

**CO-OPERATIVE BANKS DEVELOPMENT AGENCY**

**The Status of the CFI Sector in SA:  
Learning From The Past & Present to Grow The  
Future**

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***Nkosana Mashiya***  
***Managing Director - CBDA***

# Who we are...

- Member-based, self-help co-operatives
- Provision financial services
  - Deposit-taking, lending, payment services...
- Common-bond or affinity



# But deposit taking is an earned activity...

- The Banks Act has stringent requirements for deposit taking
  - to protect depositors, creditors and the financial system
- ...so many member-based cooperatives are unable meet requirements



# Government solution...(1998)

- Exemption issued i.t.o Banks Act
  - Self-regulatory organisation
  - Limits on growth (no more than R10 million)
  - Link-bank
  - Regular reporting



# Terminology...



# 2002 Collapse of FINASOL & FSA

- No SROs - collapse of primary cooperatives
- In 2003 & 2006 two assessments of FSCs were conducted by Deloitte revealing:
  - weaknesses in governance, pricing, accounting and record keeping.
  - Out of 63 FSCs, only 20 (or 32%) were *potentially* viable.
  - Govt. paid out to members over R5 million to close the unviable FSCs.



# Interim regulatory arrangements

- 2007 NT establishes SAMAF in the DTI
  - assumed regulatory responsibility for the FSCs & village banks
- SACCOL remained regulator for SACCOs
- In 2007 Co-op Banks Act passed, resulting in the establishment of the CBDA in 2008



# CBDA Mandate

Regulation &  
Supervision

Development &  
Capacity building

Liquidity  
assistance

Type	Min Registration Requirement	Regulator/ Supervisor	Deposits (regulatory threshold) (R million)
<b>Financial Service Co-op (FSC)</b>	150 members R100,000 in deposits	Samaf	20
<b>Savings &amp; Credit Co-op (SACCO)</b>	150 members R100,000 in deposits	SACCOL	30
<b>Primary savings co-op bank</b> <b>Primary savings &amp; loans co-op bank</b>	200 members R1 million in deposits	CBDA	20
<b>Primary savings co-op bank</b> <b>Primary savings &amp; loans co-op bank</b>	200 members R20 million in deposits	SARB	n/a
<b>Secondary &amp; tertiary co-op banks</b>	<ul style="list-style-type: none"> <li>•Members that consist of at least: <ul style="list-style-type: none"> <li>–two or more co-operative banks;</li> <li>–two or more FSCs that take deposits or</li> <li>–one co-operative bank and</li> </ul> </li> </ul>	SARB	n/a

# Status of the CFI sector...

CFIs	Deposits	No of CFI's	Total Sector Assets (%)
Very Large	> R20 million	3	59.7%
Large	R1 million -20 million	15	32.6%
Small	R150,000 - R1 million	14	3.1%
Very Small	< R150,000	89	4.6%
			100%

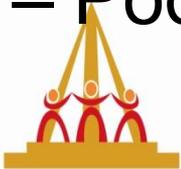
# Supervisors findings & institutional assessments

- Inadequate movement & representation
- Weak status of individual CFIs
- The Regulatory Burden



# Weak movement & inadequate representation

- Only one member driven SRO has survived – SACCOL, no representative for FSCs
- Government's direct intervention
  - *Crowding out effect*
- Unintended consequences
  - Poor membership payments



# ...SACCOL in dire straits..

- SACCOL has been facing severe challenges over the last few years due to:
  - Failure to strategically position and reinvent itself given changes in the environment
  - loss of key resource persons/staff and failure to replace these (operating without senior mgt. since Nov 2010, currently no staff)
  - Crowding out by the CBDA, samaf & other gvt. dpts.



# Weak status of CFIs

- Weak governance practices
  - No board meetings, AGMs, poor minutes, no leadership changes; weak internal controls, out-dated policies
- Poor management practices:
  - Compliance, operational, financial, risk
- Poor skills



# Levels of education...

<b>Skills level</b>	<b>Percentage (%)</b>
<b>University qualifications</b>	15
<b>College diploma</b>	32
<b>High school as their highest level education</b>	53
<b>Professional qualifications in Information Technology</b>	3
<b>Fairly new and have not attended any CFI related training</b>	67
<b>Lack knowledge in the management of financial co-operatives</b>	57



# For emphasis...

- **Weak and inadequate capital levels**
  - Sector CAR of a low 2% over the past four years
  - Dividend payments regardless of weak capitalisation
- **Weak governance structures**
  - Majority of CFIs not holding AGMs
  - ‘Permanent’ board members (with some boards having an average age of 77, and been on board for 15 years)
  - Existing boards lack adequate training
  - Boards lack understanding of financial co-op model



# For emphasis...

- Inadequate credit risk management practices
  - FSCs very conservative in lending i.e. FSC loan portfolios make up less than 5% of total assets.
  - SACCOs more aggressive in lending i.e. loan portfolios average 77% of total assets
  - No credit committees provide oversight over lending, and inadequate loan policies in place
  - Inadequate training in affordability appraisals and use of credit insurance and collateral
  - Inadequate training in monitoring and managing delinquent loans, including bad debts write off



# For emphasis...

## – Reporting on financial performance

- FSCs do not produce conventional balance sheets and income statements (and tend to report for grant funding purposes)
- SACCOs not consistent in reporting to SACCOL
- Absence of required experience and qualifications on basic accounting skills
- Unaudited financial statements & where audited, auditors do not understand financial co-operative model
- Sector not prioritised by auditors resulting in late production of financials (in most cases 12 months late)



# Regulatory landscape...

- Various registration and reporting requirements
  - **dti** as a co-op (*Co-ops Act*)
  - SROs (*Exemption Notices*)
  - CBDA/SARB (*Co-op Banks Act*)
  - NCR (National Credit Act)
- The various supervisory bodies have different regulatory requirements:



# Need to consolidate the regulatory frameworks ...

- Optimise use of supervisory resources
- Lessen the regulatory burden
- Alleviate confusion in the sector
- Better manage the collection, management & dissemination of CFI data
- Contain growth in the registration of CFIs



# Learning and Interventions

- Before the end of this financial year, existing exemption notices will be withdrawn.
- The CBDA will 'warehouse' the registration and supervision of all CFIs not registered in terms of the Co-op Banks Act
- Registration and supervision of CFIs not registered in terms of the CB Act will be transferred to the movement in due course



# Learning and Interventions

- CFIs, irrespective of size, need to start building on their capital levels
- The CFIs must liaise with the movement w.r.t to capacity interventions
- CFIs must improve on their compliance culture including reporting to regulators



# Need for a single unified movement

- Unify SACCOs, FSCs and village banks
- Develop economies of scale
- Appropriate partnerships
- Ensure its product offerings, fees & due structures are affordable to members
- Build internal capacity to deliver on its mandate as determined by the membership.



# CBDA & SAMAF must not...

- Replace the movement but instead be a wholesale entities offering development support through the movement.
- Look favorably upon efforts to build various CFI representative bodies



# Emphasis

- We encourage government to work through the representative body and its provincial chapters
- To get services and register with the CBDA you will be required to belong to the representative body



# Emphasis

- CBDA will require all CFIs not registered as co-op banks to re-register under the new Exemption Notice.
- We expect the representative body to play a leading role in this process.
- CFIs not registered within the agreed timeframes will be closed



# To conclude

- We have an opportunity to grow this sector and ensure its sustainability and viability
- Only possible, if we continue to work together towards a common goal underpinned by adherence to the law and the co-operative principles.

THANK YOU

