

# *Domestic Survey* **South Africa**

# Familiarity breeds respect

While domestic institutional clients of South African custodians have a similar overall perception of their service providers to the banks' foreign clients, there are some intriguing differences at a service category level.

For both South African and foreign institutions, the scores awarded to South African service providers (see Table 1) are a mixture of Good (5.00-5.99) and Satisfactory (4.00-4.99). Domestic institutions are, however, more generous in assessing Relationship Management and Client Service (5.60 compared to 5.26 and 5.56 compared to 5.31). They also appear to be significantly more comfortable with their providers' competence regarding Asset Safety and Regulation and Compliance. This is most likely a reflection of greater direct familiarity with local economic and political conditions.

Interestingly there are two areas where domestic clients are harsher in their scoring than their foreign peers: liquidity management and pricing. Drilling down to responses at a question level, some more precise indications of dissatisfaction are evident. In the area of liquidity management, local institutions seem to lament a lack of dynamic and actionable information to minimise the liquidity they have to maintain (3.67 – Weak) and

## AGGREGATE CATEGORY SCORES

Category	Domestic Scores	ABEM scores	% difference
<b>Relationship Management</b>	5.60	5.26	6.46
<b>Client Service</b>	5.56	5.31	4.71
<b>Asset Safety</b>	5.54	4.67	18.63
<b>Account Management</b>	5.16	5.28	-2.27
<b>Regulation and Compliance</b>	5.16	4.17	23.74
<b>Asset Servicing</b>	5.15	5.42	-4.98
<b>Overall</b>	5.09	5.10	-0.20
<b>Innovation</b>	4.94	5.42	-8.86
<b>Risk Management</b>	4.89	4.99	-2.00
<b>Technology</b>	4.82	5.22	-7.66
<b>Pricing</b>	4.41	5.01	-11.98
<b>Liquidity Management</b>	4.26	5.12	-16.80

the lack of assistance in optimising collateral holdings (3.60 – also Weak).

Pricing is often to be found at the lower end of client ratings across the Global Custodian Surveys as respondents are not surprisingly reluctant to signal to their providers that they are happy with what they are paying. In the case

of South Africa, however, the problem does not seem to be the absolute levels of pricing, but the lack of pro-activity in cutting prices where the opportunity arises and an perceived unwillingness to pass on the benefits of internalisation when handling both counterparties to a transaction.

## Methodology

The data for the 2019 South African domestic custody survey was gathered over a number of months from Q3 2018 through to end-April 2019. The McLagan survey platform, which Global Custodian has used for the past two years to record survey responses, uses a common questionnaire to assess client perceptions in major, emerging and frontier markets and records both cross-border and domestic responses.

This approach is designed to allow maximum flexibility for respondents, some of whom may prefer to complete the questionnaire for all service providers they wish to rate as part of a single exercise. Following publication of the Agent Bank in Emerging Markets (ABEM) survey in our winter edition 2018, we then reopened the survey to responses from South African domestic institutions to allow for a more targeted approach by South African service providers.

As a result, four banks have recorded sufficient responses from domestic clients to warrant a write up and presentation of results. Responses recorded for other banks were nevertheless retained for use in establishing market average scores at a service category and question level.

The questionnaire covered an increased number of service categories compared to prior years, though it allowed respondents to skip any question or service area in its entirety or rate an entire service area by answering a single question. Although responses were received for the category of Cash Management and FX and are presented where appropriate, our working assumption is that domestic clients rating domestic custody are unlikely to have engaged with these aspects of service in a comparable manner to their foreign peers and counterparts and have therefore not been a significant focus of analysis.

Respondents were not asked to score their agent banks directly on particular aspects of a service area, but to agree or disagree with a series of propositions on scale of 20 points. These results were then converted to the 7-point scale (where 1=unacceptable and 7=excellent) familiar to readers of Global Custodian and the resulting data submitted by McLagan to Global Custodian for analysis. (For the agent bank surveys, this analysis was conducted by McLagan.)

We remain mindful of the time and effort required to complete a lengthy questionnaire and take this opportunity to thank the clients of the South African banks that took the time and trouble to do so.

# Balance needed in optimising the client experience

Institutional clients are adopting a much more rigorous process in the selection of their service providers as the future of the financial services industry continues to be defined by the digital agenda underpinned by technology and connectivity say Louise Currie, general manager, and Anke Frankland, senior manager, network and relationship management for Nedbank Investor Services.\*

Technology and human engagement must be balanced in optimising clients' experiences. That's certainly the aim of managers of Nedbank Investor Services (NIS), the business of one of South Africa's big four banks with an impressive record in meeting the needs of domestic institutional clients and consecutive top ratings in Global Custodian surveys.

As a provider of custody services, our duties of safeguarding assets in a huge vault has evolved into protecting our clients' asset ledgers and having robust defence against the threat of cybercrime.

Digital being an enabler is not necessarily the solution to all client engagements, as we believe technology and human engagement should be balanced in optimising the client experience. Our institutional clients need the ability to interact with speed and decisiveness to minimise impact on fund performance while complying with the regulatory framework.

Nedbank differentiates our client experience by having a high touch in these situations as we understand the environment in which institutional clients compete. This high touch is further expanded through our regular engagements, awareness campaigns and educational workshops to ensure that our clients remain informed. Robotic process automation programs (RPA) are deployed in the scheduling of the simple and repetitive tasks within the processing hub of the core custody services, and we retrain custody staff to become the analysts of information and exception management.

In response to the 'new' technologies advanced as holding promise for post-trade processing, Nedbank has



## NEDBANK

embarked on managing a data lake. This reviews data lineage from source product technologies to effect transaction monitoring for anti-money laundering, extracting data information for management oversight and having a holistic overview of clients to create a better value client proposition. This speaks to the data requirements for Nedbank to meet regulatory and client demands.

If we shift our lens to what is important to the client from a data perspective, we need to apply data analytics that stretch

from the client's technologies, to the communication link and the final data recording in Nedbank's environment. When we consider this ecosystem, we see Nedbank's role as custodian evolving to a performance monitoring function on the core custody services and closing the feedback loop with regular client engagements to improve on the benchmarks set.

Our key focus on delivering an exceptional client experience enabled by people and technology is at the heart of everything that we do. This continuous effort will also enable us to build a more client focused, more digital, more agile and more competitive Nedbank.

*\*Louise Currie and Anke Frankland are commerce graduates with some 60 years' experience between them in the investment and custodial world. Both began their Nedbank careers in 1999.*

# Nedbank

While Nedbank's cross-border client base is limited, it appears to have a loyal following among domestic institutions. "Nedbank has provided us with excellent service for the last 22 years," says one asset manager.

The bank's scores at a category level in this year's domestic survey stretch across a fairly wide band. At the lower end, Liquidity Management and Pricing are considered Satisfactory (4.42 and 4.49 respectively), while Very Good ratings (6.48 and 6.08) are awarded for Client Service and Asset Safety. One large domestic asset manager highlights "excellent client services" with special mention for those related to domestic bond settlement.

The remaining seven service categories are all rated comfortably in the Good range (5.00-5.99). Although some scores were awarded for Cash and FX services, these have been discounted as the bulk of the bank's domestic institutional clients do not access these through their securities services relationship.

In just over three-quarters of cases at an individual question level, Nedbank attracts scores above the market average. This is most pronounced in regard to deadlines for the receipt of proxy

voting and corporate action instructions. The former, in particular, is regarded as poorly handled by the market as a whole, so Nedbank's score of 5.40 is certainly noteworthy.

Areas where the bank falls below the market average centre are on Regulation and Compliance – with specific reference to the completion and standardisation of KYC and AML, neither of which is regarded as well-handled by the market as a whole – and the recognition of potential cost savings through internalisation, where both sides of a transaction are handled on the bank's books.

Three capabilities tie for the bank's top score (6.80) at a question level. Two are in the category of Asset Servicing. Transactions likely to fail are identified early and dealt with pro-actively; and transactions processed by Nedbank in the South African market are seen as always settling in a timely fashion. The third related to Asset Safety: respondents are confident that the assets held by Nedbank on behalf of their clients are sufficiently segregated to ensure title will not be contested in a crisis – a factor that has exercised regulators around the globe in recent years.

CATEGORY SCORES Category	Nedbank (13 responses)
Account Management	5.74
Asset Safety	6.08
Asset Servicing	5.84
Cash Management and FX	n/a
Client Service	6.48
Innovation	5.56
Liquidity Management	4.42
Pricing	4.49
Regulation and Compliance	5.72
Relationship Management	5.78
Risk Management	5.49
Technology	5.57

DOMESTIC VS CROSS-BORDER Category	Nedbank domestic	Nedbank cross-boarder	Variance %
Account Management	5.74	n/a	n/a
Asset Safety	6.08	n/a	n/a
Asset Servicing	5.84	n/a	n/a
Cash Management and FX	n/a	n/a	n/a
Client Service	6.48	n/a	n/a
Innovation	5.56	n/a	n/a
Liquidity Management	4.42	n/a	n/a
Pricing	4.49	n/a	n/a
Regulation and Compliance	5.72	n/a	n/a
Relationship Management	5.78	n/a	n/a
Risk Management	5.49	n/a	n/a
Technology	5.57	n/a	n/a

Question level		
<b>Most ahead:</b>	<b>Asset Servicing</b>	Their deadline for receipt of proxy voting instructions is superior to other providers
	<b>Asset Servicing</b>	Their deadline for receipt of corporate actions instructions in this market is superior to other providers we use
	<b>Cash Management and FX</b>	They provide a wide range of options for investment of cash
	<b>Regulation and Compliance</b>	We are not concerned that the confidentiality of our data will be breached by this provider
<b>Most behind:</b>	<b>Regulation and Compliance</b>	They support the standardisation of Know Your Client (KYC), Anti-Money Laundering (AML) and sanction screening due diligence questionnaires
	<b>Regulation and Compliance</b>	They respond promptly to our Know Your Client (KYC), Anti-Money Laundering (AML) and sanction screening due diligence questionnaires

# RMB

With 10 responses, RMB has garnered scores at a category level ranging from 4.33 at the low end for Liquidity Management to 6.32 for Asset Safety. In all categories, however, the scores attained by RMB exceed the market average. Even in the case of Liquidity Management, one domestic institution comments that, “RMB Custody have always engaged timeously with us and our clients before any form of liquidity squeeze and always assisted in navigating the easiest path to market.”

A regular participant in our Agent Bank surveys of cross-border clients, where it performs commendably, RMB has recorded higher scores from its domestic institutional clients in over 60% of categories. The divergence is most noticeable in the area of Regulation and Compliance, where domestic players are more likely to be able to tailor expectations to context, and in Asset Safety, where the bank’s score of 6.32 (Very Good) is up a notch from its cross-border score in the last Agent Banks in Emerging Markets (ABEM) survey of 5.56 (Good). By contrast, the bank’s prowess in Liquidity Management is more highly regarded by foreign clients.

At an individual question level, RMB exceeds the market

average in 90% of cases. The biggest difference is actually in an aspect of Asset Servicing where the market is considered weak: a willingness to pay tax withheld before agreement is reached with the tax authorities. RMB scores 4.67 compared to a market average of only 2.21.

Similarly, the bank is well ahead of the market average when it comes to the appreciation of two aspects of pricing: a willingness to pass on the benefits of internalisation when acting for both sides of a transaction; and an openness to the notion of differential pricing for efficient and less efficient clients.

In the answers to only two questions is the bank considered weaker than the market’s weak average. These are in helping clients to optimise their holdings of collateral and in working with clients to help them minimise the capital they need to allocate to this business.

The bank’s highest scores at a question level (6.75) is shared by two aspects of Asset Safety. Clients are comfortable that cash held with RMB both on their own behalf and that of their clients is as well-protected as local law permits; and are confident that these assets are sufficiently segregated to ensure title will not be contested in a crisis.

CATEGORY SCORES Category	RMB Custody (10 responses)
Account Management	5.47
Asset Safety	6.32
Asset Servicing	5.73
Cash Management and FX	4.95
Client Service	5.96
Innovation	5.33
Liquidity Management	4.33
Pricing	5.64
Regulation and Compliance	5.86
Relationship Management	5.80
Risk Management	5.76
Technology	5.61

DOMESTIC VS CROSS-BORDER Category	RMB domestic	RMB cross-boarder	Variance %
Regulation and Compliance	5.86	4.53	29.36
Asset Safety	6.32	5.56	13.67
Technology	5.61	5.33	5.25
Innovation	5.33	5.07	5.13
Pricing	5.64	5.40	4.44
Risk Management	5.76	5.61	2.67
Relationship Management	5.80	5.73	1.22
Client Service	5.96	6.00	-0.67
Asset Servicing	5.73	5.83	-1.72
Account Management	5.47	5.86	-6.66
Cash Management and FX	4.95	5.59	-11.45
Liquidity Management	4.33	5.11	-15.26

Question level		
<b>Most ahead:</b>	<b>Asset Servicing</b>	They are willing to pay tax withheld before agreement is reached with the tax authorities in this market
	<b>Pricing</b>	They service our biggest counterparties and share the benefits of internalization with us
	<b>Pricing</b>	They are open to differential pricing for more efficient and less efficient clients
	<b>Cash Management and FX</b>	Costs (fees and bid-offer spreads) in the foreign exchange markets are fully disclosed to us
<b>Most behind:</b>	<b>Innovation</b>	They work with us to minimise the capital we have to allocate to this business
	<b>Liquidity Management</b>	They help us optimise our holdings of collateral

# Standard Bank

Standard Bank has received eight responses from domestic South African institutions in the course of the latest survey cycle. While this is sufficient for the bank to receive a write-up, it is less than would be expected on the basis of past experience and is unlikely to mirror the full spread of Standard Bank's extensive client base. The analysis presented should therefore be regarded as tentative.

At a category level, the bank's scores range from a weak 3.64 for Technology to an impressive 6.16 for Relationship Management. Interestingly, the former is more highly regarded by foreign clients, who rate the bank Good (5.24) in this area. However, one client comments that the bank appears reactive to when their system is down, while another suggests change is needed to the default frequency of MT940s. Conversely, Relationship Management garners a lower score from foreign clients (5.19), though still within Good range (5.00-5.99).

At a question level, the bank exceeds the market average in some 44% of cases. The ability to optimise client holdings of collateral is much appreciated in a market where the full domestic survey response pool remains unimpressed. The bank is also well regarded for looking to pass on savings from cuts in

market infrastructure prices.

In three areas of Asset Servicing, Standard Bank falls below the already indifferent market averages. These are the prompt crediting of income entitlements, deadlines for receipt of proxy voting instructions, and a willingness to pay tax withheld before agreement is reached with the tax authorities.

The bank's best results at a question level are all for aspects of Relationship Management. It scores an impressive 6.50 both for asking clients regularly about how their needs are likely to change as their business develops, and a demonstrable interest in supporting and extending client relationships. They are also highly rated (6.25) for delivering a service that clients see as enhancing their reputation with management, colleagues and their external clients.

Given the diversity of Standard Bank's institutional client base, both domestic and foreign, it is hoped that in future surveys, the bank garners sufficient responses for a more robust assessment of client perceptions. In the meantime, there appears to be little in the results to unsettle the bank's long-term client relationships.

CATEGORY SCORES Category	Standard Bank (8 responses)
Account Management	5.06
Asset Safety	4.73
Asset Servicing	4.31
Cash Management and FX	5.00
Client Service	5.61
Innovation	4.60
Liquidity Management	5.11
Pricing	4.37
Regulation and Compliance	4.84
Relationship Management	6.16
Risk Management	4.47
Technology	3.64

DOMESTIC VS CROSS-BORDER Category	Standard Bank domestic	Standard Bank cross-boarder	Variance %
Relationship Management	6.16	5.19	18.69
Regulation and Compliance	4.84	4.29	12.82
Asset Safety	4.73	4.28	10.51
Account Management	5.06	4.82	4.98
Innovation	4.60	4.50	2.22
Client Service	5.61	5.50	2.00
Liquidity Management	5.11	5.12	-0.20
Cash Management and FX	5.00	5.17	-3.29
Asset Servicing	4.31	4.60	-6.30
Risk Management	4.47	5.00	-10.60
Pricing	4.37	5.57	-21.54
Technology	3.64	5.24	-30.53

Question level		
<b>Most ahead:</b>	<b>Liquidity Management</b>	They help us optimise our holdings of collateral
	<b>Innovation</b>	They work with us to minimise the capital we have to allocate to this business
	<b>Pricing</b>	They look to pass on to us some or all of the savings from cuts in market infrastructure prices
	<b>Regulation and Compliance</b>	They respond promptly to our Know Your Client (KYC), Anti-Money Laundering (AML) and sanction screening due diligence questionnaires
<b>Most behind:</b>	<b>Asset Servicing</b>	Their deadline for receipt of proxy voting instructions is superior to other providers
	<b>Asset Servicing</b>	Income entitlements are credited promptly to our account in this market

# Standard Chartered

It seems Standard Chartered Bank’s concerted efforts in recent years to raise client perceptions of its securities services abilities are being noticed. “Great improvement in service provided by the SCB team in Sandton (Custody and Trustee services),” says one asset manager. “They are on call 24/7 to assist with any operational issues that may arise.”

The area of Regulation and Compliance also comes in for praise. “Knowledgeable staff, kept up to date with changes in regulation, are able to provide accurate guidance when required,” comments one client.

Category scores in most cases leave room for improvement, however. At the upper end, Relationship Management and Asset Safety are well regarded, garnering averages of 5.52 and 5.41 respectively. Client Service is also within Good range (5.00-5.99). Account Management, Asset Servicing, Regulation and Compliance, Innovation and Technology are all considered Satisfactory (4.00-4.99).

Pricing, Risk Management and Liquidity Management are all rated weak at best. Digging into this at question level yields some tentative explanations. When it comes to pricing, the bank is not seen as maintaining commercial terms at competitive

levels, nor is it regarded as open are to differential pricing for more efficient and less efficient clients.

As far as risk management is concerned, respondents do not see the bank as exercising its own judgment in deciding which issues will have a meaningful impact on a client’s business not is there sufficient confidence in its business continuity and disaster recovery plans.

Where the bank scores highly at a question level, exceeding the market average, is for organising its operations to support the way clients like to work as well as for key aspects of asset safety: confidence among respondents that client assets can be retrieved quickly in a crisis; and that processes and procedures followed by Standard Chartered minimise their own exposure to claims for loss from their own clients.

Asset Safety also provides the bank with its highest question-level scores. Confidence about the ease of retrieving assets in a crisis is rated 6.20. Similarly, clients seem comfortable that cash (both theirs and their clients), held with the bank is as well protected as local law permits (6.00) and that assets are sufficiently segregated to ensure title is not contested.

CATEGORY SCORES Category	Standard Chartered Bank (10 responses)
Account Management	4.90
Asset Safety	5.41
Asset Servicing	4.51
Cash Management and FX	3.95
Client Service	5.09
Innovation	4.21
Liquidity Management	2.75
Pricing	3.97
Regulation and Compliance	4.45
Relationship Management	5.52
Risk Management	2.78
Technology	4.43

DOMESTIC VS CROSS-BORDER Category	Standard Chartered domestic	Standard Chartered cross- boarder	Variance %
Account Management	4.90	n/a	n/a
Asset Safety	5.41	n/a	n/a
Asset Servicing	4.51	n/a	n/a
Cash Management and FX	3.95	n/a	n/a
Client Service	5.09	n/a	n/a
Innovation	4.21	n/a	n/a
Liquidity Management	2.75	n/a	n/a
Pricing	3.97	n/a	n/a
Regulation and Compliance	4.45	n/a	n/a
Relationship Management	5.52	n/a	n/a
Risk Management	2.78	n/a	n/a
Technology	4.43	n/a	n/a

Question level		
<b>Most ahead:</b>	<b>Relationship Management</b>	They organise and reorganise their operations to support the way we like to work
	<b>Asset Safety</b>	We are confident that the client assets we hold in this market can be retrieved quickly in a crisis
	<b>Technology</b>	Their technology platform has remained stable through major technology upgrade and change programmes
	<b>Asset Safety</b>	The processes and procedures followed by this provider in this market minimise our own exposure to claims for loss from our clients
<b>Most behind:</b>	<b>Asset Servicing</b>	They are willing to pay tax withheld before agreement is reached with the tax authorities in this market
	<b>Risk Management</b>	They exercise their own judgment in deciding which issues (e.g. service interruptions, security breaches, system failures) will have a meaningful impact on our business