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From World Cup to World Class

The financial crisis largely spared their country. A joyous World Cup thrust it in the limelight. Now South Africa's financial firms aim to speed growth of their home market — and blaze trails in Africa and beyond.

From World Cup to World Class: South Africa's Finance Firms Take the Next Step

SIM TSHABALALA
Standard Bank

"Without being arrogant, we are a national champion," says Sim Tshabalala, 43, CEO of Standard Bank South Africa – the core unit of Standard Bank, one of the country's "big four" banks and the largest by capitalization. He points to its 50,000 employees, its 8 million customers and — with some pride — to its continued headquarters in Johannesburg even as it becomes a global player.

A strong base has allowed Standard Bank to expand into 32 other countries, including 16 in Africa. "We are on the ground with institutions that advance loans and facilitate trade," Tshabalala says. "And that's important for connecting Brazil with Lusophone Africa, India with East Africa, or China and Russia with the rest of the continent." A tie-up with China's largest bank, the Industrial and Commercial Bank of China (ICBC), which bought 20 percent of Standard Bank in 2007, adds to this edge. "It gives us a unique opportunity to sit on both sides of Sino-African relations in trading and investment," says Tshabalala.

At home, Tshabalala says innovations by Standard and its peers to expand banking in underserved communities serve both justice and the bottom line. "By including more people in the South African economy, you reduce country risk and the cost of equity. Your job is not so much philanthropic as it is an outright commercial thing."

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USA Office
1050 Connecticut Avenue, NW. 10th floor, Suite 1000 Washington, DC 20036 - USA
www.peninsula-press.com

Spain Office
Paseo de la Castellana, 95. 15 Planta 28046 Madrid - Spain
Tel +34 91 418 50 32
info@peninsula-press.com

Editor-in-Chief **Stella Klauhs**
Production Director **Rafael Muñoz**
Project Director **Greg Kunstler**
Research Assistant **Joshua Brown**
Writer **Siddhartha Mitter**
Creative Director **Marta Conceição**
Photography **Antony Kaminju, Old Mutual**
Illustration **Henrique Monteiro**

It's a financial hub with prestigious brands whose history stretches back over a century. It's also an emerging market and gateway to a region with huge unmet needs. For South Africa's finance firms, matching world-class returns and market development is no contradiction: It's a specialty.

It's a good time to be high on South Africa. The smashing success of the World Cup vindicated the country's defenders in the face of predictions of violent crime, deficient facilities and transport disasters. It presented a welcoming and functioning South Africa, the one that political and business leaders have argued is making progress each year — 16 years after the first free elections that definitively ended the apartheid era.

Yet South Africa's finance professionals know that goodwill only goes so far. "The benefit is the exposure," says Stephen Koseff, CEO of private bank Investec. "We can only benefit from South Africa marketing itself well and gaining investors and tourism thereafter." Now the challenge is to capitalize on this passing interest and harness the growing confidence of both South Africans and foreign partners to productive ends.

The needs are still immense. Unemployment hovers at an alarming 25 percent. Life expectancy plummeted in the late 1990s with the HIV/AIDS crisis and now, though stable, dwells around 50 years. Access to clean water and electricity has improved much since 1994 yet incomplete. Still the economy as a whole is strong. The global recession took only a limited toll on South Africa's output, now set to rebound to 3 percent growth in 2010 and 4 percent in 2011. Inflation is under control. Interest rates are moderate.

Bridging the gap so that all of South Africa's population can share in stability and growth has been the country's chief challenge all along. Its banks may prove key actors in this process. With less exposure and involvement in exotic instruments, the resilient financial sector dodged the woes of its peers else-where. "Being based on the African continent, we did not feel the effects of the financial meltdown and recession to the same extent as our counterparts in other parts of the world," says Sim Tshabalala, head of Standard Bank of South Africa, one of the country's "big four" retail banking giants.

This allows the banks to forge ahead to reach the 13 million South Africans who remain unbanked, and Standard Bank, Nedbank, Absa and First National Bank are doing this through micro-banking and technology initiatives, such as mobile banking. "That's innovation," says Tshabalala, "and these are commercial banks talking this kind of language. You would find that with difficulty in other parts of the world, other than South America and places like Indonesia, where commercial banks are saying, 'let's find an innovative way of being more inclusive but staying profitable.'"

The more they hone this twin set of skills, the better equipped South Africa's banks will be to direct investment and promote trade in what many consider their natural marketplace — the rest of Africa. "We want to be the catalyst for modernization of the African economic base," says Kuseni Dlamini, CEO of insurance and banking giant Old Mutual South Africa, whose affiliated companies have been present 60 years in Kenya and a

century in Zimbabwe. “We are an African company, which makes us ideal for partnering with foreign investors. We have a footprint, the knowledge and the understanding, which gives us a competitive advantage.” This ranges from structuring finance for investments by Chinese or Indian companies on the continent, to supplying commercial and retail banking services in Africa’s growing markets using the lessons of what has worked at home.

The Johannesburg Stock Exchange (JSE) — the world’s 18th biggest by market capitalization, and by far Africa’s largest — presents another gateway to the continent. Its dedicated Africa Board lists companies from elsewhere in Africa. “We offer better service and a bigger market to many African companies than what they get from their local stock exchange,” says JSE chief executive Russell Loubser. But he says it’s important not to undermine fledgling local markets either. “We are not mercenaries in this effort. We offer that local exchange a part of the action as well.”

But South Africa sees itself as more than a regional hub. Standard Bank, which operates in 33 countries, is 20 percent owned by the Industrial and Commercial Bank of China and operates in key fellow emerging markets like Brazil, Turkey and Malaysia. Dlamini of Old Mutual oversees business units in Mexico and Colombia. Investec does 60 percent of its business in South Africa but the bulk of the rest in the United Kingdom and Australia.

The efforts show how the experience of serving South Africa’s hybrid economy, with its traits of both advanced industrial and emerging economies, can turn into insight and marketing advantages elsewhere. “We’re based within a developed-underdeveloped economy,” Investec CEO Koseff says bluntly. “You learn to structure your business in a way that it can face a shakeout. We’re geared to do business and are fit to navigate the storm.”

South Africa’s financial executives agree that this duality presents unique challenges in their home market that they — and the government — still have a long way to solve. It is good business to do so, says Standard Bank’s Tshabalala, because more social cohesion means less country risk. Corporate social responsibility is a must and includes ventures to reach entrepreneurs, students, youth, women, farm workers, civic authorities and others.

But the banks are not alone. The overall economic tide has risen, albeit not as fast as many might want. “You’ve had a reduction in the poor as more and more people have entered the middle class,” says Tshabalala. “At the same time, you’ve seen greater financial deepening and a structural reduction in interest rate and inflation. That has manifested itself in a burgeoning of lending by South African financial institutions.”

Perhaps the hidden edge of South African companies rests in the country’s cultural shift from apartheid to what is perhaps today the world’s most progressive constitutional democracy. “South Africa has got quite an interesting past,” says Loubser, of the JSE. “So we are constantly thinking about demographics, gender equality, keeping in mind the previously disadvantaged. You’ll find few environments in the world where companies are that conscious of their broader responsibilities. And that’s because of our history.”

You learn to structure your business in a way that it can face a shakeout. We’re geared to do business and are fit to navigate the storm.

KUSENI DLAMINI
Old Mutual

“We need South Africa to be open and friendly towards the world even beyond the World Cup,” says Kuseni Dlamini, CEO of Old Mutual South Africa, the savings, investment and insurance flagship of the country’s venerable Old Mutual Group. “In order to achieve that, we need a fact-based conversation around our country’s attractiveness as an investment location. We need to tell the South African story.”

In his own way Dlamini, 42, illustrates the new South Africa. The former Rhodes Scholar had a distinguished career in the mining sector, running Anglo American’s South Africa business, before moving to the financial services giant. His portfolio includes emerging markets and Old Mutual’s businesses not only in nearby African countries such as Namibia and Kenya, but also as far away as China, Colombia and Mexico. “I would like my colleagues to see themselves as working for the emerging markets,” he says. “Not just the South African population, but the 3.5 billion people that we have to serve.”

Still South Africa, where Old Mutual is the historic leader in the insurance sector with more than 4 million policy-holders, is both its primary market — it manages R434bn (USD57bn) in insurance policies, asset management and unit trusts there — and the place where the firm has honed its skills accompanying rapid economic and social transformation. That expertise has led Old Mutual to create special programs to support small and medium enterprises, rural women and youth, infrastructure and more. “We’re the largest supporter of accountancy students,” Dlamini says. “These are roles we take very seriously; it’s a strategic business imperative.”

None of this can detract from Old Mutual’s state-of-the-art asset management. Quite the contrary, says Dlamini; understanding South Africa gives Old Mutual an inside edge elsewhere. “Our mature insurance industry has one of the highest levels of penetration in the world. We can take the products we’ve developed to other emerging markets and change people’s lives.”

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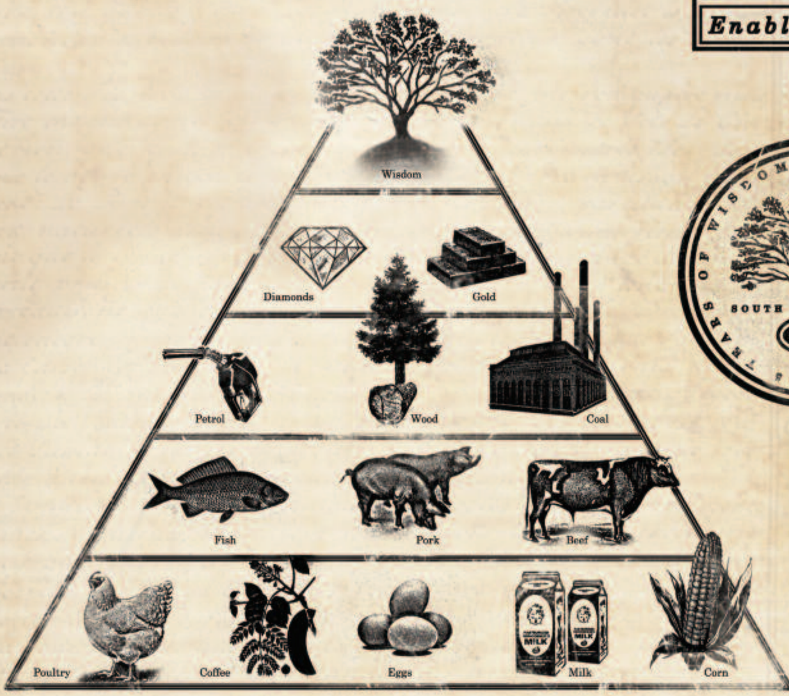

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