THE BANKING ASSOCIATION SOUTH AFRICA

PRESENTATION TO THE COMMISSION OF INQUIRY INTO HIGHER EDUCATION AND TRAINING

8 February 2017

BANKING ASSOCIATION SOUTH AFRICA TEAM

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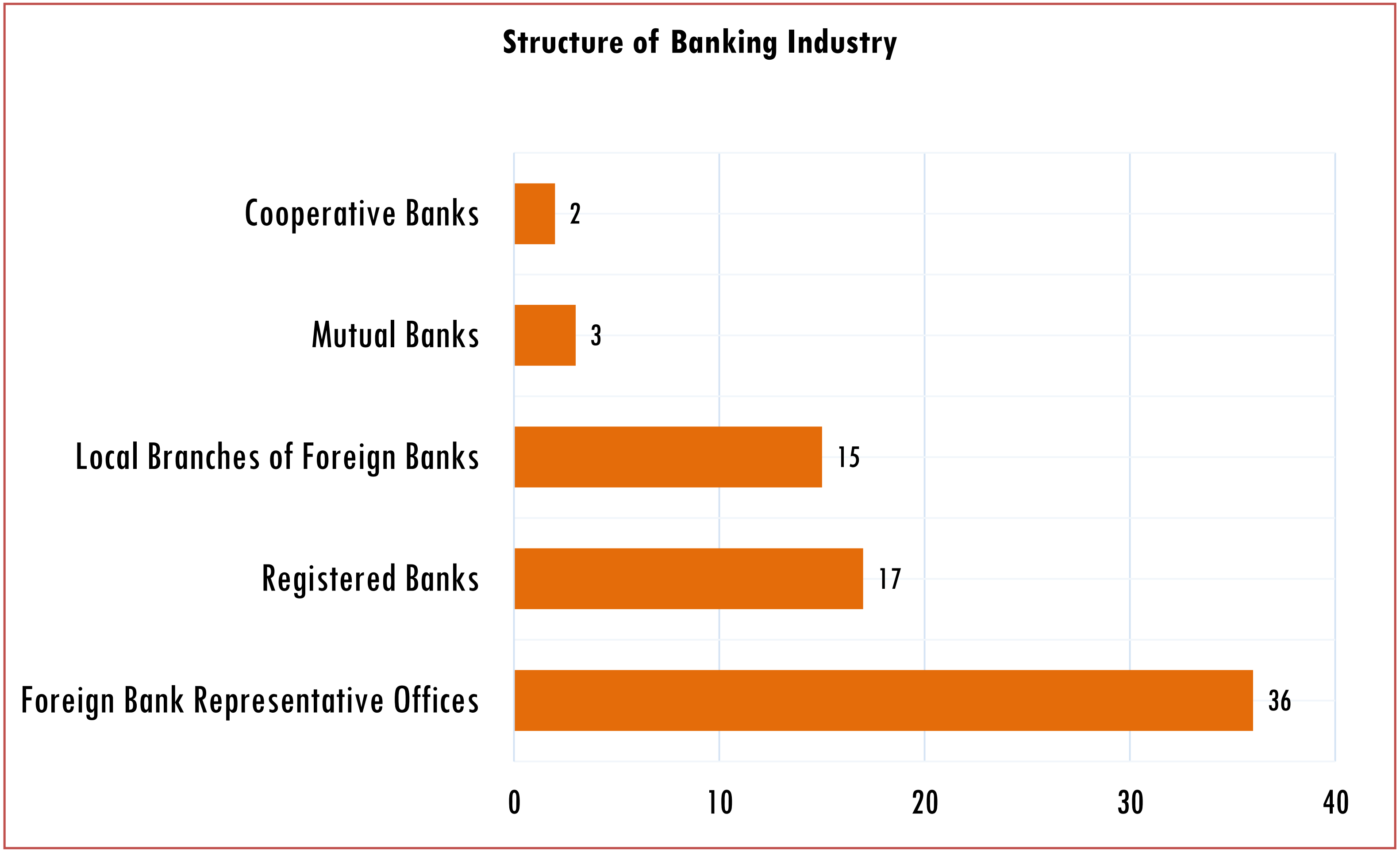
PRESENTATION OUTLINE

- Introduction and background
- Different categories of banks in South Africa
- Overview of the banking sector in South Africa
- Business of banks
- Banks' involvement in education
- Different types of funding available
- Criteria for funding
- Terms of loans and repayment processes
- Conclusion

INTRODUCTION AND BACKGROUND

- BASA is the industry representative of Banking in South Africa
- BASA was formed in 1992 as the Council for South African Banks and changed its name to the Banking Association South Africa in 2005
- BASA exists to contribute to the enablement of a conducive banking environment
- We are governed by a board made up of CEOs of the 5 major South African Banks and representatives of smaller and international banks

DIFFERENT CATEGORIES OF BANKS IN SA



Foreign Bank Representative Offices and Cooperative Banks are not members of BASA

OVERVIEW OF BANKING SECTOR IN SA (1)

- Soundness of the banking system - South African banks ranked among the top 10 in the world by the World Economic Forum
- South Africa has a very sound, sophisticated, well-capitalised and well-regulated banking system
- The five largest banks control more than 90% of total assets of registered banks
- The four largest banks have student loan products while others have generic (personal) loan products which are sometimes used to finance education

OVERVIEW OF BANKING SECTOR IN SA (2)

- The banking sector has extended services to a large section of the population:
  - 77% of the adult population – aged 15 years and older – have bank accounts (Finscope Survey 2016)
- Banks have established an extensive payment infrastructure to provide financial services within easy reach for majority of customers
- By December 2016, 80% of LSM 1 to LSM 5 households were covered by banking infrastructure compared to 74% in 2011

REGULATORY FRAMEWORK FOR BANKS

- Banks are subject to a number of regulations from domestic as well as international bodies
- Domestic laws and regulations applicable to banks include:
  - Code of Banking Practice, Banks Act, Financial Advisory and Intermediary Act, National Credit Act, Financial Intelligence Centre Act, Consumer Protection Act, Financial Sector Code
- These regulations are intended to safeguard the interest of customers, ensure the security and stability of the financial system, build confidence in the South African banking system – necessary for foreign investment, and meet the national goals of economic transformation

BUSINESS OF BANKS

- Banks play an important economic function of intermediating between lenders and borrowers - taking short-term deposits and turning them into long-term loans
- Banks play an important role of implementing monetary policy – on behalf of the central bank
- Raising money in capital markets in order to extend credit to various categories of clients
- Facilitating transactions between producers and consumers of goods and services
- Banks have to ensure a healthy return on investment to their shareholders – this means banks have to implement robust risk management systems

BANKS' INVOLVEMENT IN EDUCATION

- Support Early Childhood Development, Schools, Universities and other initiatives mainly through CSI programmes
- Support transformative initiatives such as the Ikusasa Student Financial Aid Programme through seconding executives to assist and providing funding for the pilot project
- Provide bursaries to students in high schools and universities through a range of channels
- Fund research and development – through research chairs, and *ad hoc* research projects
- Provide loans to parents/guardians/sureties for university students

SOME EDUCATION PROGRAMMES SUPPORTED BY BANKS

- Ikusasa Student Financial Aid Programme (Pilot)
- Graduate School of Business at University of Cape Town
- South African Actuary Development Programme
- Tertiary School in Business Administration
- SAICA Thuthuka Bursary Fund
- Commerce Extended Studies Programme (CESP) at Rhodes University
- Study Trust
- Rural Education Access Programme (REAP)
- African Scholars Fund
- Derek Cooper Foundation
- The Sumbandila Scholarship Trust,
- Thandulwazi Maths and Science Academy
- The Star Schools
- Maths Centre Incorporating Sciences
- Promaths

SOME EDUCATION PROGRAMMES SUPPORTED BY BANKS

- African Institute of Financial Markets and Risk Management (AIFMRM), UCT
- Chair of Accounting at University of Limpopo
- Chair of Economics at University of Fort Hare
- Sci- Bono
- Hammanskraal Project
- Targeting talent Wits
- Osizweni Education and Development Centre (OEDC)
- Hulisani project SS
- Kutlwanong centre for maths, science and technology Project
- UCT Schools Improvement Initiative (SII)
- National Education Collaboration Trust

A NOTE ON THE DATA

- The data is for the period 2013 to 2015 unless indicated otherwise
- In a few instances the data for 2016 was included where available
- Data for student loans also includes personal loans taken with an explicit purpose to finance education
- Time constraints did not permit the disaggregation of data by demographic variables

HOW MUCH OF FUNDING IS AVAILABLE?

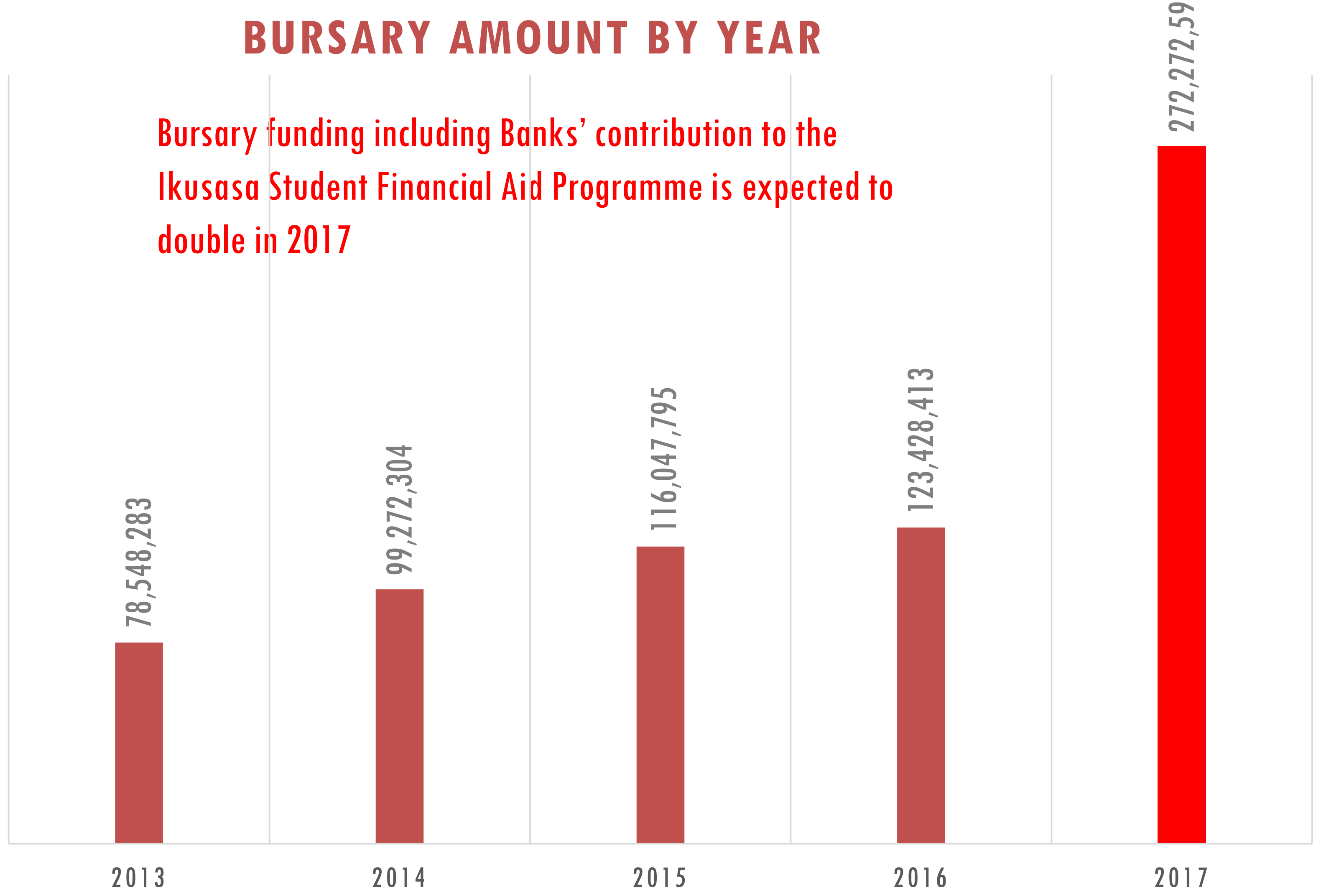
Total funding provided by Banks between 2013 – 2016

Bursary	Student Loans*	Research funding and other
R417,296,795	R5,357,619,345	R172,976,583

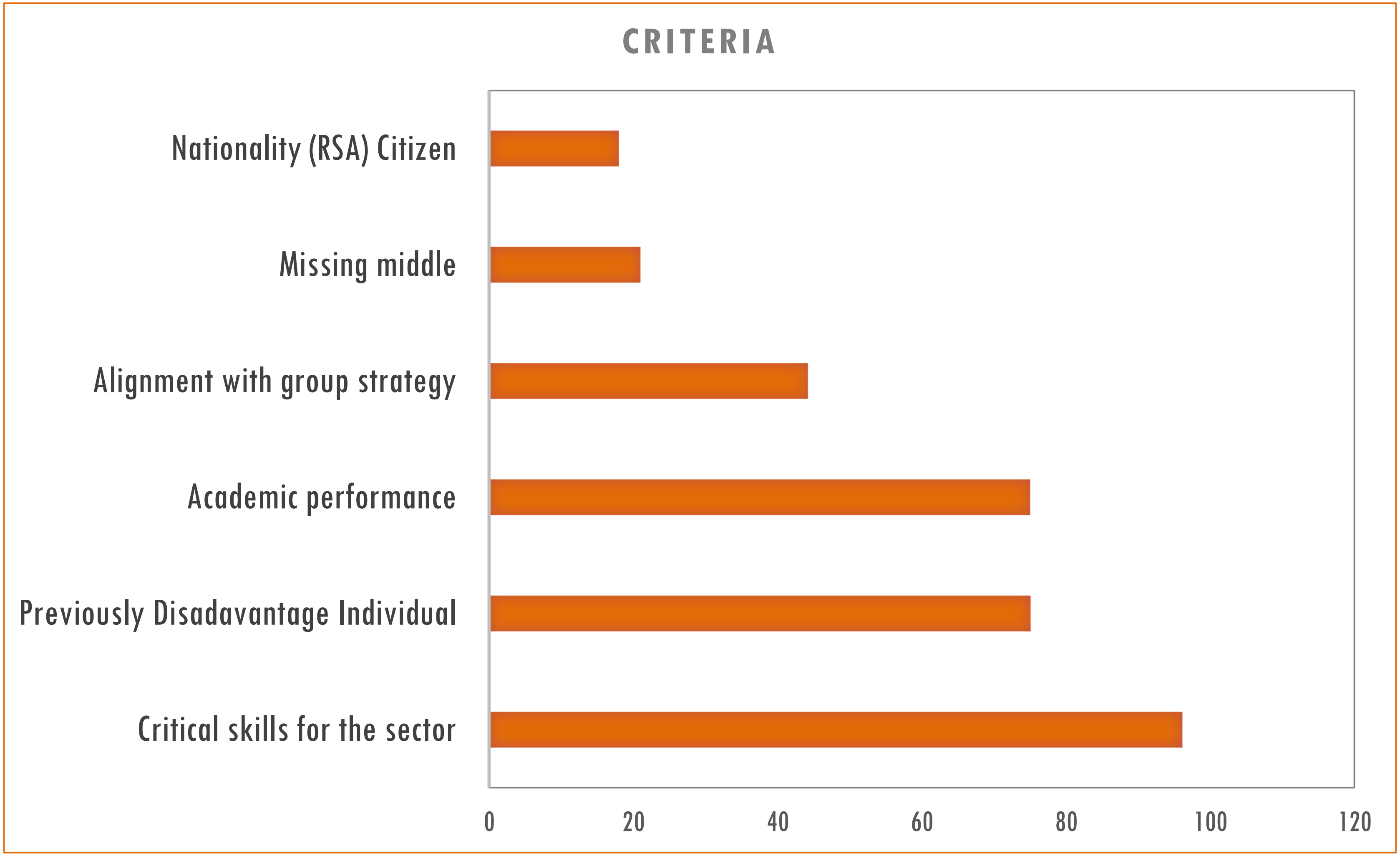
* The student loan figure includes some personal loans which are taken to fund education

Banks spend roughly R500 million per annum on education (grants and bursaries, excluding student loans) in various sub-sectors

BREAKDOWN OF BURSARIES BY YEAR



CRITERIA FOR BURSARIES



NUMBER OF STUDENTS RECEIVING BURSARIES?

YEAR	NO. OF STUDENTS	%CHANGE Y/Y	AVE BURSARY	% CHANGE Y/Y
2013	5,502	0	14276	0
2014	4,917	-11	20190	41
2015	5,298	7	21904	8

- On average 5 000 bursaries are granted by banks each year
- Over the three year period (2013 – 2015) the value of an average (individual) bursary increased by 53%

STUDENT LOAN DEFINITION

- A loan granted to either the student and/or parent/guardian for study purposes, irrespective of whether the monies is paid directly to the institution or to the consumer borrowing the money
- In some cases, the numbers include personal loans taken to fund education and in limited cases this may include loans to fund high school fees, and other aspects of education

NUMBER OF STUDENT LOANS 2013 - 2015

YEAR	NO. OF STUDENTS FUNDED
2013	36,353
2014	38,116
2015	29,196
TOTAL	103,665

- Time constraints did not permit a demographic breakdown of students funded per year, and amounts committed
- Estimates are that roughly R1 billion worth of student loans are provided each year – incl. some personal loans taken to pay for education
- When personal loans are included, the number of students funded almost doubles

GENERIC LOAN CRITERIA

- Credit score and ability to service loan (assessment models are bank specific)
- Employment (principal debtor/surety)
- Minimum income (ranges between R3000 - R6000 per month)
- Registration with SA university
- Part-time students must be employed and be able to service loan

TERMS OF LOANS (1)

- Banking is competitive – loan criteria and terms of loan vary from one bank to another
- Loans are granted for a period of between 12 and 60 months after completion of studies
- Only interest and fees are charged whilst the student is studying and needs to be serviced monthly by a parent/guardian/sponsor.
- On completion of studies the capital loan amount becomes payable - a grace period of 6 - 12 months to allow some time for student to be employed is granted

TERMS OF LOANS (2)

- Capital repayment can be deferred until completion of articles, an internship programme or community service if required
- The repayment period for student loan differs by institution - up to 18 months for every year of study

INTEREST RATES

- **Risk profile** - interest rates are dependent on risk profile of borrower – rates charged range from prime and prime plus 6%
- **Relationship with bank** - For some institutions, the relationship with the bank also counts i.e. type of products that sureties already have with the institution and financial behaviour can help them get better rates
- **Year of study –** with each year of study completed, some institutions offer better rates i.e. interest rates on a loan for second year studies is better than first year

LOAN REPAYMENT

- Banks apply normal credit management strategies to reduce rate of default – percentage of delinquent accounts
- When a client falls behind on repayments, banks typically contact both the student and guarantor to make a repayment arrangement
- Softer collections actions are taken for study loans that are at an early stage delinquency with the primary objective to rehabilitate the account
- Stricter collections actions are taken on accounts that are at late stage delinquency with the focus still to rehabilitate the account
- Litigation action is taken on accounts that are over 6 months in arears – this includes applying for a judgement for debt if necessary

WHAT HAPPENS IF STUDENT IS UNEMPLOYED?

- No interest rate change and a grace period of up to 6 months is given before the capital amount of the loan becomes repayable
- The parent/guardian/surety is liable for interest repayment during the 6 months grace period
- The parent/sponsor/guarantor/surety remains responsible for the loan, the student's inability to secure employment does not have any direct impact.
- Students are required to inform the bank once employed

CONCLUSION (1)

- Banks contribute in excess of R500 million (grant and bursary funding) to education per annum, 25% of which is in the form of bursaries to university students
- Over R1 billion is provided in form of different loan products (student unsecured personal loans) to fund education
- Banks plan to double their contribution to higher education in 2017 as part of their support to the Ikusasa Student Financial Aid Programme (pilot)
- Banks' ability to grant more student loans is limited only by the ability to repay loans by parents/guardians/sponsors/sureties – which is in turn determined by their employment status

CONCLUSION (2)

- Data shows that banks are taking note and responding to the funding crisis in higher education
- Sustained economic growth is central to addressing higher education funding crisis
- Financial sector leaders are contributing to a range of initiatives under the auspices of the of the CEO Initiative including:
  - Creation of SME fund to invest in Black SMEs
  - The YES (Youth Employment Service) to add 1 million, 1-year work experience opportunities to existing employment over a 3 year period.
  - The Opportunities for Projects and Job Creation in Sectors through increased investment