIOPA Conference November 2012*

Sam interim measures

Pillar 1 Quantitative requirements for short-term insurers	The prescribed requirements for the calculation of the value of assets, liabilities and capital adequacy requirements of short-term insurers, which are already effective.
Pillar 2 Governance, risk management and internal controls	Currently, there are limited statutory requirements around governance, internal controls and risk management for insurers. Interim requirements are therefore being developed in these areas, which will be legislated through the Insurance Laws Amendment Bill (ILAB) and are expected to come into effect on 1 January 2014.
Pillar 3 Regulatory reporting	Certain interim amendments have been made to the insurance regulatory returns to obtain appropriate information for a more risk-based approach to supervision and reporting e.g. changes in the type of business disclosures (for life insurers), credit and concentration risk disclosures. Amendments to the long-term and short-term insurance regulatory returns have been effective since 2011.
Regulation of insurance groups	SAM will encompass supervision at both the solo and insurance group level. This will necessitate interim legislation for insurance group supervision, which currently does not exist. The ILAB will define an insurance group and the scope of insurance group supervision.

SAM 2013 update

Since the end of 2012, when it became apparent that the implementation of Solvency II will be delayed past its planned 1 January 2014 inception date, there were growing concerns and different views in the South African insurance industry how SAM would be impacted. Following consultation with the SAM Steering Committee and key stakeholders the FSB has adjusted the SAM timelines in response to stakeholders' comments.

Stakeholders' main concerns (which are mostly unrelated to the delays in Solvency II) include:

- Uncertainty in key areas of the SAM framework.
- Important decisions on various technical areas need to be made to provide more clarity for the third Quantitative Impact Study (SA QIS 3).
- Not having sufficient time to incorporate the results of the Economic Impact Study.
- More clarity is required on the SAM reporting requirements.
- Slow progress with the tax basis.

The FSB indicated that the main change in dates relates to implementation timelines rather than the SAM development timelines. A key component of the FSB's recent SAM update included providing further detail on the SAM parallel run, which will consist of two phases to enable insurers to meet the SAM requirements.

The effective date for SAM implementation will now be 1 January 2016.

The "light" phase of the parallel run will be conducted in the second half of 2014 and will mainly be based on the QIS templates with some simplified specifications. The "comprehensive" phase will comprise the completion of a full set of quantitative reporting templates and a "Mock ORSA" that needs to be conducted during 2015.

Interim measures for Solvency II preparation in Europe

The delay in the Solvency II timelines is predominantly due to one material area of disagreement, relating to the application of a discount rate to products with long-term guarantees. The European Insurance and Occupational Pensions Authority (EIOPA) has been requested to perform a long-term guarantees assessment (LTGA) to assess the effects of the proposed requirements in this area as policy makers felt they could not finalise Solvency II without the results of this assessment.

In December 2012, EIOPA issued an opinion on interim measures regarding Solvency II, in which it is proposed to put many aspects of the Solvency II Pillar 2 requirements and potentially elements of Pillar 3 in place from 1 January 2014. These include:

- An effective system of governance that provides for sound and prudent management and an effective risk management system, including a forward-looking assessment of the insurer's own risks (based on the own risk and solvency assessment [ORSA] principles);
- An effective risk management system comprising strategies, processes and reporting procedures necessary to identify, measure, monitor, manage and report the risks, at an individual and at an aggregated level, as well as their interdependencies, to which insurers are or could be exposed; and
- Reporting to supervisors.

A number of European insurers have expressed frustration over the delays in the timetable, especially as millions of euros have been spent during the preparation phase, since the Solvency II journey in Europe has started over a decade ago. As a result certain insurers have indicated that they would rather early adopt Solvency II, especially where long-term guarantees do not impact them.

On 27 March 2013 EIOPA published its consultation on guidelines for the preparation of Solvency II. The draft guidelines follow EIOPA's concern expressed in its December 2012 opinion on interim measures, that there should be consistency in the preparations for Solvency II across Europe to ensure the industry does not lose momentum and is better placed to comply with Solvency II when it becomes effective.

The draft guidelines comprise four consultations that include proposed interim measures in the following areas:

- System of governance;
- Forward looking assessment of the insurer's own risks (based on ORSA principles);
- Reporting to regulators; and
- Pre-application for internal models.

The interim measures are intended to encourage national regulators to adopt consistent approaches in their preparations for Solvency II implementation. The consultations are open for comments until mid-June 2013. EIOPA is expecting to publish final guidelines in the third quarter of 2013 leaving a few months for regulators to implement them by 2014.

"Initially Börsen Zeitung asked me to write an article entitled 'Solvency II: The never ending story'. While it is true that Solvency II has been a long project and that we still need some final decisions before starting its implementation, I believe that we have now a clear plan to deal with this last hurdles so I remain confident and prefer to put the emphasis on the message 'Solvency II is coming closer'."

Gabriel Bernardino,
Chairman of EIOPA, March 2013,
Börsen-Zeitung is a leading , German financial newspaper

FSB Pillar 2 readiness assessment

FSB Pillar 2 readiness assessmentIn light of these developments, the outcome of the FSB's recent Pillar 2 Readiness Survey of South African Insurers is well timed. The initial results of the survey were shared with the industry during November 2012 and the FSB's final report is expected to be released in April 2013.

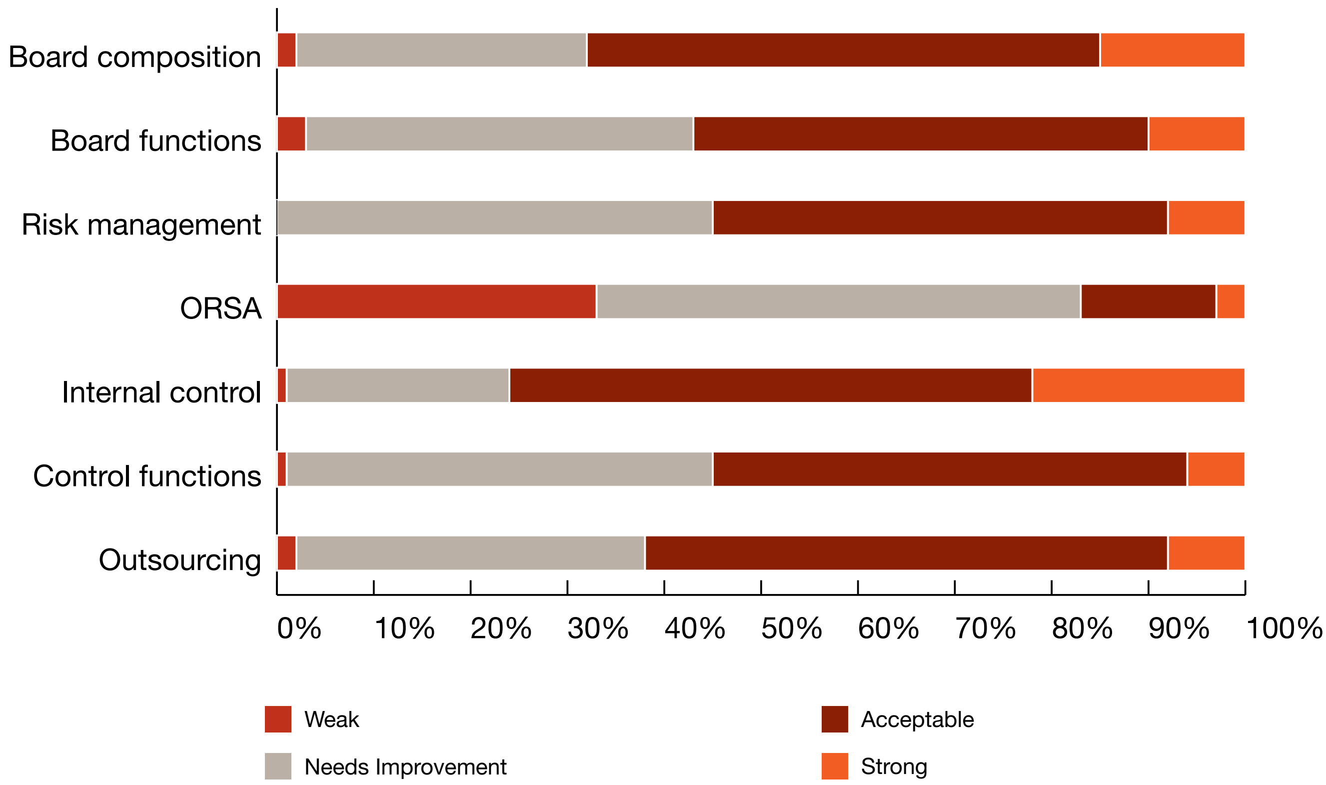
The elements of Pillar 2 that are currently being developed as part of the SAM regime include risk management, governance and control, ORSA and stress testing.

The initial results from insurers' self-assessment of the FSB's Pillar 2 Readiness Survey (shown below) indicate that more than 30% of insurers consider their ORSA readiness to be weak.

As has been the experience in Europe, the integration of strategic objectives, risk appetite and control functions into the ORSA process remains challenging. It is therefore important that insurers focus on their ORSA developments in order complete the 'Mock-ORSA' exercise during the 'comprehensive' parallel run in 2015.

> *"Solvency II is not just about capital. It is a change of behaviour."*
>
> ***Thomas Steffen,***
> *Chairman of the Committee of European Insurance and Occupational Pension Supervisors*

Figure 7: Overall self assessment



Source: FSB SAM Workshop, November 2012

With respect to the other elements surveyed, more than 30% of insurers recognise that their Pillar 2 activities need improvement and between 40% and 50% of insurers believe their activities are at acceptable levels, albeit having a significant impact on business. The FSB has indicated that a follow up exercise will be considered towards the end of 2013 and beginning of 2014 in areas where deficiencies have been highlighted.

Benefits and challenges of the proposed solvency regime

SAM will undoubtedly result in significant changes and challenges for insurers, but it should be a regime that results, to a large extent, in better capturing and management of risk resulting in insurers not holding more capital than they should.

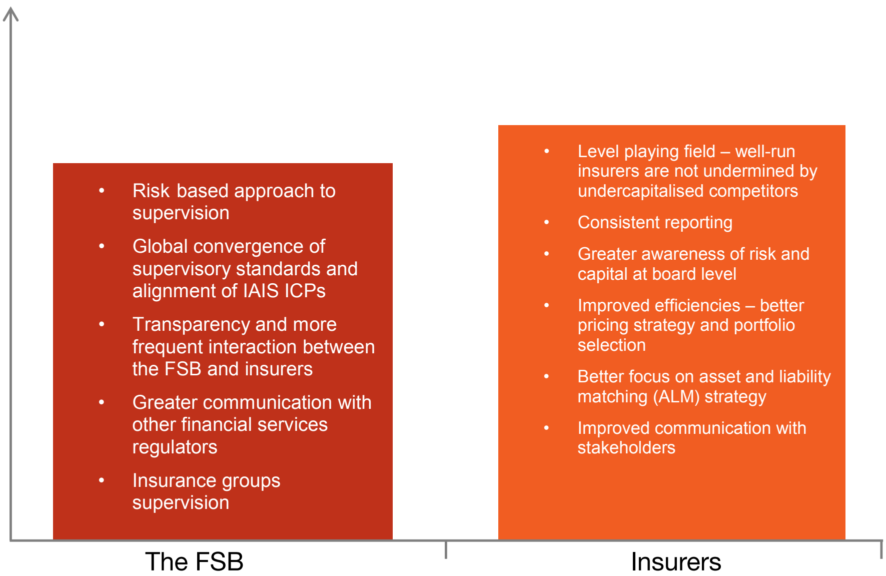
"The new regulatory environment requires us to make some changes to the way we do things, often at an increased cost and with some loss of speed and agility in decision-making and implementation. However if these changes result in better protected customers and a more sustainable industry, then they will be worth our effort."."

Nic Kohler, *Hollard CEO , Hollard Integrated , Annual Report, November 2012*

The FSB aims to promote the financial soundness of insurance companies through the effective application of international regulatory and supervisory standards, which will enhance comparability globally.

The primary purpose of the SAM regime is the protection of policyholders, which will be achieved through developing a risk-based approach to supervision; aligning insurers' capital requirements with their underlying risks and providing insurers with incentives to adopt more sophisticated risk management processes.

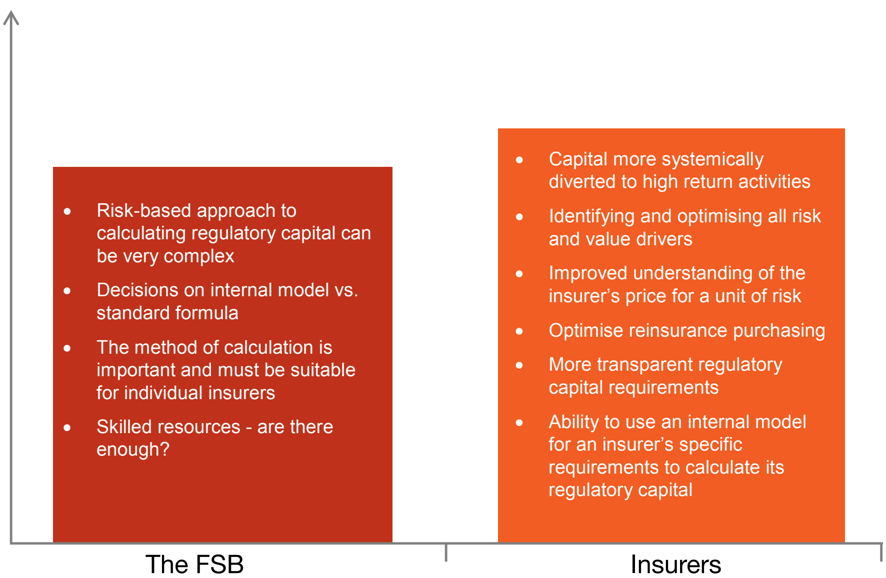
Positive aspects of SAM



While industry leaders acknowledge the need for enhanced regulation and compliance to support a healthy and trusted industry, this comes at a cost. There is grave concern that the increasing complexity and the volume of new regulations, to be implemented in a relatively short space of time, creates uncertainty and makes it more difficult to do business.

Regulatory change is, however, going to continue being part of doing business in the future. Although regulatory changes will firstly be about ensuring compliance with the new regulation, it is important to look beyond compliance and understand how the various regulatory developments will impact strategy, product design, cost and the organisational structure.

Pillar 1: Challenges and benefits

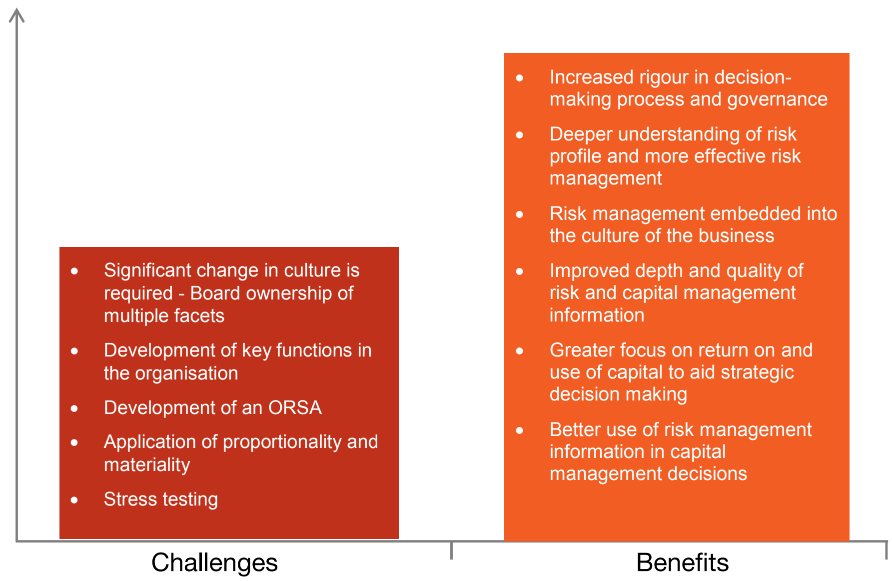


Insurers that have a clear understanding of the SAM capital requirements will benefit by identifying the risk and value drivers as well as higher return activities. This capital calculation is not only about the risk charges for each category of insurance and investment risk: insurers also have to consider the correlations. A well-diversified and managed business will in all likelihood result in lower capital requirements.

There are concerns about the complexity of the standard model, which may not be suitable for all insurers.

Insurers, however, have the option to apply for an internal or partial internal model to adapt to their specific risk profile. Although going through the process of obtaining approval for an internal or partial model is burdensome in the short-term, there will potentially be long-term benefits for a number of insurers. These may include embedding risk and capital management in the organisation (through the 'use test') and better reflecting the specific risk profile and the nature of the business, which may ultimately result in lower regulatory capital requirements.

Pillar 2: Challenges and benefits

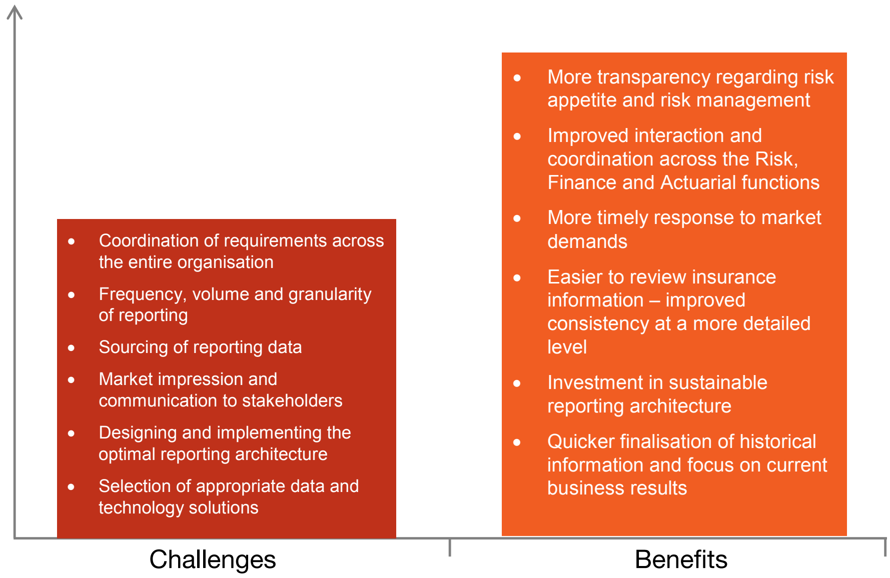


The board and management are responsible for ensuring that the business is prudently managed. This will require increased rigour in decision making, governance and a deeper understanding of risks and how these impact the business. The board will need to take ownership of these issues and demonstrate clear allocation of roles and responsibilities between them.

Many insurers have a number of processes to identity and assess risk and capital as well as processes to make decisions on risk and capital information. Embedding these processes in the organisation, measuring the outcome and reporting on a continuous basis remains challenging. The ORSA requires an insurer to bring this all together, to increase transparency and to demonstrate management's own view of its risk profile and capital needs.

Forward-looking information will be needed to assess the sustainability and vulnerability of an insurer's business model. Stress testing and sensitivity analysis will form an important part in the way insurers use forward-looking information to assess the risks and threats they face.

Pillar 3: Challenges and benefits



The qualitative and quantitative disclosure requirements under SAM will be extensive and are likely to include disclosure on the nature of the insurer's business, objectives, strategies and performance; governance structures, responsibilities of the board, senior management and key committees; risk profile and risk management approach for each category of risk; valuation bases for assets and liabilities.

Given the significant amount of quantitative information insurers need to report on, they will need to have a comprehensive understanding of the reporting requirements and the impact of collecting and collating information.

One of the most difficult challenges facing insurers will be producing reliable information in the required timeframes. The need for automation, including more effective technology solutions and increased automated controls will be essential. In order to meet the reporting demands, it is vital for insurers to streamline the reporting process, which includes effective integration and co-operation between finance, risk and actuarial teams. Given that the detail and timelines for the Pillar 3 data required are going to be more than just a straightforward request for information, it will be essential to develop effective partnerships with third parties such as asset managers, underwriting agencies and brokers.

Insurers will benefit if they regard the reporting and disclosure requirements not merely as a compliance exercise, but integrate Pillar 3 reporting into the wider demands of management information, ORSA reporting and financial reporting.

Making most of the extended implementation date

Most South African insurers have been following the Solvency II events in Europe with a fair degree of interest for a number of reasons:

- The SAM regime has largely been based on the principles of Solvency II.
- Many South African insurers have European insurance operations which are directly impacted by the Solvency II Directive.
- The way in which European insurers are reacting to uncertainty and delays in Solvency II timelines hold valuable lessons for their South African counterparts.

European insurers are following two broad approaches to deal with the delays in the timetables and the inherent uncertainty created, either through 'Getting over the line as soon as possible' or 'Taking the time to get it right'.

Insurers adopting the first approach are aiming to finalise activities occurring as part of their existing Solvency II programmes as soon as possible, with a view to transfer these activities into Business-as-Usual in the short term. These insurers are typically very well progressed in their Solvency II compliance efforts, have a desire to move out of 'Programme mode' and want to avoid duplication with existing regulatory compliance activities as soon as possible. They will also be in a strong position to address the 2014 interim measures.

Insurers adopting the second approach are either less progressed in their Solvency II readiness (some may even have breathed a sigh of relief at the slippage in the timetable) or want to use the delay to extend their Solvency II work over a longer period of time.

In order to make the most of the extended SAM implementation date it is important for South African insurers to heed to the lessons learnt in Europe, especially those relating to dealing with uncertainty and changing requirements. As with any large transformation programme, wrong decisions taken due to uncertain and changing requirements can result in significant over-spend. Key lessons to be learnt from how European insurers include:

- Prioritise and focus on the areas of certainty which will need to be addressed regardless of the specific details of the final SAM regulations. The basic challenges insurers face relating to SAM (for example internal controls, risk management, improved governance and enhanced reporting) will remain. A number of the critical SAM aspects can be progressed without the final regulatory details being known.

- Plan activities to focus on the biggest existing gaps, taking cognisance of the "light" parallel run in 2014 and the "comprehensive" parallel run in 2015.

- Ensure a view exists of the end state in a post SAM environment: This will help avoid quick fix spreadsheet options in order to simply 'get across the line' as soon as possible and will help develop sustainable actuarial, risk and reporting solutions.

- Decide which parts of the SAM programme can be transferred to Business-as-Usual at an early stage and involve business resources in 'cycles of experience' by taking these resources out of their day-to-day activities for brief periods of time for parallel run activities.

- Know when the SAM programme will and should end – but have a plan in place to deal with the areas not addressed by the programme in either project or Business-as-Usual mode, which will undoubtedly run for a number of years post the official closure of the SAM programme.

Conclusion

The SAM development timelines have not changed significantly; however, insurers still have the opportunity to influence the debate around the final SAM requirements, through the FSB's SAM structures and industry comments.

With the extended SAM implementation date to 2016 it is critical that insurers should not lose momentum in the implementation of their SAM programmes. This is crucial as insurers are already stretched by a number of issues including process, staff, data, complexity and technology. There will be greater demands on meeting deadlines and reporting timeframes given the compulsory SA QIS 3 exercise from October 2013 to March 2014 and the two parallel runs in 2014 and 2015, while at the same time complying with the existing regulatory requirements.

Apart from meeting the regulatory requirements, insurers should start realising value from the investments in their SAM programmes, which includes:

- Moving towards more risk based pricing and product design.

- Risk adjusted performance assessment and management.

- Improved capital allocation driven by portfolio and performance considerations.

- Assessing the impact of Insurance Groups and proactive decision making on optimal group structures.

- Formulating an approach to deal with cross border insurance business, especially where there are not equivalent solvency regimes.

- Developing a clear understanding of the key risk and capital levels and risk ownership across the business.

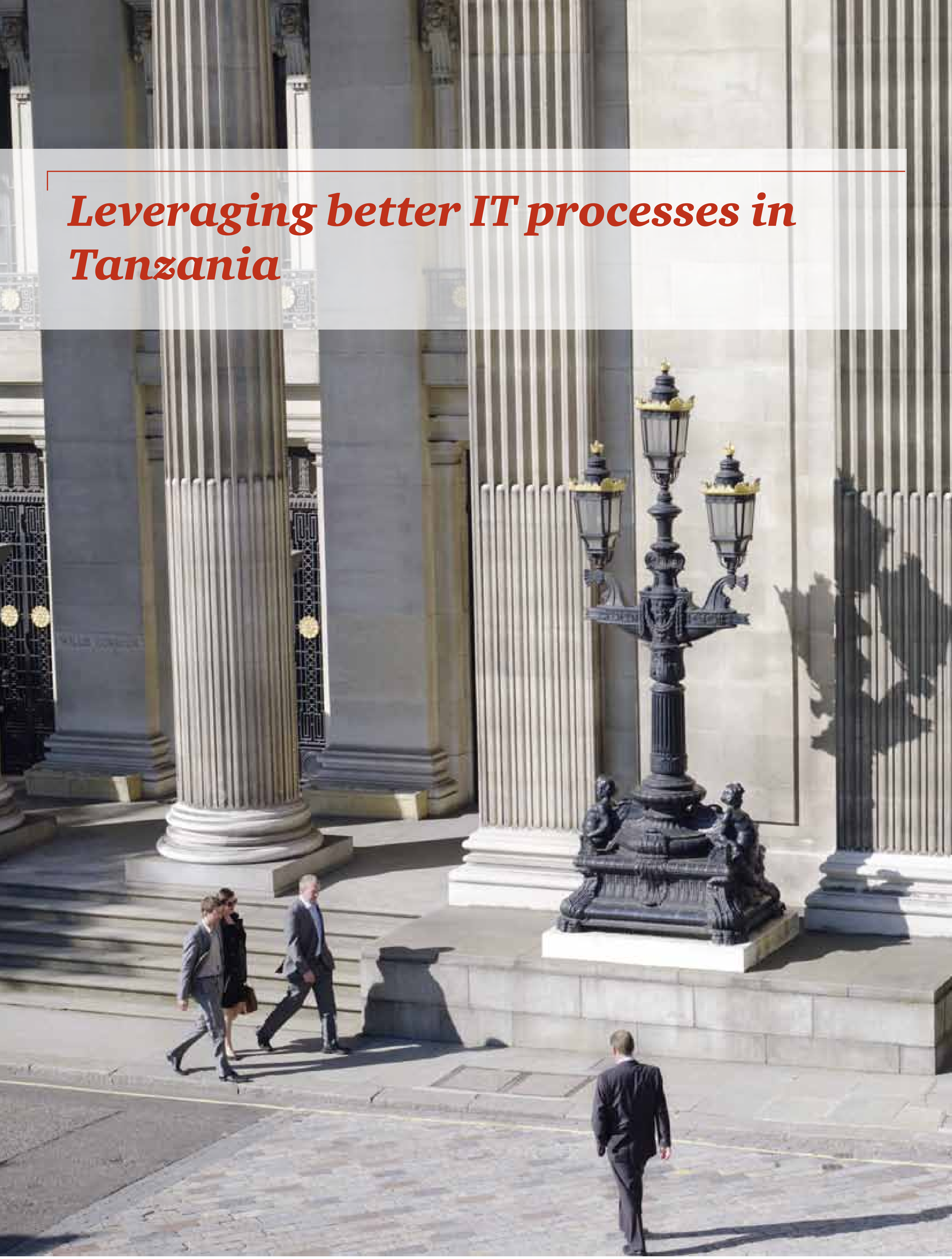
- Training business-as-usual staff who has not been involved in the SAM programme.

- Improved documentation, validation and use of models.

- Improving overall reporting processes and systems and moving towards integrating the proposed SAM reporting demands into the wider financial and management reporting process.

Insurers that have made considerable progress with their SAM programmes will be in a favourable position to meet these demanding requirements and a smoother transition as part of their business-as-usual process.

Leveraging better IT processes in Tanzania



Anael Ndosa
Manager, PwC Tanzania
+255 0 22 210 2715
anael.ndosa@tz.pwc.com

Financial institutions like banks, pension funds and insurance companies in East Africa are more dependent than ever on IT systems to run and manage key processes. Organisations must make effective use of technology to improve customer experience and ensure foolproof information security.

The value of an IT system can no longer be assessed by the amount of data it processes or the number of users accessing it, but rather by the quality of information it generates to support decision-making processes at management level. Quality information contributes to decisions about improving the customer experience and strengthening an organisation's information security position.

Recently, financial institutions in Tanzania have increased their spending on ICT in a bid to streamline their processes and improve customer experience. In 2011, NMB rolled out a new core banking system (Flexcube) that is centrally supporting banking processes in more than 140 branches across Tanzania.

Similarly, National Bank of Commerce (NBC), Kenya Commercial Bank (KCB) Tanzania, Ecobank Tanzania, Exim Bank and Bank M have done the same. While these led the way, other big players are also upgrading their core banking systems.

Often, organisations implement IT systems in order to satisfy new operational requirements and strengthen internal controls for key processes. However, in so doing they typically overlook the most important aspect, which is to consistently strive for the improvement of the customer experience.

At the same time management and users tend to look at information security as a technical process that should be championed and managed mainly by the IT department.

Examples of customer grievances and security threats are common to banks, insurance companies and pension funds in Tanzania and across East Africa.

Unsatisfactory customer service

When visiting a bank, customers want to be served quickly and leave the bank fully satisfied with the service. Unfortunately, in many cases customers will leave the bank frustrated without having achieved their original objectives, such as:

- **Opening of an additional account**

It is very common for an existing customer to be asked for the same information (as submitted during initial account opening) when opening an additional account at the same bank.

- **System downtime**

Many financial institutions' operations in Tanzania are characterised by persistent downtime and the unavailability of certain key services/processes. Customers are very often the victims as the market for financial services is not well differentiated.

- **Lengthy loan approval processes**

It is common for an existing customer to have to fulfil a full set of application requirements as if they are a completely new customer. The customer will have to tolerate and satisfy all these requirements no matter how long the process or how many times they have previously applied.

Advent of technology-related fraud in Tanzania

The concept of information security not only involves unauthorised access to privileged information from outside the organisation's network, but also and more importantly, unauthorised access from within the organisation itself. However, unauthorised access from within the network is often overlooked. Examples include:

- **EFT fraud**

In recent years there have been various reported frauds in Tanzania perpetrated by individuals taking advantage of laxity in security procedures on fund transfer systems both for local and international transfers. Most of these crimes have been committed by staff members with legitimate access to the systems, but their activities have not been closely monitored to detect unauthorised acts.

- **ATM card fraud**

Apart from skimming ATM card information and using it to commit fraud, there have been reported cases where a bank's employees have duplicated customer cards and withdrawn funds from their accounts like a legitimate cardholder.

- **Access management and document management**

Most financial organisations fail to ensure effective access management for their systems and processes simply because they lack effective access control procedures. Take the example of the movement of documents from point A to point B within an organisation. It is common to witness customer data cards (that have full names, birth dates, salary information and more) being transported by messenger on an open trolley in a public elevator from one floor to another in a financial institution. This can be a major cause of confidentiality breaches of customers' information.

These are just few examples that demonstrate how easily customers' information can be compromised due to a lack of effective procedures.

Leveraging improved IT processes

Effective IT processes should move organisations beyond crisis management and personal heroics into the realm of repeatable successes.

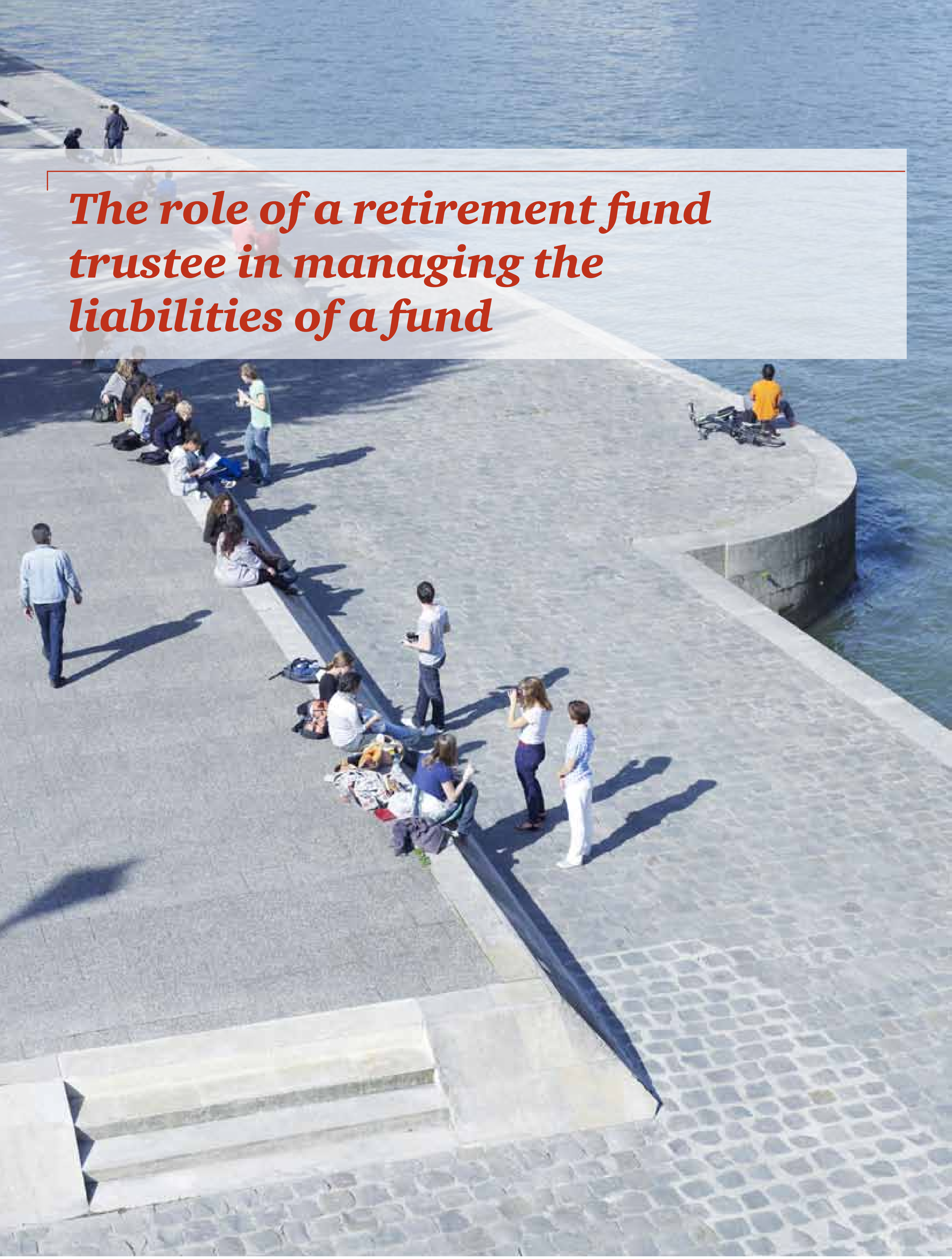
In order to realise value from existing systems in such a way that they contribute to improved customer experience and information security, organisations must ensure that their IT processes are well managed and operate effectively.

First and foremost, IT general controls must be constantly reviewed and improved based on changes in the operating infrastructure and technology in use. This includes effective implementation of controls regarding access management, change management, data backup processes and disaster recovery processes, to name a few.

Secondly, organisations must ensure that IT projects are well managed and implementations reflect business requirements. Projects must deliver value to operations.

Thirdly, implementation projects should trigger business process transformation focusing on improving customer experience and increasing the security of information in and around the system, fully leveraging system capabilities.

The role of a retirement fund trustee in managing the liabilities of a fund



Gert Kapp
Retirement Fund Leader, PwC South Africa
+27 (0)11 797 4425
gert.kapp@za.pwc.com)

Bryan Ingram
Associate Director, PwC South Africa
+27 (0)11 797 5730
bryan.ingram@za.pwc.com

Introduction

The role of the South African retirement fund trustee has become increasingly difficult over the past years with ongoing developments in the legal and regulatory environment as well as the structure and interests of funds' membership. In addition, these changes have been taking place against a backdrop of increasing volatility within the financial markets into which funds invest.

The revised Regulation 28 to the Pension Funds Act introduced a number of important governance principles in relation to managing the investments of a fund. However, with more and more funds in the South African industry moving from defined benefit to defined contribution plans, one principle that seems to have been forgotten by trustees is the concept of fund liabilities.

Although the concept of matching the assets and liabilities of a retirement fund is not new, revised Regulation 28 now states that trustees must ensure that their fund's assets are appropriate for its liabilities and must consider the fund's liabilities when investing.

In the past, trustees of retirement funds largely focused on how asset managers are performing, while not necessarily assessing whether the challenge of delivering adequate retirement income for members of the fund was being met.

However, liability management is likely to become an even greater part of the fiduciary responsibilities of retirement fund trustees.

Liability management

Under the requirements of revised Regulation 28, trustees should select investment vehicles 'within a liability driven investment framework'. Liability management for a retirement fund trustee is essentially about focusing on the end result; namely the amount of capital required by a member at retirement to sustain the expected lifestyle, the replacement ratio of the member, or retirement income stream that can be purchased for the member at retirement.

The net replacement ratio is a measure of the percentage of a member's pre-retirement income that is paid out by a pension fund upon retirement. It is calculated by dividing the individual net pension entitlement by net pre-retirement earnings, taking account of personal income taxes and social security contributions paid by workers and pensioners.

In contrast to liability management, a conventional asset manager would focus almost exclusively on the highest return achievable on the investments of the fund.

As retirement income is dependent on the real return obtained by the member and not the investment return a member receives, good liability management would thus need to ensure that the strategic asset allocation of the investment is optimised to the final income replacement ratio target; and not simply to the highest return achievable for the level of risk selected.

In order for members to maximise their retirement benefits, it is necessary for them to follow growth investment strategies, which would involve a large exposure to the share markets, while they still have enough years prior to retirement to accept the associated volatility, and to invest their retirement funds more conservatively as they get closer to retirement if they can no longer accept the volatility associated with the share markets. A single investment portfolio can therefore not meet all members' needs at the same time. The expected returns and the expected volatility of returns of each available portfolio will need to be explained to members by trustees prior to the selection of an investment portfolio by a member.

Liability management requires the use of actuarial models that take into account factors such as interest rates, annuity rates, inflation for each outcome, contribution rates, salary increases, preservation rates, and retirement dates that impact cash flows to calculate replacement ratios of members. In addition, liability modelling tools should be able to provide insights into the constantly changing dynamics of a fund or member's liabilities. In essence, where the framework allows for flexibility in a member's allocations to both the investment and benefit components of their scheme, the potential to enhance a member's net replacement ratio is significant.

A fund's liability number is simply the sum of the individual member's liabilities within the fund.

Change in approach

Recent industry research and statistics have shown that the cost of retiring is increasing; people are living longer, salary increases have outstripped inflation and real yields are lower, with the result that the amount of capital required to buy an annuity income has increased significantly and is likely to continue to do so. Trustees will thus need to change their approach by looking at the target (or fund liability) and then managing fund assets to that target. This may require adjustments to the benefit structures as well as the asset mix in the fund. In addition, the longer a member waits or procrastinates, the higher the monthly contribution needed to achieve the same targeted investment amount at retirement.

In order to fully understand the target (or fund liability), trustees will need to understand the net replacement ratio of each and every single member. The same net replacement ratio is not necessarily sensible for each and every fund member, and so certain members may require a higher or lower one. True liability management in the defined contribution space requires the ability to focus on every single member of the fund, enabling each individual member to meet their required retirement income replacement level given the very individual characteristics of that member.

One thing that is clear is that the notion of focusing on outperforming inflation, benchmarks or peer groups is no longer appropriate for managing the investments of a retirement fund.

Enabling a better income in retirement

Over and above greater focus on liability management by trustees of retirement funds' going forward, the strategy that an individual member adopts in the preservation of their benefits on retirement is also crucial. National Treasury have released a technical paper which focuses on the South African annuities market, which has grown from about R8bn in 2003 to R31bn in 2011, and also seeks to provide some options for reforming it. For a number of years now, members of a retirement fund often choose an annuity product on retirement. Two main types of products currently dominate the South African annuities market i.e. conventional life annuities and living annuities. The following concerns have been raised in the technical paper in terms of:

Conventional life annuities:

- The take-up of these annuities remains relatively low despite the longevity protection offered.
- The pricing and rating needs to be improved to include health and income factors.
- Improved mortality data and an increase in the supply of long-term bonds are needed to improve the supply of these annuities in the market.

Living annuities:

- These are a wide range of investment options/choices which are not optimally utilised by members.
- A revamp of the fee model is required, as charges levied on buyers of these annuities are significant.

Some of the policy options proposed by National Treasury for reforming the annuities market are as follows:

- The introduction of a new type of tax-free vehicle based on collective investment schemes for paying retirement income to be called a retirement income trust (RIT), which will not permit investment choice, although individuals could choose between different underlying investments and switch from one vehicle to another. In terms of existing living annuities, their criteria would need to be made broadly consistent with RITs.
- The implementation of default annuity channel for all funds is proposed, which means that all retirement funds will be required to choose a default retirement product into which all their members will be enrolled. Members will be allowed to opt-out, subject to taking advice and choosing a product (similar to the default) or choose a conventional life annuity. All default options should include a minimum degree of longevity protection.
- Restrictions on permitted drawdowns will remain, and they must incorporate all charges and may be age-related.
- Commissions for intermediaries will be more strictly regulated.

Conclusion

In conclusion, today's trustee will need to place greater emphasis going forward on how the liabilities of their fund are being met. Trustees will need to quickly assess whether they have the appropriate liability management skills and expertise within their boards of management. Alternatively, trustees could consider appointing a liability manager to keep close watch on annuity rates, interest rate changes and wage inflation among other factors. A liability manager can provide a reliable service as long as they are constantly monitoring the fund and its members in their liability space and determining whether refinements or reassessments need to be employed. Should trustees follow the outsourcing route, appropriate due diligence should be performed on the modelling capabilities of the liability manager.

Managing talent in the financial services sector in Africa

Financial services companies across Africa are growing through innovative business models and mobile technologies that enable them to offer more services to more people in more places. So it's no surprise that 96% of CEOs in the sector expect their companies to grow this year, according to PwC's latest survey of CEOs in Africa. The question is whether they will have the people they need to meet these growth expectations.

Richard Njoroge
Financial Services, PwC Kenya
+254 20 285 5604
richard.njoroge@ke.pwc.com

Talent is very much on the boardroom agenda for Africa's financial services CEOs. We surveyed 201 CEOs in Africa, a third of them in the financial services sector, and almost all of them told us that talent constraints are impacting growth and profitability and in general, it's becoming more difficult to recruit and retain the right people. Growth and talent are inextricably intertwined on the CEO agenda in Africa and it's clear that talent is gaining ground in the complex hierarchy of CEO priorities.

Everywhere we surveyed CEOs in Ghana, Nigeria, Angola, South Africa, Zambia, Mauritius, Tanzania, Kenya, Uganda and Rwanda they told us that a top-quality team is essential to achieving excellence.

Talent offers a strategic advantage in markets that are competitive and growing fast, and our survey found 86% of CEOs in the financial services sector wish they had more time to spend on it. Instead, many of them say that regulatory issues and managing risk take up more and more of their time.

Ninety-six percent of CEOs in Africa's financial services sector are investing in workforce development this year to help cultivate a future supply of potential employees. Development usually entails training, whether in-house, in-market or elsewhere.

Secondments are a popular training tool, helping to improve the competitiveness of returning secondees (as well as their employability).

No matter how they invest in workplace development, financial services CEOs require quantifiable returns on their talent investments although most would prefer a greater quantity and better information to quantify that return.

Almost half of CEOs in financial services say that it is harder to hire staff in their industry, particularly staff with deep skills in assessing market risk, foreign exchange risk and interest rate risk or derivatives.

Actuarial skills are also in high demand. The African diaspora remains a key source of talent, particularly if the incentives are right. Foreigners from other African countries or elsewhere in the world have helped to fill a need, but CEOs in Africa's financial services sector would prefer to find the right people closer to home.

The problem is that experience is hard to come by in Africa's financial services sector. In emerging economies in Africa, this could be the greatest talent challenge of all.

Experience provides the confidence and capacity for talented people to make informed decisions based on creative thinking. Training is certainly valuable, but degrees, certificates and secondments cannot compensate for length of service.

Experienced, high-potential middle managers and senior managers are the most difficult employees to recruit and retain. CEOs in Africa's financial services sector are leveraging social networks like LinkedIn to build a list of employable contacts or to publicise openings and needed skills sets.

Competitive compensation is another strategy, but it's not enough to retain the most talented employees. In every market where we surveyed CEOs, they told us that empowering manager-level employees is one of the most effective ways to win their loyalty. It is important not only to give managers more decision-making capabilities but also to require it of them, building experience and improving retention at the same time.

The need for high-potential managers has placed a premium on their worth. Over half (55%) of financial services CEOs in Africa say that talent-related expenses rose more than expected over the last 12 months. Many complain anecdotally that poaching results in poorly-trained and inexperienced employees who ratchet up higher and higher salaries as they move from one employer to the next.

The most valuable employees are those that can manage innovation and make it profitable, yet 43% of financial services sector CEOs say that their companies were not able to innovate effectively due to talent constraints.

To address this challenge, some universities and private-sector companies are working together to create 'ecosystems of innovation' in which they can pool their resources and talent to achieve a common goal: to provide the entrepreneurial skills that make innovation commercially viable.

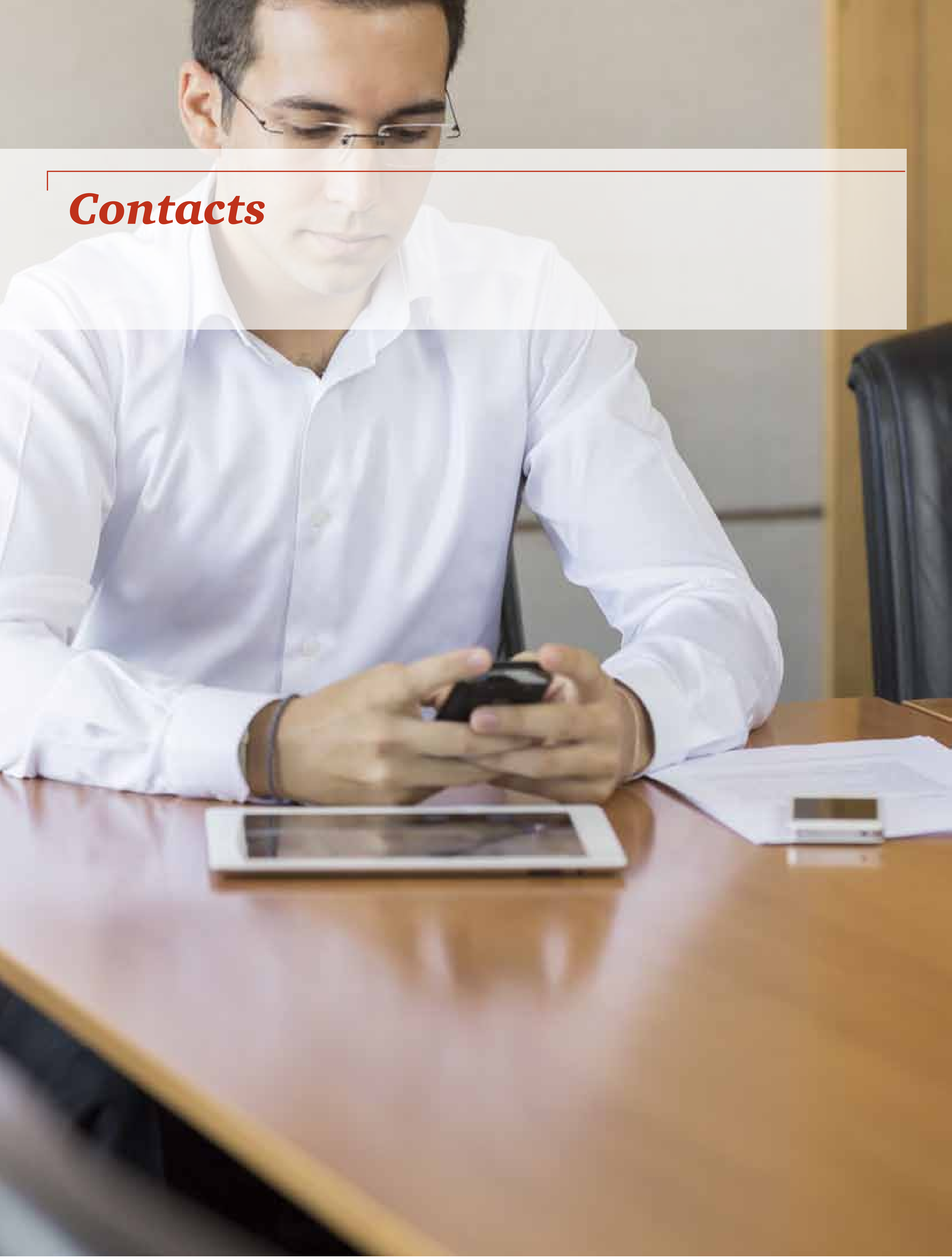
CEOs in Africa's financial services sector are focusing more and more on their retention policies to help build experience among their top talent. Attractive workplace cultures, training opportunities and competitive compensation can help. But CEOs must also encourage their companies to delegate more and give talented mid-level managers the chance to learn and grow.

This kind of trust is hard to cultivate when people are new to an organisation, or within organisations that are inherently risk averse. But it is an essential strategy to help financial services organisations in Africa address the talent challenge.

Read more about the survey results in The Africa Business Agenda, PwC's annual publication about doing business in Africa, at www.pwc.com/theagenda.


3

Contacts



Tom Winterboer
Financial Services Leader Southern Africa and Africa
+27 (0)11 797 5407
tom.winterboer@za.pwc.com

Johannes Grosskopf
Banking and Capital Markets Leader, PwC South Africa
+27 (0)11 797 4346
johannes.grosskopf@za.pwc.com

Victor Muguto
Insurance Leader, PwC South Africa
+27 (0)11 797 5372
victor.muguto@za.pwc.com

Ilse French
Investment Management Leader, PwC South Africa
+27 (0)11 797 4094
ilse.french@za.pwc.com

Gert Kapp
Pension Funds Leader, PwC South Africa
+27 (0)12 429 0059
gert.kapp@za.pwc.com

Louis le Grange
Tax – Financial Services, PwC South Africa
+27 (0)11 797 4263
louis.le.grange@za.pwc.com

Werner Horn
Advisory – Financial Services, PwC South Africa
+27 (0)11 797 4876
werner.a.horn@za.pwc.com

Rudi Binedell
Financial Services, PwC Botswana
+267 395 2011
rudi.binedell@bw.pwc.com

Rob Walker
Financial Services, PwC Mozambique
+258 21 307 620
Robert.david.walker@mz.pwc.com

Louis van der Riet
Financial Services, PwC Namibia
+267 395 2011
rudi.binedell@bw.pwc.com

Paul Lewis
Financial Services, PwC Swaziland
+268 2404 3143
lewis.paul@sw.pwc.com

Clive Mukondiwa
Financial Services, PwC Zimbabwe
+263 43 383 628
clive.k.mukondiwa@zw.pwc.com

Gabriel Ukpeh
Financial Services, PwC Nigeria
+234 (802) 778 4967
gabriel.ukpeh@ng.pwc.com

Richard Njoroge
Financial Services, PwC Kenya
+254 (20) 2855604
richard.njoroge@ke.pwc.com