

**FINANCIAL CO-OPERATIVES  
OPERATIONS**

**AFRICA FINANCIAL  
CO-OPERATIVE SUMMIT 2013**

**14<sup>TH</sup> SACCA CONGRESS  
FINANCIAL CO-OPERATIVES  
OPERATIONS**

**- LESSONS FROM SOUTH AFRICA**

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**DIRECTOR OF CAPACITY BUILDING CBDA**

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**The environment within which CFIs operate  
The financial sector**

Institution	Source date	Number of institutions	Total assets		Number of clients	Low-income (access) customers			
			R million	% total		Savings		Loans	
						R million	% total	R million	% total
Banks (retail business)	Dec-10	13	1 117 926.7	96.140	21 million	46 624.7	51.1	118 511.4	99.5
Co-operative financial institutions	Dec-10	75	139.9	0.0	39 362	126.0	0.1	85.9	0.1
Co-operative banks	Sep-11	2	56.5	0.0	1 464	49.8	0.1	38.9	0.0
Mutual banks	Dec-10	2	1 032.5	0.1	100 000	817.1	0.9	457.7	0.4
Stokvels	Dec-10	1 million	40 000.0	3.4	16 million	40 000	43.8	0	0.0
Postbank	Mar-10	1	3 652.0	0.3	6 million	3652	4.0	0	0.0
<b>Total</b>			<b>1 162 807.6</b>	<b>100.0</b>		<b>91 269.6</b>	<b>100.0</b>	<b>119 093.9</b>	<b>100.0</b>

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**Key Legislation**

1. Co-operatives Act 2005 /2013
2. Co-operatives Bank Act 2007
3. Banks Act of 1990: Exemption Notice Gazette 404 from the business of a bank institutions with a "Common bond"

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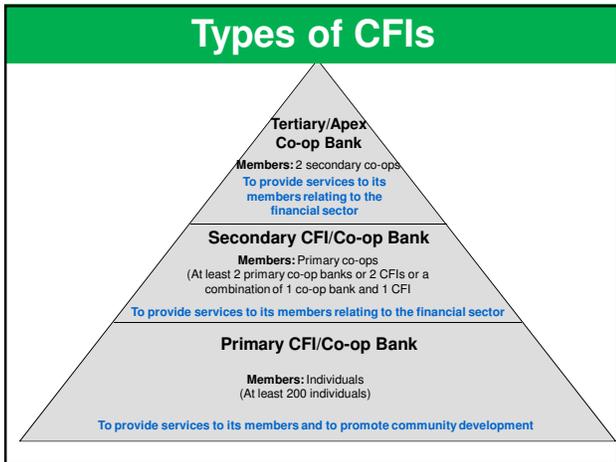
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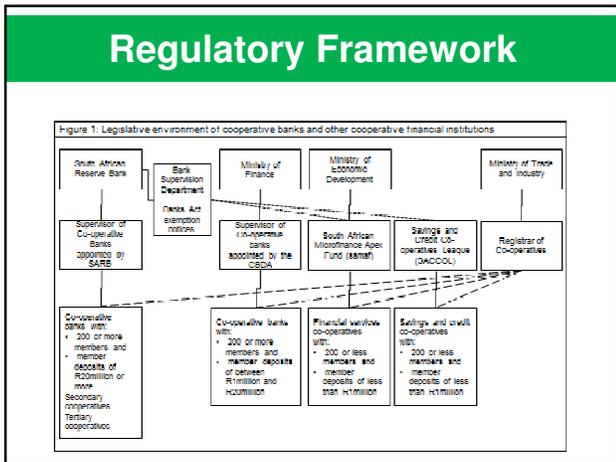
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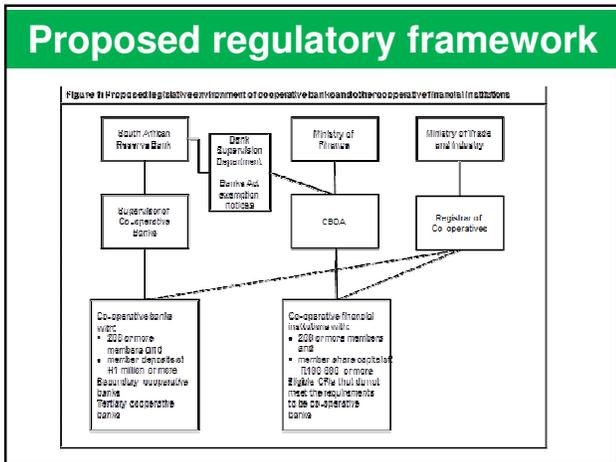
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The state of co-operative financial institutions  
Background

- Operations of Co-operative Financial Institutions are allowed through exemption from Banks Act based on the "common bond"
- Exemption Notice focused on stokvels, savings & credit co-operatives and employee savings clubs.
- SROs included SACCOL for SACCOs & NASASA for Stokvels
- In 1996 and 1998 FSA & FinaSol also became SROs (focusing on FSC's)
- In 2002, both FSA and FinaSol collapsed

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The state of co-operative financial institutions  
Background

- Government efforts through Agriculture to set up another SRO for FSCs called FINCOSA also failed
- 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.

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The state of co-operative financial institutions  
Background

- Essentially between 2003 & 2006 there was no regulator for FSCs as per the Exemption Notices
- In 2007 **samaf** assumed regulatory responsibility for the FSCs and SACCOL continued to regulate SACCOs

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**Sector size: Applicant CFIs (incl. co-op bank)**

	2010 – 2011	2011 – 2012	2012-2013	GROWTH %
No. of CFIs	121	106	35	-67%
Membership	59,394	53,240	38,084	-28%
Savings	R 175,265,000	R 196,230,000	R202,841,000	2%
Loans	R 116,577,000	R 132,227,000	R142,310,000	8%
Assets	R 195,213,000	R 217,506,000	R220,800,000	2%

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**CO-OPERATIVE BANKS DEVELOPMENT AGENCY**

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**CBDA Interventions for the CFI Sector**

- Regulation and Supervision of the Sector through the Exemption Notice
- Performance Standards - basics for Supervision of the CFIs
- Bringing all books of accounts up to date for all active CFIs
- Accelerating registration of CFIs as Co-operative Banks
  - Monitor outcomes of training programmes attended by board and staff
  - Mentorship Programme

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**CBDA Interventions for the CFI Sector**

- Development of accredited training materials and capacity building tools
- Training CFI Managers at University of Pretoria – Certificate in Co-operative Management
- Governance and committees Training
- Establishment of a Stabilisation Fund
- Establishment of the Banking Platform to improve data collection and information management at CFIs and consequently at CBDA

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**Co-operative Financial Institutions  
Banking Platform Project**

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### Status of the CFI Sector



Many financial services co-operatives and co-operative banks are in rural areas providing services to the financially excluded.



They have basic infrastructure such as a building, maybe one computer

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### Status of the CFI Sector



Most have rudimentary manual back office systems such as client account record-keeping, general ledger, management information and supervisory returns.





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### The Diversity of the CFI Sector



**Typical Rural CFI**  
Basic infrastructure such as a building, maybe one computer  
Transactions tend to be cash based, with members walking in to receive services





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### What is the objective of the BP initiative?

- Improve the operational capacity of CFI's by:
  - Using proven and robust processes
  - Deploying robust and well-supported IT systems
  - Providing training and assistance to CFI's
  
- Improve the service provisioning of the CFIs by:
  - Enabling additional product and service offerings
  - Enabling improved management functions by:
    - Providing relevant and timeous information
    - Improved operational control
  - Enabling access to the national payment (NPS)

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### What additional operational components are necessary to reach the required state?

- A new IT system that will enable improved operations, products and enabling access to the NPS
- CFI support for the system and the operations
- Support to enable and control access to the NPS
  - Card system, including:
    - Card logistics (ordering, storing, replacement cards, etc.)
    - Card management (which cards are in stock, issued, re-ordered, allocated, etc.)
    - "Merchant" management (future)
    - Balancing, reconciliation, settlement/sponsoring bank co-operation, query resolution, etc. of interbank transactions.
    - Enabling changes to existing and incorporation of new payment streams

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### Why the CBDA Initiative? What does NPS have to Offer to Co-operatives?

- Simplicity - members have the same payment capabilities as commercial bank customers (in time)
- Convenience through interoperability – all banking infrastructure can be used to transact
- Dependable – proper oversight and world-class systems and processes
- Less reliance on cash
- Account automatically has record of transactions
- In short: Access to NPS helps CFIs to capitalise on the already available infrastructure to the convenience of its members and other interested parties.




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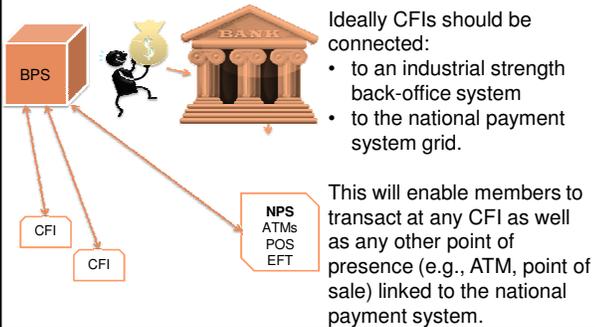
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### Connect Co-operative Financial Institutions to the National Payment System Grid




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### BPS Provide Back Office Support Services for each CFI on a “Plug in” Basis

**The key features of the solution are:**

- Each participating CFI will be set up as a discrete bank on BPS system.
- The BPS will manage all client accounts & client records at participating CFI.
- Branded debit cards could be issued by each CFI to its clients (cell phones can be used where these are pervasive).
- For each participating CFI, BPS will produce a standard set of financial statements, management information,
- CFIs will be responsible for the governance & management of the CFI and for front office services i.e., interfacing with clients.

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**EMBRACE INFORMATION COMMUNICATIONS TECHNOLOGY**



**Banking Platform**

MIS – Reporting:

- CFI Data Management
- Regulator: Prudential
- Accounting & Finance

CFIs will be connected:

- to each other and
- to the national payment system grid

Members to transact:

- at any CFI as well as any other point of presence (e.g., ATM, point of sale) linked to the NPS

CO-OPERATIVE BANKS DEVELOPMENT AGENCY

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