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BANKING & FINANCIAL SERVICES SECTOR REPORT 2021

LRS Labour
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Service

**FRIEDRICH
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TRADE UNION COMPETENCE CENTRE
SUB-SAHARAN AFRICA

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Introduction

This report analyses eight companies from banking, life insurance and the financial services sector as listed on the Johannesburg Stock Exchange (JSE).

Standard Bank Group
FirstRand Bank
Sanlam
Nedbank
Investec
RMB Holdings
Discovery
Liberty Holdings

The rich data extracted from the LRS's [MNC Database](#) further enables a retrospective view of company performance over the course of the last seven years. Following this, we analyse the remuneration packages received by directors in this sector.

The Sector

In its 2019/2020 annual report, the South African Reserve Bank's Prudential Authority reported that the country's five biggest banks (Standard Bank Group, FirstRand Bank, Nedbank, Investec) continue to dominate the sector, despite an increase in competition. Four of these banks are included in the sample, along with some smaller players in the sector.¹

Despite significant disruptions caused by the COVID-19 pandemic, measures taken by the South African government (including a reduction in interest rates and regulatory relief for banks)² helped to stabilise markets. Government data and financials released by banks in Kenya, Morocco, Nigeria, and South Africa show that 'the pandemic's impact on African banks in 2020 was less severe than initially expected'.³

¹ <https://businesstech.co.za/news/banking/416057/south-africas-banking-sector-is-dominated-by-5-names-who-control-almost-90-of-all-assets/>

² <https://businesstech.co.za/news/banking/416057/south-africas-banking-sector-is-dominated-by-5-names-who-control-almost-90-of-all-assets/>

³ <https://www.mckinsey.com/featured-insights/middle-east-and-africa/african-banking-in-the-new-reality>

In the South African banking sector, non-traditional players are increasingly exploring new opportunities which challenges traditional banking. These includes things like digital banking and low-cost operating models.⁴ This has forced banks like Standard Bank, Nedbank and Firstrand to respond by finding new and progressive ways to stay relevant. These banks have a distinct advantage over newer players, by harnessing the power of data mining and by leveraging their existing relationships with businesses in South Africa.⁵

Financials

Revenue

The 2020 financial year saw a significant downturn in the sector's revenue. On average, revenue decreased by 8,8% in the sample. Of the eight companies in our list, only three reported increases in revenue: Firstrand Bank (1,35%); Investec (9,51%); and Discovery (15,66%). RMB Holdings reported a dramatic loss of revenue (from ZAR 10 billion in 2019 to a loss of ZAR 100 million in 2020). However, the company has reported some improvements to the loss in March 2021.⁶ Two of the biggest banks in the sector, Standard Bank and Nedbank, reported decreases in revenue of 14,16% and 13,6% respectively.

⁴ <https://www.pwc.co.za/en/publications/the-future-of-banking.html>

⁵ <https://www.businesswire.com/news/home/20210428005701/en/South-Africa-Banking-Industry-Report-2021-Comprehensive-Information-on-Commercial-and-Central-Banking-Stokvels-and-Other-Credit-Granting-and-Lease-Financing-Organisations---ResearchAndMarkets.com>

⁶ <https://www.iol.co.za/business-report/companies/rmh-narrows-its-loss-despite-macroeconomic-challenges-7c712855-de3c-475a-9531-828028a9c13c>

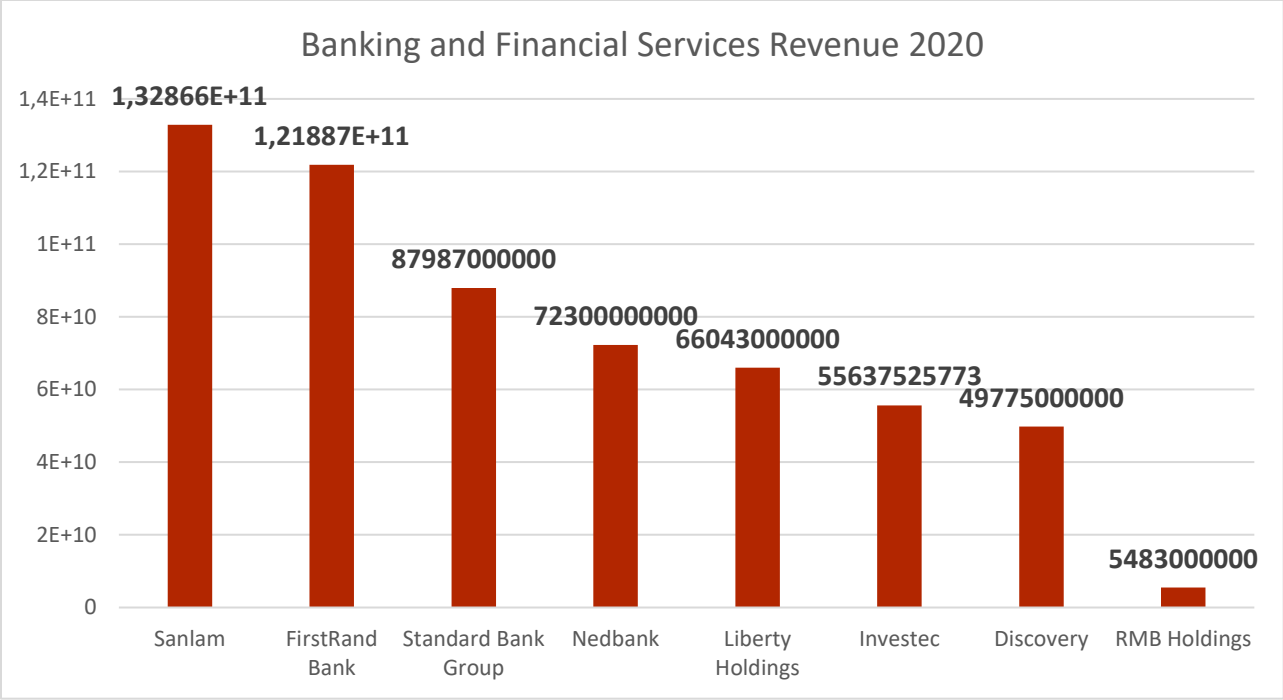


Figure 1 Banking and Financial Services Revenue 2020

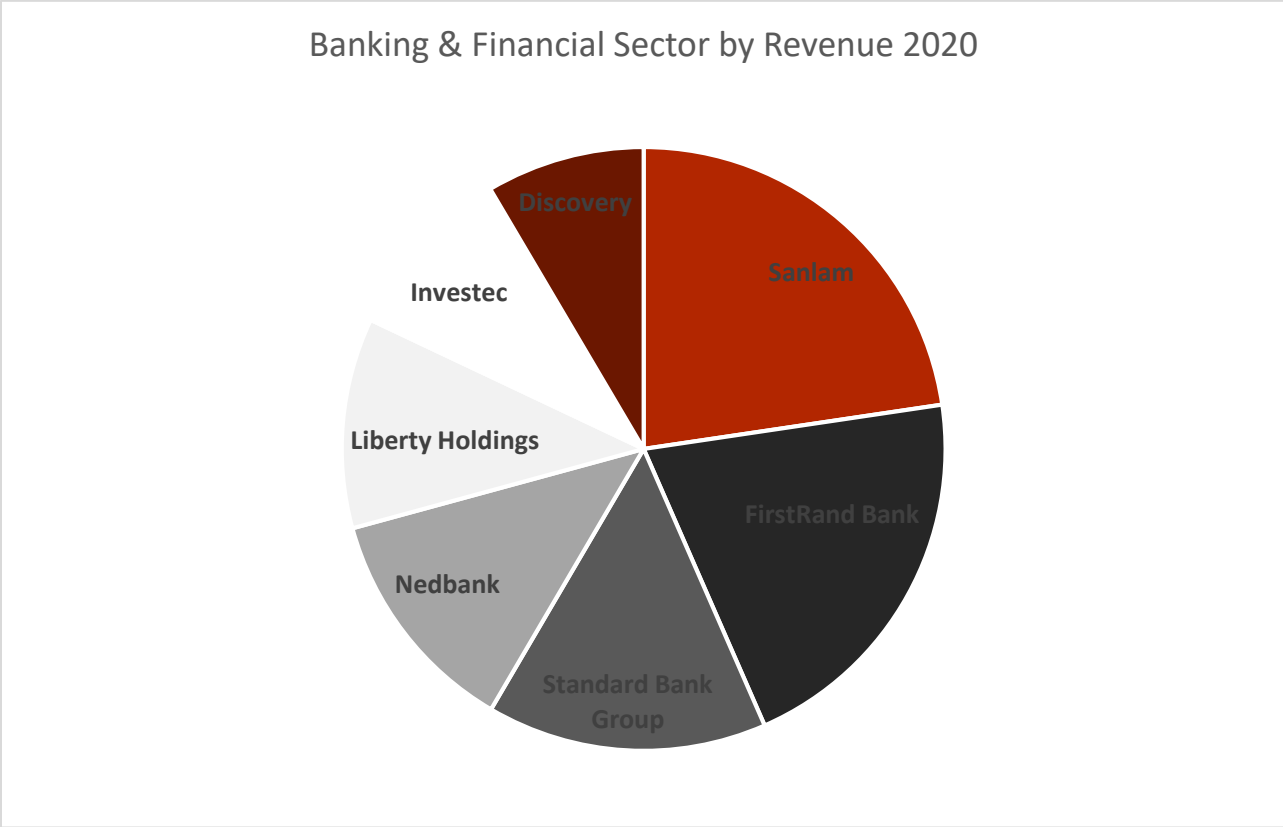


Figure 2 Banking & Financial Sector by Revenue 2020

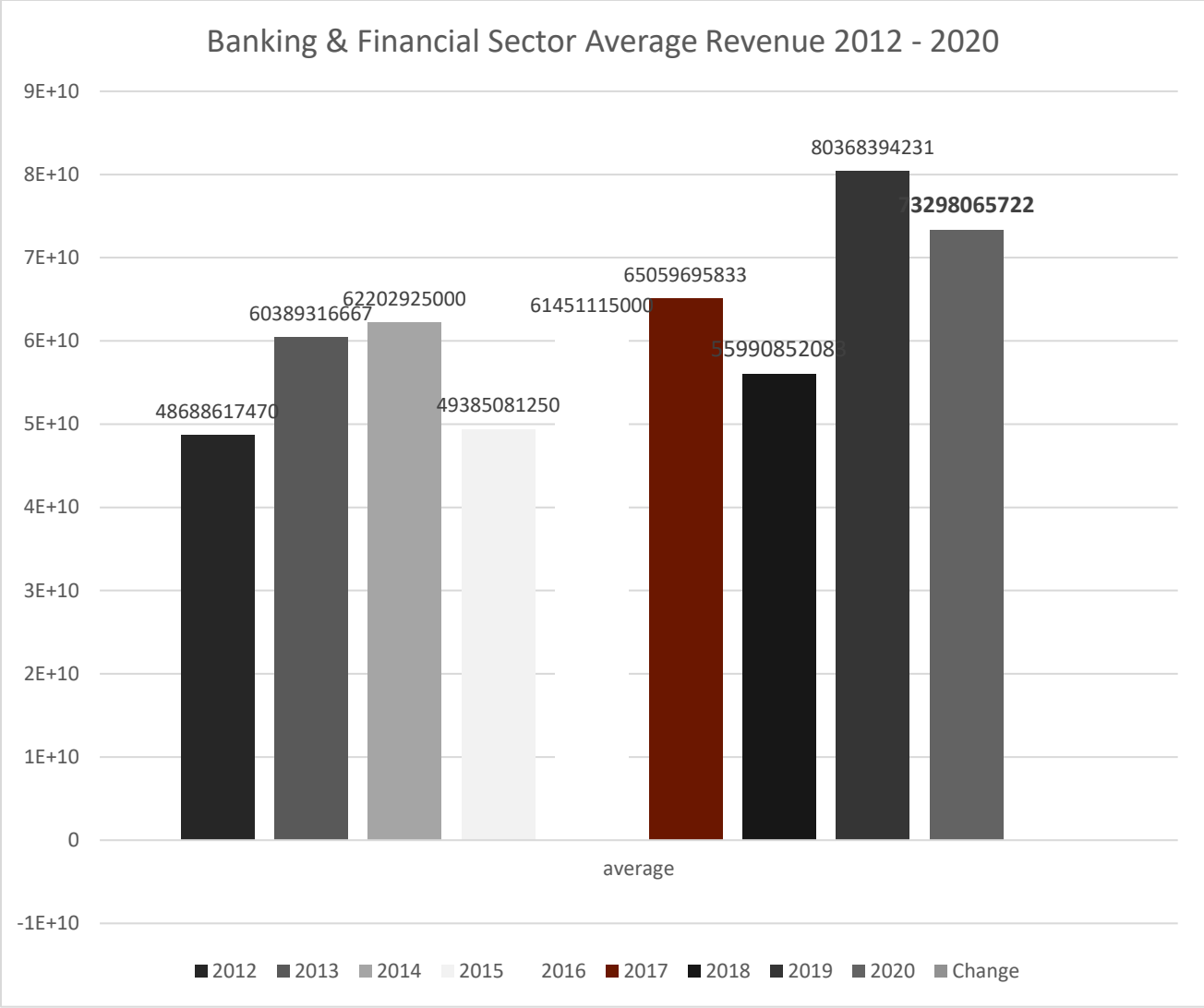


Figure 3 Banking & Financial Sector Average Revenue 2012 - 2020

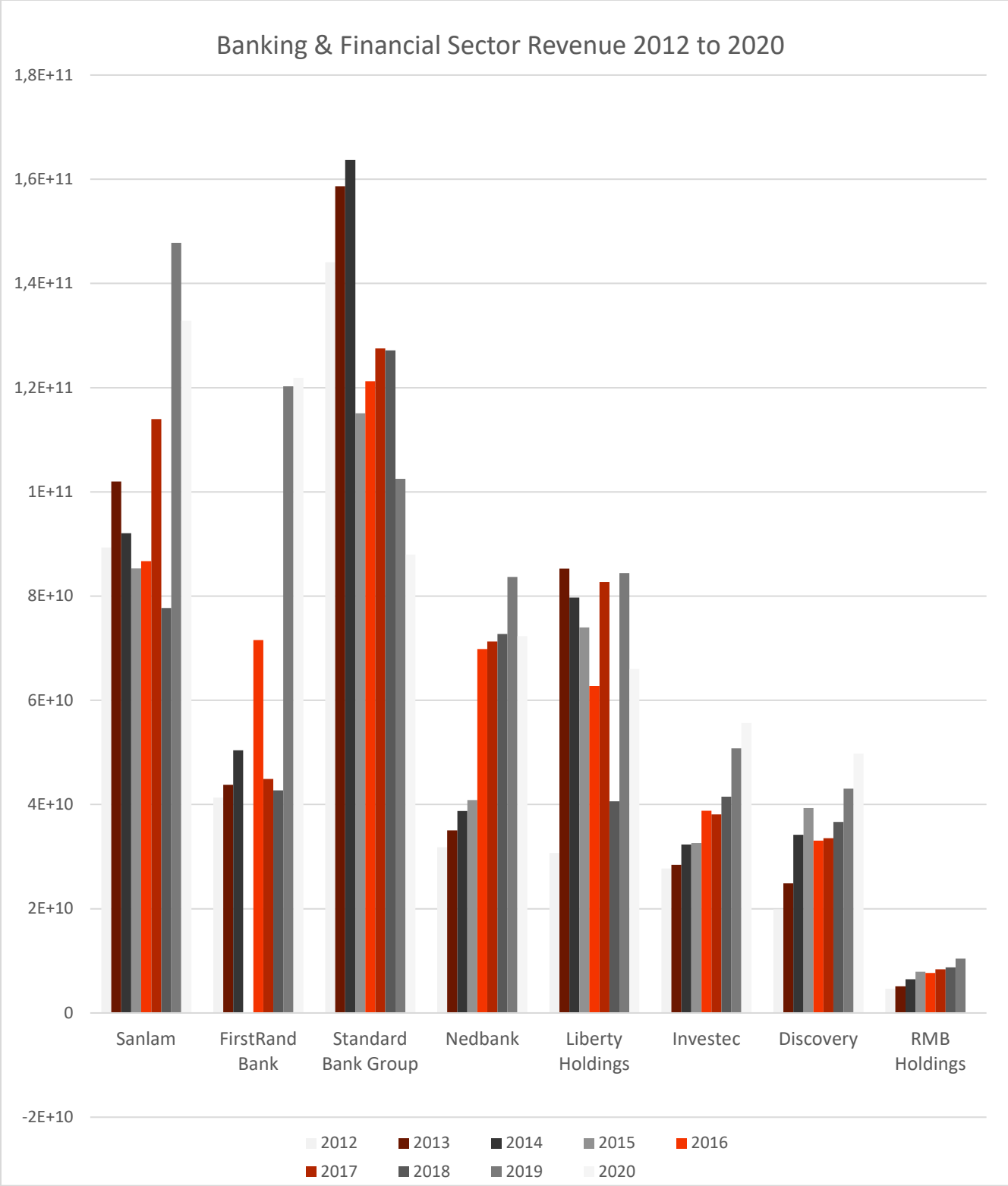


Figure 4 Banking & Financial Sector Revenue 2012 to 2020

Profit before Tax

Every company in the sample reported a decrease in Profit before Tax for 2020, aside from RMB Holdings that reported a noteworthy increase in PBT. However, the increase is a reflection of discontinued operations and not of actual PBT made. On average, these companies reported a 35% decrease in PBT for 2020.

Liberty Holdings is the only company that reported a loss for the period, the first time reporting a loss since 2014 when we started reporting on them. Standard Bank Group has proposed to buy 100% of Liberty Holdings and to integrate it wholly into Standard Bank Group (The deal is subject to shareholder and regulatory approvals and will lead to the de-listing of Liberty).⁷

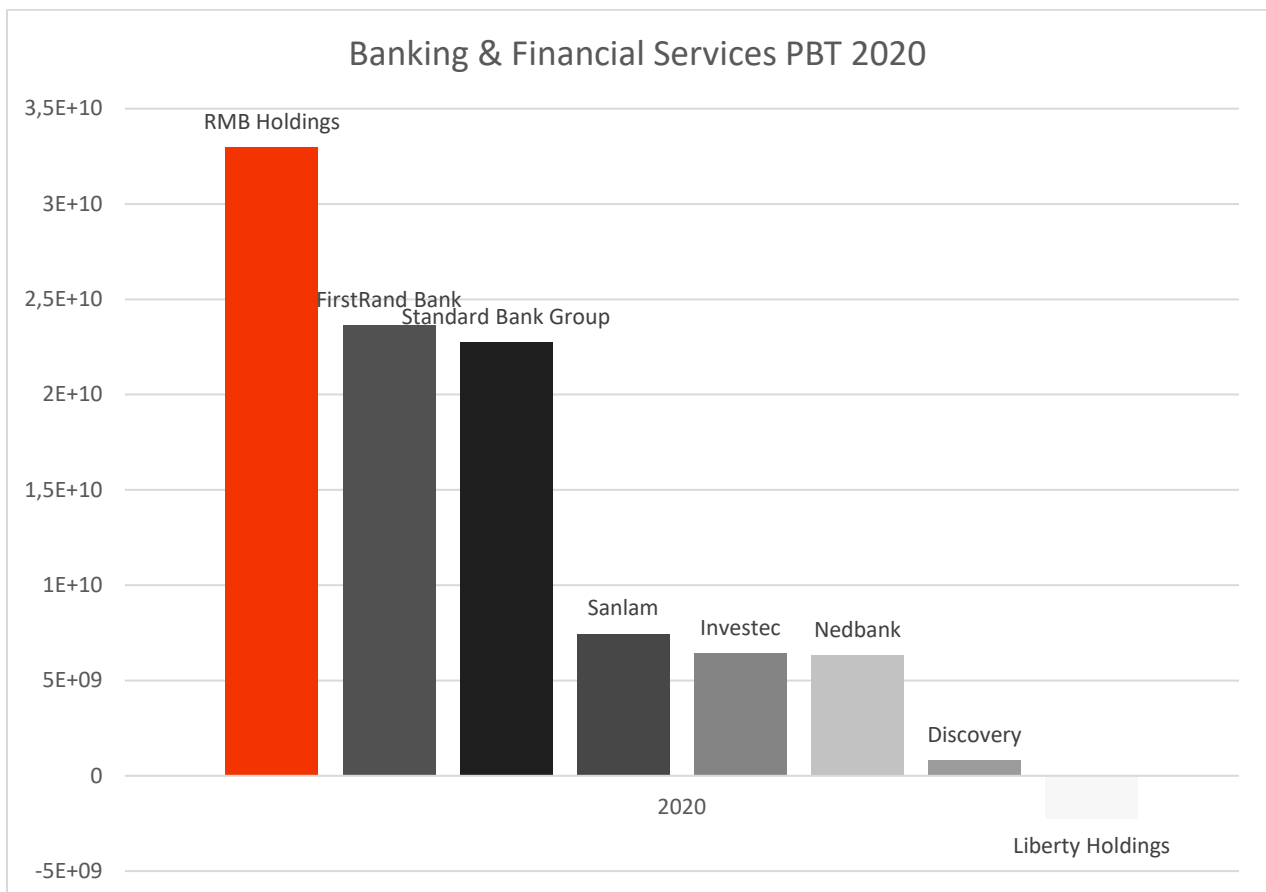


Figure 5 Banking & Financial Services PBT 2020

⁷ <https://businesstech.co.za/news/banking/506282/standard-bank-in-buyout-offer-for-liberty-holdings/>

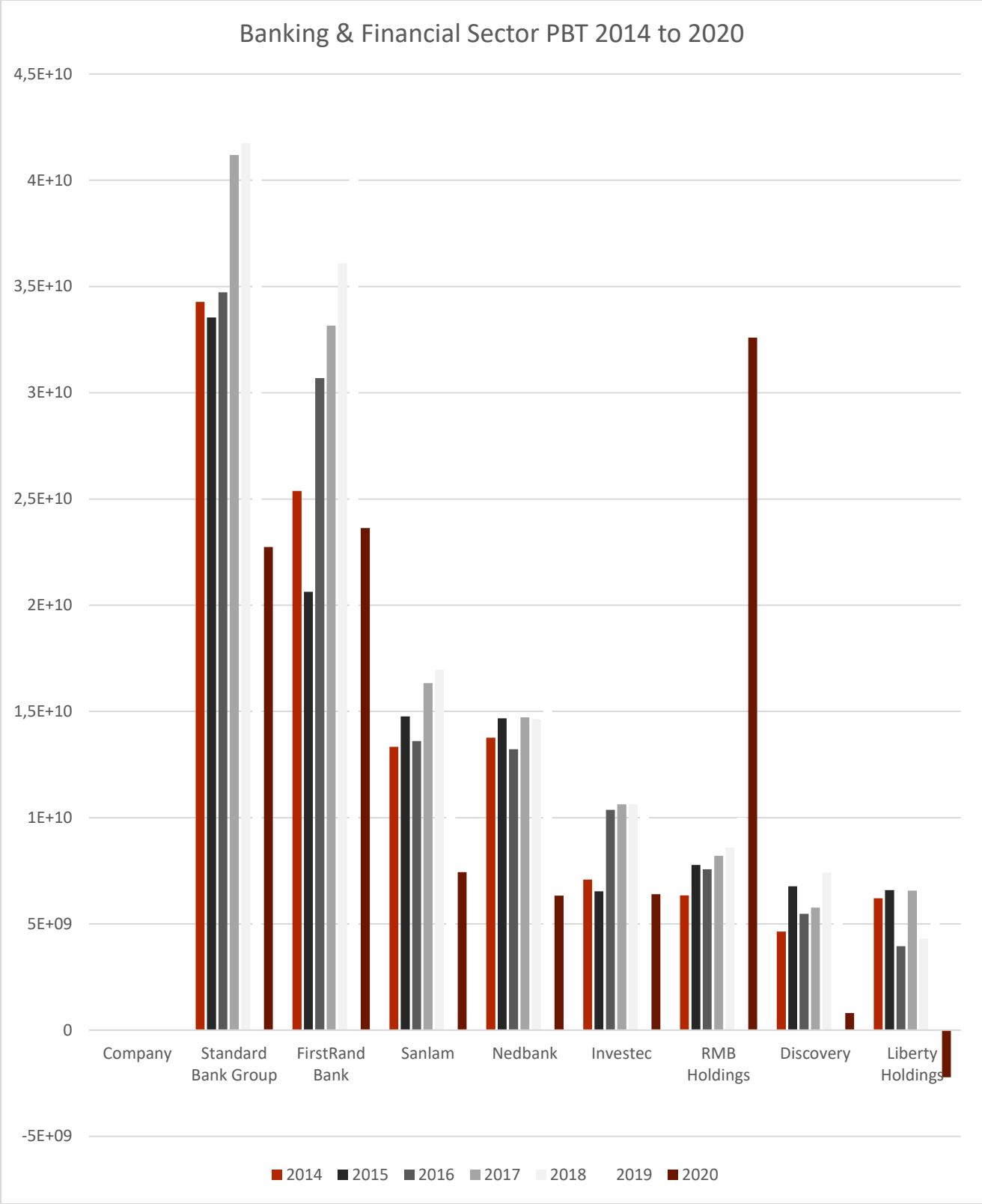


Figure 6 Banking & Financial Sector PBT 2014 to 2020

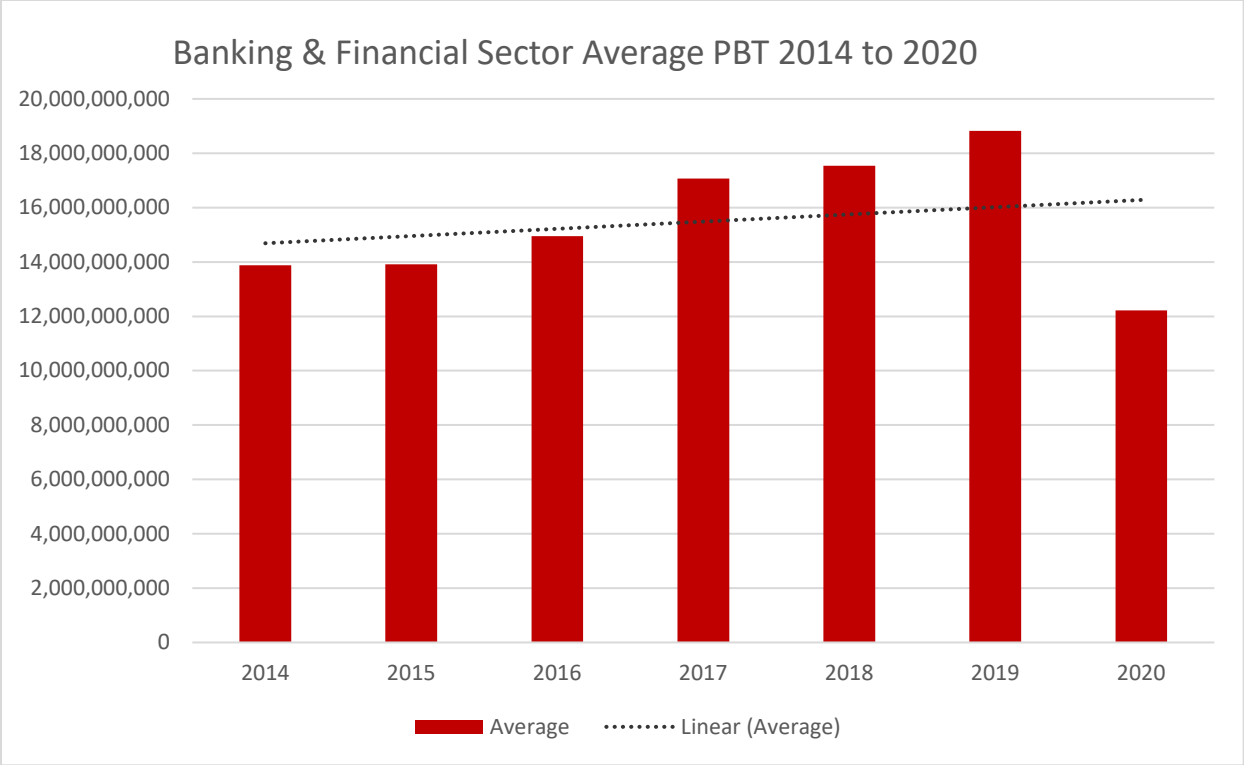


Figure 7 Banking & Financial Sector Average PBT 2014 to 2020

Directors’ Remuneration: a ten year retrospective

The LRS MNC database allows us to look at CEO remuneration over the course of the last ten years.

In the Banking & Financial sector, and our sample specifically, we see the general trend over time being upwards, with a large spike in 2015 with a big LTI pay-out. However, from 2017 there is a small downward trend in CEO remuneration in the sector. The gap between the average total remuneration without LTI and total remuneration including LTI shows us the significance of LTI payments and why they are important to take into account.

This gap gets a little smaller 2020, which was arguably a very difficult year for the Banking & Financial sector. From 2019 to 2020, average total remuneration (including LTI) went down by about 30%. We expect to see these LTIs increase when the industry has stabilised.

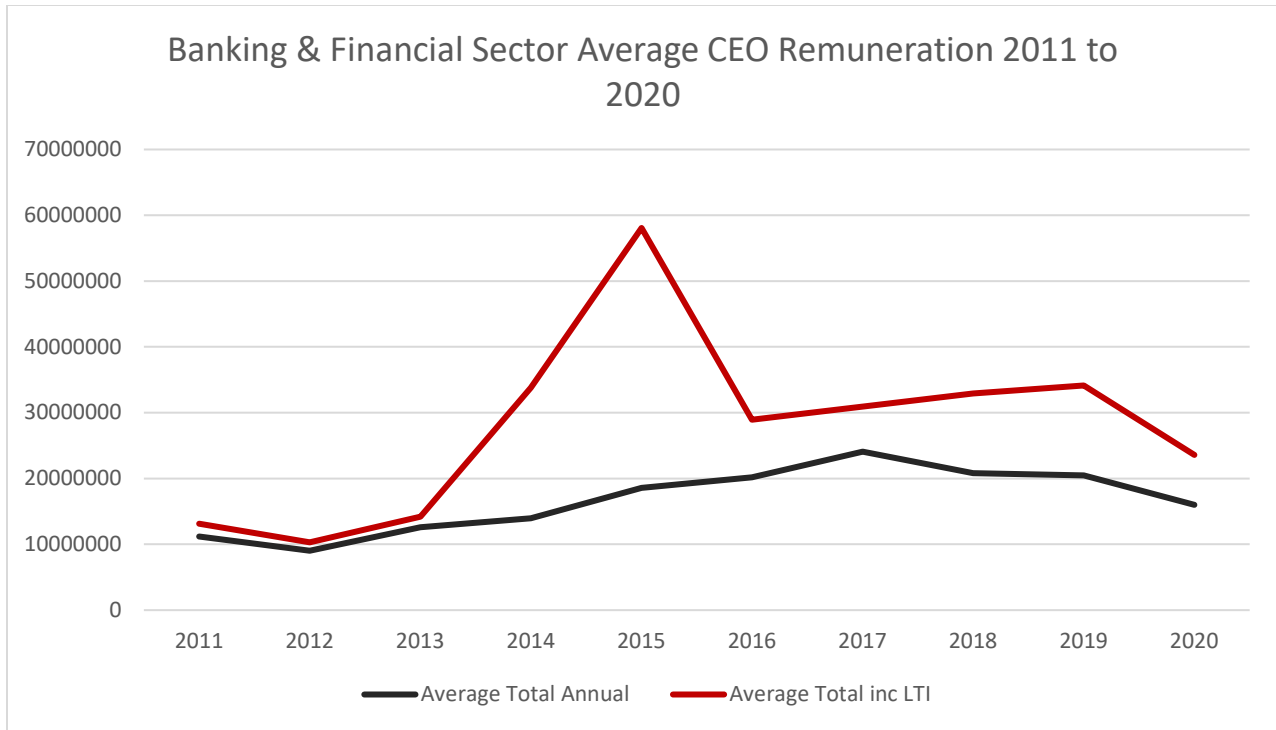


Figure 8 Banking & Financial Sector Average CEO Remuneration 2011 to 2020

CEO Remuneration 2020

In the Banking & Financial sector, the CEO of Nedbank received the highest reported remuneration at ZAR 43 million. This includes an LTI of ZAR 26 million. Pullinger, CEO of Firstrand Bank, received an LTI of ZAR 20 million, which brings his total remuneration for the 2020 financial year to ZAR 39 million. RMB Holdings CEO Bosman received a small package at around ZAR 3 million, which will likely change as the company recovers.

On average, executive remuneration in the sample decreased by around 25%, indicative of the associated performance of the companies. However, non-executive remuneration on average increased by over 30%, which is mainly due to Sanlam non-executive directors receiving LTIs.

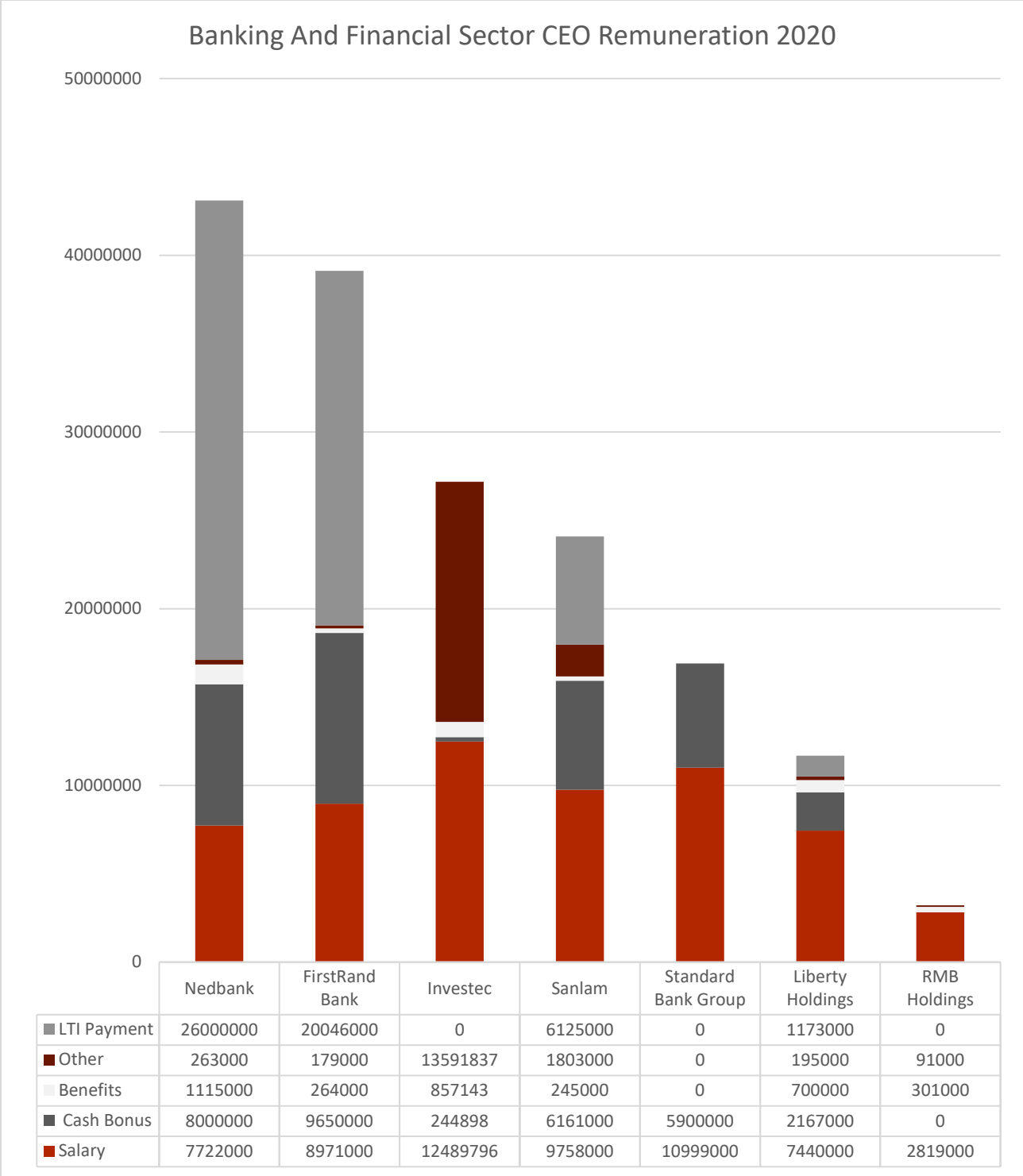


Figure 9 Banking And Financial Sector CEO Remuneration 2020

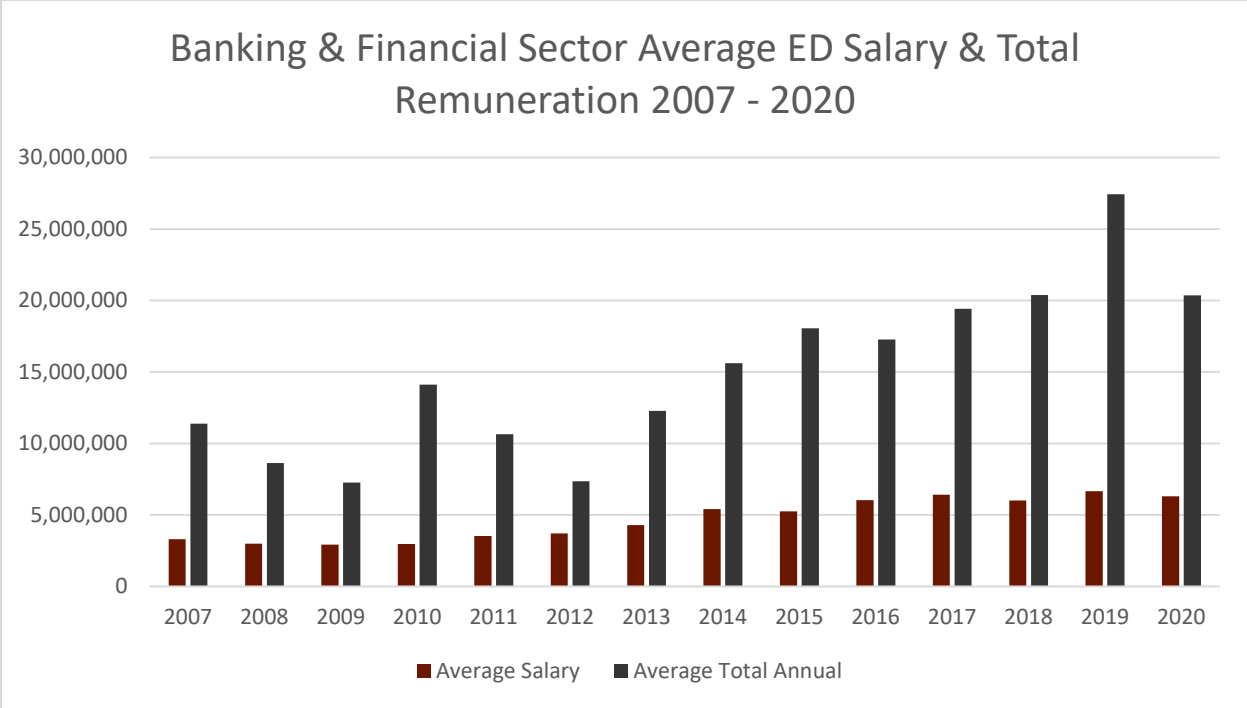


Figure 10 Banking & Financial Sector Average ED Salary & Total Remuneration 2007 - 2020

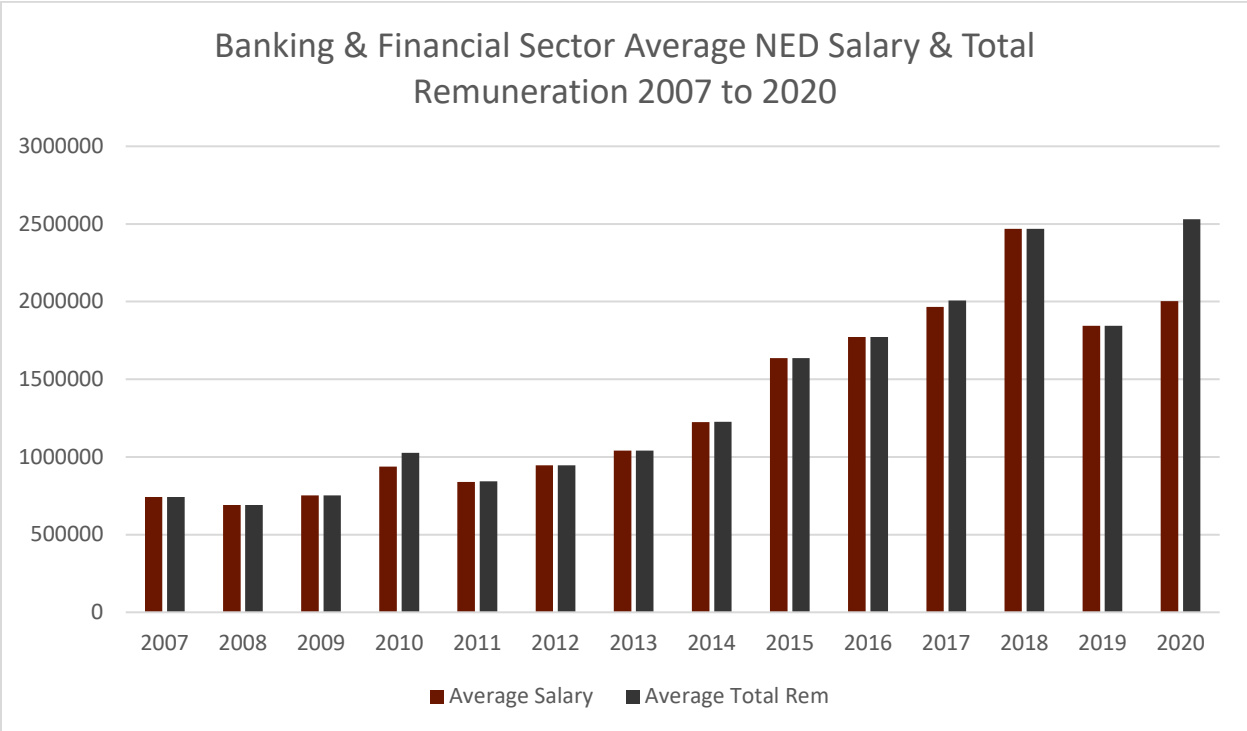


Figure 11 Banking & Financial Sector Average NED Salary & Total Remuneration 2007 to 2020