



# SOUTH



# AFRICA





# Downbeat, upmarket

---

Despite a testing year, South African securities markets continue to invest in ensuring that market processes and infrastructure maintain their reputation for robustness and reform.

---

**F**or much of 2017, the South African securities market exuded a downbeat mood, buffeted by macroeconomic and political factors that kept optimism in check. While sentiment is improving, the results of our 2017 South Africa domestic custody survey seems to reflect that old mood to some degree, notwithstanding a number of significant infrastructural developments. Scores for Reputation and Asset Safety have held steady at a high level (6+) year-on-year, suggesting confidence in the underlying strength of the providers themselves (See Table 1). Nevertheless, Asset Servicing and Operational Reporting are down by

an average 0.28 and 0.25 respectively. That said, an overall weighted average of 5.64, while down a little on the year before, remains impressive.

Interestingly, the small decline in overall scores coincides with a reversal of the trend towards larger survey responders, with complex needs, who, one would assume, are more demanding as clients. This year Very Large clients account for 37% of responses, compared to 47.50% in the previous year, while the percentage of responses from very small clients has increased almost threefold.

Table 3 explores changes in scores at a question level. From this perspective, the

perceived commitment of service providers to custody and securities services is unquestioned by clients and has actually increased slightly. Nevertheless, there are clearly service areas where clients have noticed a decline in service received. “Timeliness and accuracy of valuations” recorded a drop from 5.88 to 5.58 – a still creditable score – while quality of administration services has dropped 0.27 points to 5.59.

Table 4 shows the percentage of survey responses accounted for by each provider. Here the results remain relatively stable with the same five providers accounting for more or less the same proportion of

TABLE 1: CATEGORY SCORE CHANGES

Category	2017	2016	Difference
Reputation and Asset Safety	6.04	6.05	-0.01
Settlement	5.83	5.87	-0.04
Technology	5.36	5.41	-0.05
Relationship Management and Client Service	5.67	5.75	-0.08
Cost and Value Delivered	5.29	5.39	-0.10
OVERALL WEIGHTED AVERAGES	5.64	5.75	-0.11
Fund Accounting and Valuation	5.56	5.73	-0.17
Trustee and Administration Services	5.66	5.89	-0.23
Operational Reporting	5.38	5.63	-0.25
Asset Servicing	5.70	5.98	-0.28

responses. The only notable difference is that the percentage of ‘others’ has risen from 1.9% to 4.5%, suggesting that despite the relatively large number of service providers dominating the market, the potential for further competition has not been exhausted.

**Market change**

Despite the relatively downbeat mood, market participants, infrastructures and regulators did not use this as an excuse to slow down an ambitious programme of reform.

The 1st phase of the Debt Instruments Solution (DIS) project, which revamped Strate’s bond clearing and settlement systems with new advanced technology,

began operations across the market on the 26th of September. A 2nd phase will incorporate changes to the account structure through the use of a Central Securities Account, scheduled for implementation in 2018.

The licensing of new exchanges also continued. The Financial Services Board (FSB) granted four new exchange licenses between September 2016 and September 2017. During 2017, two of these exchanges – A2X and 4AX – began trading. Using Strate as its CSD. 4AX is initially targeting companies with a market capitalisation under eight billion rand for equity listings. It aims to provide access to trading without minimum trading fees on a safe and low-cost platform. A2X meanwhile

TABLE 2: RESPONSES BY SIZE

Category	Responses (%) 2017	Responses (%) 2016
Very Large	37.18	4.77
Large	11.54	10.60
Medium	18.59	19.90
Small	2.56	9.90
Very Small	30.13	11.90

TABLE 4: SHARE OF RESPONSES

Bank	Share of responses (%)
RMB Custody Services	26.28
The Standard Bank of South Africa	23.72
Nedbank Investor Services	23.08
Standard Chartered Bank Johannesburg Branch	12.82
Societie Generale Johannesburg Branch	9.62
Others	4.48

was granted an exchange license with an infrastructure to clear. All trades executed on A2X are cleared through its clearing engine, A2X Clear, with settlement taking place via Strate and its participants. A2X will not offer primary listings and will initially be targeting secondary equity listings from issuers on the JSE top 100.

The Equity Express Securities Exchange (EESX) license was approved in October 2017. It aims to produce a low cost formalised OTC trading solution. Finally, ZAR X was formed to list and trade agricultural and black economic empowerment schemes as well as small- to mid-cap companies in SA seeking to improve raise equity capital and improve liquidity. It aims to attract new local investors into the market.

The year ahead also holds several promising target developments, including the use of SWIFT MT56x messages for proxy voting notification, hitherto a rather manual process in the South African market.

In terms of risk mitigation, according to one service provider, the current commit

TABLE 3: MOST/LEAST IMPROVED QUESTION SCORES

Category	2017	2016	Difference
Commitment to the custody and securities servicing business	5.97	5.93	0.04
Sophistication and robustness of core systems	5.38	5.38	0.00
Knowledge and responsiveness of personnel	5.80	5.96	-0.16
Accuracy and timeliness of dividend notification and crediting	5.77	5.98	-0.21
Willingness and ability to customise reporting	5.23	5.47	-0.24
Quality of shareholder recordkeeping services	5.56	5.81	-0.25
Timeliness and accuracy of reports	5.47	5.73	-0.26
Quality of administration services	5.59	5.86	-0.27
Timeliness and accuracy of valuations	5.58	5.96	-0.38
Effectiveness in dealing with corporate actions	5.66	5.98	-0.32

■ highest score ■ lowest score

process under the T+3 settlement framework has been raised as a concern, as it puts CSD participants at risk of an overnight credit default prior to settlement day. The market is thus investigating the feasibility of introducing a CCP model for the spot equities market, though such introduction is not envisaged before 2019 / 2020. A T+2 settlement cycle for cash equities is also on the market agenda for discussion in 2018 as is the introduction of a regulated, electronic trading platform (ETP) by National Treasury, open to primary dealers for secondary trading in government issued securities.

## Methodology

Global Custodian domestic surveys are intended to assess the extent to which local service providers are meeting the expressed needs of their domestic institutional clients. Such needs are often different from those of cross-border investors, covered in the Agent Banks surveys published by the magazine. Many service providers also focus mainly or exclusively on domestic clients.

To obtain the relevant information, clients are invited to complete a short questionnaire. This typically involves around 20 questions. The questions are grouped into between eight and twelve service categories for presentation purposes. Respondents evaluate each question for each service provider that they use. Scores range from 1 (Unacceptable) to 7 (Excellent). Where clients have insufficient experience of a service or do not use it at all, they can enter N/A.

Clients are also asked to indicate which categories are most important to them in assessing the overall service being received and are given the opportunity to provide explanatory comments and identify specific strengths and weaknesses of their service provider(s). Each question is given an individual weighting, depending on the importance attached to it by clients. Each respondent is given a weighting based on the scale and breadth of their business and the detail included in the responses they provide.

Respondents are also described by their type of business and the level of their assets under management (AuM). Global Custodian's Research department calculates weighted average scores for each provider, for each question, each category and an overall total. The Research department also calculates scores for different types and size of respondents, allowing us to reflect as accurately as possible, the relative position of each service provider, both overall and with specific client subgroups.

Summary information is presented in each Provider Profile together with, where relevant, explanatory contextual commentary. More detailed analysis of scores and comments received is available from the Global Custodian Research department. This group also administers the digital accreditation process by which suitably qualified providers can receive a formal accreditation of their achievements, in the form of one or more digital badges.

## Nedbank Investor Services

Nedbank's asset base is predominantly domestic and in terms of survey performance this has serviced it well. The client base for its Investor Services division is dominated by the pension fund industry, investment managers and life companies. One of its five strategic focus areas for the next two years, is to grow its transaction banking franchise faster than the market.

Domestic client participation in the survey is strong with many clients adding extra colour to their ratings with freeform comment. While technology and relationship management are singled out by several participants as particular strengths, one describes the settlements team as "brilliant". Easier access to operational staff is listed as one area for possible improvement, bar this, client's comments are positive in other regards.

The bank has outperformed the market in all service categories, most notably Reputation and Asset Safety and Settlement. At an individual question level, its most improved score is for, "Accuracy of its alternative investment valuations", up 0.41 points to 6.08. Its highest score at a question level is for its, "Creditworthiness as an institution", up 0.04 points to 6.50. All in all, the bank has maintained its impressive performance of the previous year.

SERVICE AREA SCORES			
Service Area	Nedbank Investor Services	Market	Difference
Relationship management and client service	6.12	5.67	0.45
Cost and value delivered	5.54	5.29	0.25
Settlement	6.27	5.83	0.44
Asset servicing	6.07	5.70	0.37
Operational reporting	5.84	5.38	0.46
Technology	5.71	5.36	0.35
Fund and unit accounting and valuation	6.11	5.56	0.55
Trustee and administration services	5.98	5.66	0.32
Reputation and asset safety	6.39	6.04	0.35

QUESTION SCORES: TOP 10			
Service component	2017	2016	Difference
Creditworthiness of institution	6.50	6.46	0.04
Effectiveness in matching and settlement rates	6.38	6.37	0.01
Commitment to the custody and securities servicing business	6.32	6.33	-0.01
Accuracy and timeliness of dividend notification and crediting	6.24	6.24	0.00
Timeliness of resolution of failed trades	6.19	6.22	-0.03
Understanding of your specific requirements	6.17	5.97	0.20
Timeliness and accuracy of valuations	6.15	6.21	-0.06
Accuracy of alternative investment valuations	6.08	6.19	0.11
Quality of personnel	6.08	6.13	-0.05
Knowledge and responsiveness of personnel	6.06	6.26	-0.20

## RMB Custody Services

Based on the information provided by Strate, the South African CSD, RMB is seen as the second largest custodian in South Africa – both by volume and assets under custody. Its domestic client base is broad-based, including banks, asset and fund managers, brokers and a range of other institutions such as hedge funds, prime brokers and trusts.

RMB Custody Services and RMB Trustee Services are sub-divisions of the RMB Prime Services division, which also includes securities lending, futures clearing, trustee services, equities prime broking, stockbroking operations and fixed income prime broking.

While these sub-divisions are operationally segregated, the Prime Services division acts as a “one-stop shop” to local and foreign Financial Institutions.

RMB has again outperformed the market average in all service areas, its highest score being for Reputation and Asset Safety. At an individual question level, it is particularly highly rated for, “Quality of its personnel”, with over 40% of client sample awarding the bank the highest possible score in this aspect of service.

Asked to identify particular strengths of the bank, survey participants’ answers range across the full gamut of service categories. One clients identifies, “Speedy feedback from service teams” and “simplicity of account opening”. Improvements are primarily sought in the area of fees.

SERVICE AREA SCORES			
Category	RMB Custody Services	Market	Difference
Relationship management and client service	6.07	5.67	0.40
Cost and value delivered	5.47	5.29	0.18
Settlement	6.08	5.83	0.25
Asset servicing	5.85	5.70	0.15
Operational reporting	5.60	5.38	0.22
Technology	5.63	5.36	0.27
Fund and unit accounting and valuation	5.71	5.56	0.15
Trustee and administration services	6.04	5.66	0.38
Reputation and asset safety	6.14	6.04	0.10

QUESTION SCORES: TOP 10			
Service component	2017	2016	Difference
Creditworthiness of institution	6.24	6.38	-0.14
Knowledge and responsiveness of personnel	6.16	6.33	-0.17
Effectiveness in matching and settlement rates	6.11	6.23	-0.12
Commitment to the custody and securities servicing business	6.08	6.08	0.00
Quality of personnel	6.07	6.15	-0.08
Understanding of your specific requirements	6.07	6.03	0.04
Timeliness of resolution of failed trades	6.06	6.03	0.03
Quality of administration services	6.00	6.21	-0.21
Quality of shareholder recordkeeping services	5.94	6.15	-0.21
Accuracy and timeliness of dividend notification and crediting	5.92	6.11	-0.19

## Société Générale

Societe Generale Johannesburg branch has recorded a set of service area scores in the Good range (5.00-5.99), with an overall average down somewhat on last year, in line with the survey as a whole. At an individual question level, two of its three highest scores are, however, up on last year, these being, “Effectiveness in matching and settlement” and “Knowledge and responsiveness of personnel”.

While all questions but one achieve a result above 5.00, the bank may want to review its, “Willingness and ability to customise reporting” (4.92). Another perspective is provided by examining the individual scores awarded for each question. “Creditworthiness of the institution”, is awarded the highest rating by just over a quarter of responders for the bank. By contrast, “Competitiveness of fees charged”, is rated merely Satisfactory by a third of the client sample.

In additional freeform comment, value delivered and strong client service management are singled out for praise, while technology is mentioned as an area where some improvement is required. This is reflected in the results with Technology at 5.03 being the lowest category score for the bank, down 0.33 points on the previous year. Whether this is a result of specific experiences during the past year is unclear.

SERVICE AREA SCORES			
Category	SGSS	Market	Difference
Relationship management and client service	5.32	5.67	-0.35
Cost and value delivered	5.05	5.29	-0.24
Settlement	5.56	5.83	-0.27
Asset servicing	5.30	5.70	-0.40
Operational reporting	5.18	5.38	-0.20
Technology	5.03	5.36	-0.33
Fund and unit accounting and valuation	5.08	5.56	-0.48
Trustee and administration services	5.52	5.66	-0.14
Reputation and asset safety	5.52	6.04	-0.52

QUESTION SCORES: TOP 10			
Service component	2017	2016	Difference
Creditworthiness of institution	5.75	5.85	-0.10
Effectiveness in matching and settlement rates	5.71	5.69	0.02
Knowledge and responsiveness of personnel	5.67	5.60	0.07
Quality of administration services	5.43	5.67	-0.24
Quality of shareholder recordkeeping services	5.43	5.33	0.10
Timeliness of resolution of failed trades	5.42	5.46	-0.04
Understanding of your specific requirements	5.40	5.36	0.04
Commitment to the custody and securities servicing business	5.38	5.62	-0.24
Timeliness and accuracy of reports	5.33	5.85	-0.52
Effectiveness in dealing with corporate actions	5.33	5.58	-0.25

## The Standard Bank of South Africa

Standard Bank's Investor Services business has an extremely diverse and well-established client base for its five distinct product areas: custody, trustee services, securities lending, derivatives clearing and investment administration. Custody, the core product in Investor Services, accounts for just under half of the division's revenue. The bank also offers access to a regional custody network through The Standard Bank of South Africa.

While international clients mainly make use of the bank's custody services, its domestic client base has grown largely owing to the diversity of services on offer. According to 2016 statistics from Strate, Standard Bank holds between 35% and 37% of the assets under custody in the market, processing a monthly average of 170,000 transactions. Since all client accounts held by Standard Bank at Strate are in one omnibus account at the CSD, no segregation of domestic or international clients can be delivered on a market level.

The bank identifies two key areas of change over the past year: continued migration of clients to its new IS Online platform; and introduction of service managers for top tier clients.

This year the bank outperforms the market average in five areas and tacks close to the average in the others. Its highest category score is for Reputation and Asset Safety, up 0.13 points to 6.17.

SERVICE AREA SCORES			
Category	Standard Bank	Market	Difference
Relationship management and client service	5.65	5.67	-0.02
Cost and value delivered	5.39	5.29	0.10
Settlement	5.86	5.83	0.03
Asset servicing	5.86	5.70	0.16
Operational reporting	5.42	5.38	0.04
Technology	5.39	5.36	0.03
Fund and unit accounting and valuation	5.55	5.56	-0.01
Trustee and administration services	5.39	5.66	-0.27
Reputation and asset safety	6.17	6.04	0.13

QUESTION SCORES: TOP 10			
Service element	2017	2016	Difference
Creditworthiness of institution	6.30	6.35	-0.05
Commitment to the custody and securities servicing business	6.09	6.20	-0.11
Effectiveness in matching and settlement rates	6.00	6.44	-0.44
Accuracy and timeliness of dividend notification and crediting	5.97	6.16	-0.19
Effectiveness in dealing with corporate actions	5.79	6.19	-0.40
Timeliness of resolution of failed trades	5.74	6.14	-0.40
Quality of personnel	5.70	5.98	-0.28
Knowledge and responsiveness of personnel	5.58	6.04	-0.46
Understanding of your specific requirements	5.57	5.88	-0.31
Accuracy of alternative investment valuations	5.57	5.69	-0.12

## Standard Chartered Bank

Over the last few years, Standard Chartered Bank, Johannesburg Branch, has invested in staff and infrastructure to widen and deepen its custody presence in South Africa. Several key hires have been made in the last 12 months. There has, in particular, been a significant focus on the enhancement of the client management framework. This culminated in the introduction of the Business Account Manager role for securities services clients.

Significant investment has also gone into enhancing core systems to improve levels of STP, client front-end connectivity, reporting and MIS. It sees South Africa as a critical gateway market to its regional and global offerings.

Year-on-year progress in ratings has been recorded in all service areas, with the exception of Fund Accounting and Valuation. Although roughly half of these still score in the Satisfactory range (4.00-4.99), the bank's overall average has moved up to Good (5.00-5.99). Most notable is the 0.65 point increase, for Reputation and Asset Safety to 5.66, now the bank's highest category score.

In freeform comments, client service is listed as a growing strength, though technology is seen as having a way to go. While the bank's score for sophistication and robustness of core systems has risen by 0.40 points, it is still only 4.75.

SERVICE AREA SCORES			
Category	Standard Chartered Bank	Market	Difference
Relationship management and client service	4.92	5.67	-0.75
Cost and value delivered	4.83	5.29	-0.46
Settlement	5.09	5.83	-0.74
Asset servicing	5.12	5.70	-0.58
Operational reporting	4.66	5.38	-0.72
Technology	4.64	5.36	-0.72
Fund and unit accounting and valuation	4.79	5.56	-0.77
Trustee and administration services	5.16	5.66	-0.50
Reputation and asset safety	5.66	6.04	-0.38

QUESTION SCORES: TOP 10			
Service element	2017	2016	Difference
Creditworthiness of institution	5.79	5.42	0.37
Commitment to the custody and securities servicing business	5.59	4.74	0.85
Knowledge and responsiveness of personnel	5.44	5.00	0.44
Effectiveness in dealing with corporate actions	5.15	5.13	0.02
Effectiveness in matching and settlement rates	5.12	4.22	0.90
Understanding of your specific requirements	5.11	4.63	0.48
Accuracy and timeliness of dividend notification and crediting	5.08	5.00	0.08
Timeliness of resolution of failed trades	5.06	4.17	0.89
Timeliness and accuracy of valuations	5.00	4.88	0.12
Quality of administration services	5.00	4.90	0.10