



Home and away

The South African market for securities services uses global standards as its benchmark.

This is the second year that *Global Custodian* has run an exclusively domestic survey of custody in South Africa. Notwithstanding recent political shenanigans, including the unexpected firing of the country's respected finance minister, the market has come through the exercise much enhanced. Aggregate scores have risen in all service areas, most notably in Technology, which sees an increase of 70 basis points. Reporting, Asset

Servicing and Fund Administration also register scores in excess of 50 basis points above 2014 levels.

The domestic respondent sample has a similar profile to last year with investment managers constituting roughly a third of survey participants and broker dealers roughly a fifth. Pension funds have increased from around 12% to 15% of the total sample. Interestingly, the percentage of very large respondents (assets >ZAR 50

billion) has risen from a third to over 41%, while those in the smallest category (<ZAR 0.25 billion) account for only 7% of this year's sample, compared to 14% in 2014. In most markets, such a shift would lead to harsher scoring, given that the largest clients tend to be the most demanding. It is therefore to the credit of local service providers that client perceptions have improved in all service areas, despite this shift in survey demographic.

Client priorities

In terms of priorities, Settlement is now at the top of the list, followed closely by Reputation and Asset Servicing. "The banking sector in South Africa is very robust," notes Jean-Louis Bernardo, country head for Societe Generale Securities Services (SGSS) in South Africa. With the application of the Basel III framework, he says, anyone with a banking licence must have a sound balance sheet. This perception appears to be shared by clients: the market average score for creditworthiness in this year's survey is 6.29. Technology, meanwhile, which was a concern of participants in last year's survey, seems to have slipped in terms of its relative importance.

Overall service levels in the market are high, given the number of well-known providers competing for domestic business. "South Africa is essentially a mature market, with strong competition in service delivery," says Charl Bruyns, head, investor services, South Africa, Standard Bank. Foreign and domestic expectations are not on a par, however. "Providers have to be able to offer services and solutions for domestic clients in the local market, domestic clients accessing the region, and cross-border business inbound to the region," says Bennie van der Westhuizen, head, investors & intermediaries, Africa at Standard Chartered Bank. He suggests, however, that the investment strategies of domestic and inbound clients

Table 1: Type of respondent

	2014 %	2015 %
Investment manager (separate a/cs)	35.6	31.5
Pension fund	11.9	14.6
Mutual fund	10.2	5.5
Broker/dealer	18.6	20.3
Insurance company	5.1	4.1
Other	18.6	23.9

Table 2: Size of respondent (ZAR billion)

	2014 %	2015 %
> 50	33.3	41.5
10 - 50	14.3	12.7
5 - 10	19.0	1.3
1 - 5	11.9	15
0.25 - 1	7.1	5
< 0.25	14.3	6.8
N/A		17.8

Table 3: Relative client priorities

	All respondents 2014	All respondents 2015
Settlement	9.6	7.8
Reputation & asset safety	10.3	7.7
Relationship management & client service	9.2	6.8
Fees & value delivered	7.8	6.2
Operational reporting	6.8	4.7
Asset servicing	5.6	4.5
Fund accounting & valuation	4.7	4.5
Technology	6.1	4.4
Trustee services	5.0	3.3

accentuate certain differences. “The domestic business is dominated by the investor segments – pension funds, asset managers, etc – with long-term investment turnover,” says van der Westhuizen. “A large part of the cross-border business adopts a short-term investment turnover strategy, requiring quick service turnaround times.”

Competition

The size of the local institutional market is supported for the moment by exchange control. Although there has been some relaxation over the past few years, domestic institutions are limited in the amount of assets they can bank offshore. Levels of competition are, however, not simply the result of a numbers game. “Even though South Africa has a relatively large number of custodians, some of them have specific target markets,” says Duncan Smith, senior sales and relationship manager, emerging markets, at SGSS. “One or two are focused more on the retail side, while our main client base is the collective investment schemes and pension fund market in addition to the inflow business.”

Pricing is also under less pressure in a domestic context, though no doubt some providers would dispute that. “Cross-border business clients undertake frequent due diligence

Methodology

Global Custodian domestic surveys are intended to assess the extent to which local service providers are meeting the expressed needs of their domestic clients. Such needs are often different from those of cross-border investors, covered in the Agent Bank 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 respondent, 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.

exercises and service and value proposition reviews,” says van der Westhuizen.

This may be changing in the present market climate, however. “The South African market is going through a series of in-depth changes and in this context inbound business has been quite quiet,” says Bernardo. “It’s always difficult for network managers to review a market undergoing such change, so not many RFPs have been issued recently by international clients. The volume of business remains high, however, and we believe the market for sub-custody mandates will be more active in 2016. In the meantime, however, the domestic market is very active.”

The number of licensed market participants looks set to grow in the near term. The Financial Services Board is currently considering several applications for stock exchange licences, having recently issued a licence for a central securities depository to Granite CSD. These developments have been met with some scepticism given the size of the South African capital

market and the magnitude of technology investment that is required to integrate these new entrants into the existing market infrastructure.

Challenges

The results for the market as a whole are not unconditionally positive. While, fund administration as a whole scores well, fund valuation specifically is seen as less impressive. Bruyns believes this is partly due to fragmentation resulting from regulation. “From a bank perspective, we would be able to provide the full service capability, including valuation and compliance, but there are certain middle- and back-office services that I can’t perform in the current regulatory environment,” he says. “The fund accounting business in South Africa is large, but is not handled by the large custodians. I think that will change once the regulators see what’s happening internationally.”

The ability or willingness to provide customised reporting is on the whole the lowest rated aspect of service from a

domestic perspective. “The demand for customised reporting from providers is driven by the non-standard infrastructure at many local institutional clients,” says van der Westhuizen. “From the service provider perspective, the ability to deliver client-specific reporting through electronic channels is key. Based on low volumes, and domestic clients’ reluctance to pay for this service, the business case to provide customised reporting is not strong.”

T+3

At an infrastructure level, a number of recent developments are likely to have an impact on the competitive environment. Johannesburg Stock Exchange (JSE) trades currently settle on a T+5 basis, but the market is in the midst of planning for T+3 settlement cycle migration, due to be introduced in July 2016, though the go-live date is due to be confirmed in February.

April 2015 saw the implementation of a market process for trade matching and exception handling in the off-market environment in preparation for T+3. The implementation was apparently seamless

and served as a good indication of the market’s ability to handle wholesale implementation projects. To improve the efficiency of funds settlement in corporate actions meanwhile, custodians receive corporate actions funds in central bank money as of October 2015.

The current UNEXcor settlement and clearing system used for the South African bonds market has served the market since 1991 and is set to be replaced, though this will follow approximately six months after the implementation of T+3.

The National Treasury has introduced a withholding tax on interest payments made to foreign persons from a source within South Africa, or interest payments received by or accrued to a foreign person from a South African source. The legislation has been effective since 1 March 2015. Regulatory developments in the market have been aimed to a significant extent towards achieving international regulatory alignment. Domestic institutions have no small part in encouraging this development. ■

Nedbank

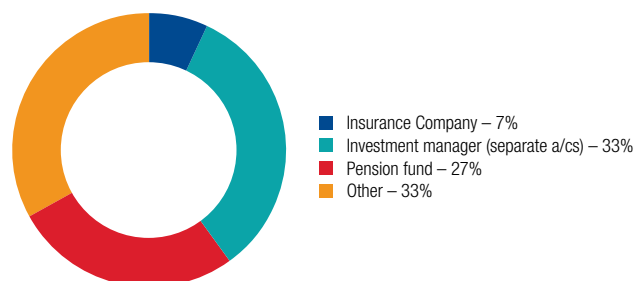
Nedbank has a much larger custody presence among domestic than cross-border clients. It puts the domestic assets it has under custody at USD 178.4 billion, while its international assets under custody amount to USD 3.3 billion.

While all questions attract a rating of Good (5.00-5.99) or Very Good (6.00-6.99) from domestic participants in the survey, the lowest score for Nedbank, in common with its peers, is for the bank’s willingness and ability to customise reporting. Nedbank’s highest individual score is for the accuracy and timeliness of dividend notification and crediting, where it vies with Standard Bank for top slot.

According to the bank itself, Nedbank’s main focus over the past year has been its preparation for the move to T+3 in 2016. It has also been closely involved in market discussions on the change in bond infrastructure.

In terms of enhancements to its service, Nedbank highlights the receipt of a Custody Services Provider (CSP) licence from JSE, enabling the bank to provide broker administration services: “Based on what we have seen internationally, custodians are integrating and including outsourcing solutions to the various client segments. NIS is unique in this offering and this provides the clients with an end-to-end solution,” says the bank. ■

Table 1: Client breakdown



Service area scores

Service area	Nedbank	SA Average	Difference
Relationship management & client service	6.08	5.86	0.22
Fees & value delivered	5.17	5.52	-0.35
Fund accounting & valuation services	5.90	5.42	0.48
Operational reporting	5.83	5.60	0.22
Settlement	5.93	5.87	0.06
Asset servicing	6.34	6.06	0.28
Technology	6.10	5.46	0.64
Reputation & asset safety	6.32	6.22	0.10
Fund administration	5.82	5.95	-0.12

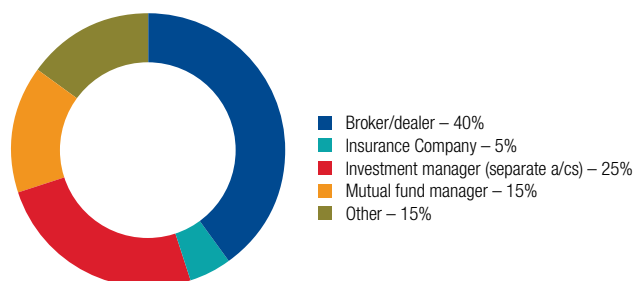
RMB

Rand Merchant Bank (RMB) puts the total of assets it holds on behalf of domestic clients at USD 68.2 billion, compared to USD 125.2 billion for international clients. “Custody and Trustee services has in excess of 320 clients both domestically and internationally,” says the bank. RMB’s most impressive score at an individual question level is for the knowledge and responsiveness of its personnel, where it records a result over 60 basis points ahead of its nearest rival. Technology is the bank’s lowest scoring category and within that, ease of use and comprehensiveness of client-facing technology, where it falls below the market average.

Technology has, however, been a key focus over the past year. “We have upgraded our custody system to a new version of BaNCS Securities which is a complete re-write of the system onto to a new technology platform,” says the bank. “The new custody system will provide us with additional capacity from both a systems and people perspective. The system will also provide other functional capabilities as well as automation of manual processes.” The go-live was staggered by product and client and completed in July 2015.

RMB has also engaged in a management shake-up with the strategic objective of establishing a Centre of Excellence (COE) around all its security services offerings, including corporate actions, trade settlement and trustee services. ■

Table 1: Client breakdown



Service area scores

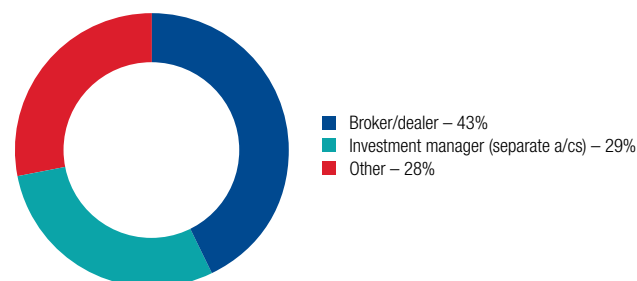
Service area	RMB	SA	
		Average	Difference
Relationship management & client service	6.22	5.86	0.36
Fees & value delivered	5.79	5.52	0.27
Fund accounting & valuation services	5.63	5.42	0.21
Operational reporting	5.82	5.60	0.22
Settlement	6.02	5.87	0.15
Asset servicing	6.27	6.06	0.21
Technology	5.42	5.46	-0.04
Reputation & asset safety	6.62	6.22	0.40
Fund administration	6.52	5.95	0.57

SGSS

Societe Generale Securities Services (SGSS) has exceeded the South African market average in all areas with the exception of Client Service and Asset Servicing, which fall short by a few basis points. It has, however, recorded the highest score of all domestic service providers for Value Delivered. Within that service category, SGSS is also one of only two banks to score above six [Very Good] for value received relative to fees paid. The bank suggests that this could reflect its consultative approach in determining with each client the relative balance between basis point fees and transaction fees.

Although Technology is the bank’s lowest scoring category, both its client facing technology and core systems are rated in the mid-fives – more than acceptable – and it marginally exceeds the market average for the category as a whole. In this regard, SGSS has rolled out a new web-based application to interested clients. The portal allows non-SWIFT-enabled client to instruct custody and cash transactions and to access real time reporting online. A bulk upload facility was also introduced allowing less manual intervention on both the client and Societe Generale Johannesburg sides. Further enhancements are expected to address corporate action communications. ■

Table 1: Client breakdown



Service area scores

Service area	SGSS	SA	
		Average	Difference
Relationship management & client service	5.79	5.86	-0.07
Fees & value delivered	6.08	5.52	0.56
Fund accounting & valuation services	5.73	5.42	0.30
Operational reporting	5.71	5.60	0.11
Settlement	6.02	5.87	0.16
Asset servicing	5.97	6.06	-0.09
Technology	5.47	5.46	0.01
Reputation & asset safety	6.00	6.22	-0.22
Fund administration	6.01	5.95	0.06

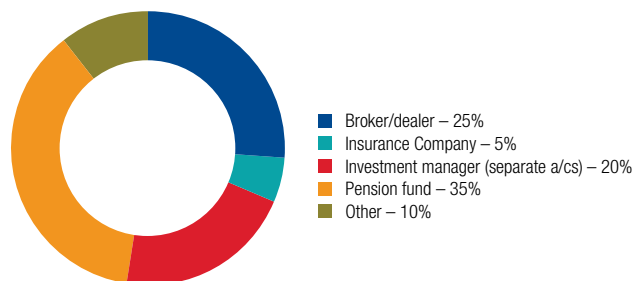
Standard Bank

Assets held by Standard Bank on behalf of domestic clients amount to USD 198.3 billion and for international clients to USD 99.5 billion. The bank has performed very well in the survey overall. It is above the market average in all categories with the exception of fund accounting, where, at a question level, the bank's lowest score is for the accuracy of its alternative investment valuations. It is important to note, however, that South African regulations separate the role of trustee and custodian for investment funds and that these are subject to separate mandate.

While the bank's highest individual score is for the creditworthiness of the institution (6.49), it ranks first in this year's survey for accuracy and timeliness of dividend notification and crediting. It also tops the market at a category level for Asset Servicing.

The most significant business development for the bank's investor services division over the past year has been its successful bid for the mandate of the Government Employees Pension Fund (GEPF), Africa's largest pension fund. The mandate includes the delivery of a full securities service product solution across domestic custody, global custody, settlement, securities lending, investment administration, compliance and performance reporting for over ZAR 1.5 trillion in assets. ■

Table 1: Client breakdown



Service area scores

Service area	Standard Bank	SA Average	Difference
Relationship management & client service	6.03	5.86	0.17
Fees & value delivered	5.65	5.52	0.13
Fund accounting & valuation services	5.20	5.42	-0.22
Operational reporting	5.71	5.60	0.11
Settlement	6.22	5.87	0.36
Asset servicing	6.41	6.06	0.36
Technology	5.40	5.46	-0.05
Reputation & asset safety	6.39	6.22	0.17
Fund administration	5.89	5.95	-0.06

Standard Chartered

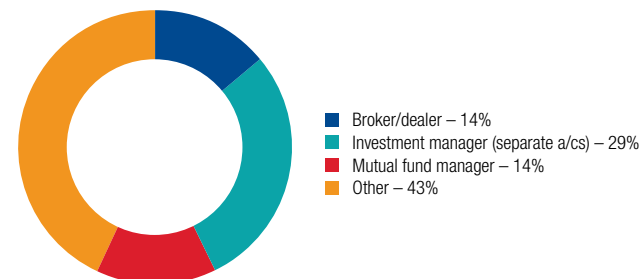
For the past two years, Standard Chartered has been working on fully migrating clients of ABSA Trustee and Custody Services, which it acquired two years ago. The process has involved a significant amount of work, says the bank: "As expected in projects of this nature, regrettably there was some disruption to service delivery for some clients in Q3 arising from implementation of the final stage of the phased system and data migration. We are pleased to say that the cause of the challenges that we experienced have been identified and are being addressed."

At the same time, preparations for T+3 in the South African market involved the automation of exception handling and changes to the JSE Broker Deal Accounting (BDA) system, both of which involved testing with the exchange. This coincided with the bank's own system changes and migration project testing, adding to the complexity.

These challenges are reflected in the bank's score's in this year's survey. It is well rated for the competitiveness of fees charged, but value received for fees paid is at the other end of the scale.

At an individual question level, Standard Chartered receives the highest score in the market for accuracy of alternative investment valuations. ■

Table 1: Client breakdown



Service area scores

Service area	Standard Chartered	SA Average	Difference
Relationship management & client service	4.61	5.86	-1.24
Fees & value delivered	5.01	5.52	-0.51
Fund accounting & valuation services	4.44	5.42	-0.99
Operational reporting	4.41	5.60	-1.19
Settlement	4.58	5.87	-1.29
Asset servicing	4.55	6.06	-1.50
Technology	4.39	5.46	-1.06
Reputation & asset safety	5.18	6.22	-1.04
Fund administration	5.50	5.95	-0.45



South Africa in context

Charl Bruyns, head of investor services, South Africa, Standard Bank, discusses the challenges of securities service provision in and beyond the South African market.

How competitive is the domestic market for securities services compared to cross-border business?

Both client segments require a consistent high level of service. South Africa is essentially a mature market, with strong competition in service delivery. The service requirements of local clients versus cross-border clients may be different in emphasis given the breadth and combination of products utilised by the different client segments.

The South African securities market infrastructure is relatively sophisticated. What opportunities does this allow for providers to create some kind of sustainable competitive differentiation?

One aspect is the breadth and combination of products offered. Standard Bank has the most comprehensive product set in the securities services industry in South Africa covering a broad base of client segments. Amongst cross-border clients, I'd suggest there is a trend away from buying products from different providers, largely because of the need to deal with increasing complexity resulting from regulations such as AIFMD and UCITS V. Multinational clients aim to simplify their operational structures, provider networks and information flows where they can.

Further emphasising the above point is our ability to deliver multi-market access to clients. We have operations in 15 markets across Africa and offer clients a single platform to access these markets. The combination of being able to offer a broad set of product capability together with regional reach across Africa is a strong value proposition.

Are local clients investing in Africa? Do they see Standard Bank as a channel into Africa?

Yes we do see local clients investing into Africa. There is demand for Africa exposure across various investment platforms. You also have local clients making strategic investment into various markets that require asset servicing capabilities.

Standard Bank is seen to be a channel into Africa, given our ability to simplify institutional clients' access into multiple markets.

In 2015, Standard Bank became sole custodian to the largest pension fund in Africa. Does this simply add scale to your operation or does it bring with it a different set of client requirements?

We have other clients with end-to-end requirements but not of this scale and complexity. The pension fund client taken on requires high-end master custody product capability. The mandate includes the delivery of a full securities service product solution across domestic custody, global custody, settlement, securities lending, investment administration, compliance and performance reporting. We have invested in the further enhancement of our fund administration and accounting platform. These enhancements enabled us to deliver the full client requirement, but also make available additional capability to existing clients.

Thus, given the size of the mandate, it has contributed to our scale, but also enabled us to deploy enhanced capability that we can roll out to other clients. This enhanced master custody requirement from the client has also created a new benchmark for similar clients.

Our multi-year strategic agenda was set three years ago. The pillars of the agenda largely focussed on client delivery, operating model and investment requirements to support an improved technology platform. When I look at our scores in recent surveys and I overlay the scores with the delivery of our strategic agenda, it's clear that our efforts have delivered positive client impact.

In terms of technology we are far advanced on our architecture roadmap and we will continue to deliver capability to our clients. Early in 2016, we will roll out capability for clients that will give them a single access point to managing their portfolio across the African markets in which we operate. This technology will also include advanced investment accounting, compliance and performance reporting. Technology remains a key strategic pillar for the security services business, but also the broader bank.

Pivotal to our strategy, whether in terms of operating model, investment in technology or improvement in client service delivery, is that we are aligning all delivery aspects behind the client requirement. ■