# FINANCIAL SERVICES SECOND PAPER

## Policy Recommendations and Interventions

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**EXECUTIVE SUMMARY**

1. There are limits on policy options imposed by the resources and instruments available to provincial governments, but also by the head office and branch structure of institutions and national government regulation in financial services. However, the sector's significance within the Western Cape economy and the province's national share of the insurance and asset management sub-sectors provide a strong motivation for policy. Interventions should be aimed at promoting either services exports for job creation or broader access to improve low-income consumer welfare, rather than extending services to existing middle- and upper-income groups. Most of these interventions require the provincial government to promote provincial-level co-operation amongst private sector institutions within financial services, within and across sub-sectors, and this points to the more general need for stronger provincial organisation within the sector, including provincial committees within national lobbying organisations. There is also a general need for improved national and provincial data collection and processing in the sector.

2. *International administration outsourcing (BPO) in insurance and asset management:* The international market for these services - distinct from call centres – is expected to grow rapidly, presenting a significant export opportunity. A solid local base exists with Old Mutual and Santam already insourcing internationally in insurance and Tasc (JP Morgan) in asset management, while Sanlam is also attempting to establish a market. South African capabilities are further demonstrated by a similar market presence in Gauteng, though inter-province competition should be avoided. The province's established presence in the two industries is a key competitive advantage, providing credibility as a service provider and marketing links with prospective clients, but most importantly a pool of high-level skills with sector-specific administrative and technical expertise, since BPO profitability rests on improved productivity, not merely lower wages. The large pool of experienced lower-skill workers and established (in-house) training facilities for the latter are an additional advantage.

Potential interventions are largely catalytic and co-ordinating. They include development of physical infrastructure, subsidising and facilitating company co-operation in training of lower-skill workers, providing job placement services, international marketing to attract potential foreign investors to the province and promoting co-operation with Gauteng government. By engaging with industry lobby groups and training institutions, provincial government could help to identify areas of potential co-operation amongst private companies to enhance market growth.

3. *Promoting access in banking:* The inability of many low-income consumers to access financial services or to retain access after initial entry is due to the lack of appropriate products, high service charges and the time and money costs of contact with service points. These factors are linked to some extent and can be addressed by the adaptation of both products and service delivery mechanisms. The latter would build on the growing complementarity between personal and e-based services[1], while the former will require new intermediate instruments and institutions between large private institutions and low-income consumers. Provincial governments may be better placed for intervention than other levels of government because of their responsibilities in social infrastructure and public service provision, and the Western Cape is particularly well-placed because of its mix of urban and rural population.

Potential interventions are direct as well as co-ordinating. Access to financial service points should be incorporated into planning and implementation of infrastructure expansion for housing settlement and transportation, which will require improved provincial co-ordination amongst banks. Public-private partnerships with appropriate institutions should be established to experiment with intermediate instruments and solutions to low-income access in banking and insurance.

4. *SME promotion via BEE procurement from the financial sector:* Financial institutions with substantial buying power have begun to decentralise procurement in response to FSC incentives. The potential impact on black entrepreneur and SME promotion should be accelerated and locked in. In the province, the printing and publishing industry, other media, and business services are potentially significant beneficiaries.

Policy interventions are facilitative, including close interaction with institutions to identify opportunities for decentralising procurement and potential suppliers, and business mentoring provision, as well as mentoring and business service support to new suppliers to promote quality and cost standards.

5. *Skills development and training of high-skill financial services staff:* In addition to a possible skills shortage in the future, many high-level staff – managers and professionals – already in the

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[1] This implies that expanded service provision to low-income consumers is unlikely to be a major driver of job creation.

sector lack necessary skills for evolving business models and regulatory frameworks. These include generic skills such as sales and human resource management, as well as specific technical skills, such as personal financial advising and risk and security management. There is an opportunity for the province to establish itself as the primary national location for financial services training, which would also have wider benefits in terms of sector activity location.

Policy interventions are catalytic and co-ordinating, including developing collaborative initiatives amongst local tertiary education institutions, private financial institutions and sector training bodies (SETAs as well as dedicated training providers such as the Institute of Bankers).

6. *Intervention in national processes*: Several national policy and regulatory processes impact directly on the prospects for the sector within the province. Given the sector's significance in the provincial economy, there is a case for provincial government involvement in the national policy debate. The Western Cape government should explore the modalities and substance of possible interventions in: the ongoing development of a South African response to the GATS requests by other countries, where selective liberalisation of access may be beneficial to the province; and the increasingly activist shareholder stance of the Public Investment Commission, whose assets include provincial employees' pensions.

## Introduction

As noted in the introduction to the first paper, there are significant limits on the policy options which sub-national (regional or local) governments have at their disposal to intervene in the financial services sector. These limits are due to two factors. The first is that financial institutions intermediate between economic agents (firms, households) with financial surpluses and deficits respectively, in a process where the collection and distribution of funds is necessarily decentralised, but this is combined with centralised pooling of funds for their management and investment. These activities impose a 'hub and spoke' form on financial institutions, producing their head office and branch structure, which means that corporate strategy decisions, such as branch location, are taken essentially at national level, rather than locally or regionally.

Secondly, the financial sector is an infrastructural sector with a critical role in the wider economy, and its health is necessary (if not sufficient) for aggregate economic stability and growth. As a result, the sector's growth and competition, especially in relation to banking, must be balanced with the maintenance of its stability. Financial regulation to address this balance necessarily occurs at the national level as well as supra-nationally. Conversely, the financial sector's health is in large measure dependent on the macroeconomic environment, which is influenced by national-level variables such as the interest rate, the exchange rate and the inflation rate, and by levels of activity and business cycle conditions in the international economy. This is illustrated by the contrasting situations in the life assurance and short-term insurance industries in South Africa over the past five years, for example. The scope for sub-national governments to influence these variables is limited.

Like other services, financial services are produced and consumed simultaneously requiring direct contact between producer and consumer. Notwithstanding the significant changes in their form and delivery resulting from technological changes in ICT and from economic globalisation which enable spatial separation between producer and consumer, the elements of risk and time remain inherent in transactions of financial instruments, and they continue to require ongoing contact between producer and consumer after the initial transaction[2]. As a result, there is scope for output and employment growth within localities where producers choose to locate their labour force.

It is also true that the sector is extremely significant within the Western Cape economy, as Paper 1 showed. The sector is the third largest contributor to value-added, about one-seventh of the total, and overwhelmingly the largest contributor to fixed capital formation in the province, together with real estate and business services. The FIRE sector as a whole provides nearly one-third of total investment in the province. Though the sector is not a major employer – only 5% of the total – employment growth has been positive in a province where overall formal employment has declined since 1995. In addition, the province has a significant national presence, being the home of three of the five largest insurance companies head offices and about half the head offices of asset management companies.

For these reasons, it is important for the provincial government to focus on the sector, and consider how to optimise its role in the provincial economy. However, as already implied, the policy instruments available to provincial governments to impact upon financial services are limited. Both direct regulation and tax instruments are unavailable, leaving a limited range of subsidies and procurement activities as mechanisms to affect firm incentives, together with

[2] This distinguishes financial services from other services such as hospitality (eg restaurants) or business services.

provision of public or collective goods to enhance firms' operating environment. Provincial governments can also attempt to organise and catalyse firms in their jurisdiction to act collectively and can attempt to influence the national policy and regulatory environment, by lobbying national government and regulators. The paper proposes some interventions in this latter area too.

In developing a sectoral policy focus for the province, the appropriate starting point is to acknowledge that the financial services sector is 'overdeveloped' in South Africa, in the sense that the top end of the market is very advanced by international standards in terms of the three criteria: the scope of products and services offered, the degree of penetration of the middle and upper income segments of the domestic market, and the technology of service provision. However, the sector is still predominantly oriented to the domestic market, while services at the bottom end of the market are limited in scope, underprovided and very costly to low-income consumers. Expansion of the sector, in terms of output or employment or both, should thus be directed either at promoting exports of financial services, or at ensuring wider access to appropriately-priced financial services for low-income consumers.

This paper proposes one set of interventions in each of these areas, as well as two other interventions intended to increase efficiency in the sector by enhancing the quality of inputs. Finally it proposes that the province inject its concerns and interests into national policy debates affecting financial services.

## 2. <u>General interventions</u>

Before spelling these policy proposals out in more detail, it is worth noting that most of these interventions require provincial-level co-operation amongst private sector institutions within financial services, both within and across sub-sectors. At present, the level of organisations amongst firms within the sector is extremely low. The Life Offices Association secretariat is based within the province and has a provincial sub-committee for the Western Cape, and the asset management sub-sector body, the Association of Collective Investments, also has a Western Cape office. But the other sub-sectors have no provincial presence, and there appears to be almost no contact amongst senior managers based in the province either within sub-sectors or across sub-sectoral boundaries. Given the blurring of the latter in operational terms, it would be valuable to have interaction around policy and regulatory issues across the entire financial services spectrum.

At the national level, this has begun through the formulation of the Financial Services Charter, but this needs to take place at the provincial level and be broader in scope.

In addition to the lack of contact amongst corporations and local branches within the sector, there also appears to be very little contact between the sector and the provincial government. The formation of provincial branches and sub-committees of sub-sectoral associations will help to address this, but the initiative should come from the provincial government. The first task for the latter in this sector therefore should be to establish contact with the associations and encourage and assist them to build a stronger organisational base at provincial level within the sector.

There is also a general need for improved data collection in the sector, at both national and provincial levels. The analysis of sector output, distribution and investment in Part 2 of Paper 1 showed the limitations of existing data collection in the sector. The problem is not simply that it was difficult to access data for the sectoral analysis, but that the data simply does not exist, or else is imputed, even at the national level. There is a need for more reliable disaggregation both within the FIRE (finance, insurance, real estate and business services) sector, and at the provincial level, at least for Western Cape and Gauteng, the two provinces in which the sector contributes very significantly to output and investment. Once again, it should be a priority for the Western Cape government to improve the quality and quantity of data available in the sector, by initiating a project with Statistics South Africa and, if possible, the Gauteng government to address the issue together.

## 3. Business process outsourcing (BPO) for the international market

Business processing outsourcing (BPO) refers here to ‘back office’ and ‘middle office’ administration functions, which are to be distinguished from ‘front office’ outsourcing, that is activities involving customer contact via call centres. In the financial services industry, outsourcing initially focussed on IT which remains the most commonly outsourced operational segment. The growth of call centre activity has been well-documented in the media, but administrative outsourcing has also grown rapidly. In insurance, some examples of functions include new business processing and underwriting, existing policy changes and claims assessment and authorisation. In asset management, examples include transaction capture, trade reconciliation and portfolio custodial services. In banking, examples include general ledger, tax accounting and financial reconciliation. These and related services involve IT-based rather than voice-based interaction with customers, or else electronic document processing with no direct customer contact.

For financial services firms, large cost savings in such processes are available based on lower per unit labour costs and possible relocation of operations, including to 'offshore' locations. The most important source of costs savings – whether in-house or via outsourcing – arises not from lower labour costs, but from efficiency gains and higher productivity through re-engineering the labour process and IT systems to reduce unit costs, that is, lower costs per transaction. This makes possible an increased scale of operations and in turn the employment of large numbers of (relatively) lower-skilled, lower-paid labour. But the key source of competitive advantage lies not in the availability of large pools of low-cost capable labour, but rather in the presence of a small pool of high-level skills with sector-specific administrative and technical expertise, and thus the capability to adapt administration work-processes and raise productivity. The Western Cape's established presence in insurance and asset management mean that this resource is available in the province, together with credibility as a service provider in the industry, links with prospective clients which are important for marketing, and sufficient size to mitigate client risk. The large pool of experienced lower-skill workers and established (in-house) training facilities for the latter are an additional advantage.

The international market for these services is expected to grow rapidly over the next few years, as a result of rising competitive intensity and thus cost pressures in all segments of the global industry. A recent report estimated that US$144 billion worth of financial services globally will be sourced offshore by the end of 2005, and US$261 billion by 2010[3]. These figures include front office activities as well as 'captive' activities done by a firm's own offshore subsidiary, rather than being outsourced – the proportion which represents back office work is unclear. At present, India is the most attractive location in the offshore outsourcing market[4], reflecting the dominance of IT in current outsourcing activity, amounting to an estimated 75% of the total. IT-related outsourcing is dominated by banking, which moved into outsourcing earlier than other financial services. Non-IT administrative outsourcing is growing in importance and this is expected to continue over the next few years, particularly in insurance, where policy administration, claims-

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[3] Deloitte (2004), *The titans take hold: How offshoring has changed the competitive dynamic for global financial services institutions*.

[4] See for example, AT Kearney, *Making offshore decisions: AT Kearney's 2004 offshore location attractiveness index*.

processing and related functions account for 75% of current insurance BPO, but "the core process outsourcing market is still emerging."[5] As a result, market share should be available to locations with capacity and experience in financial services, and insurance specifically.

Thus, the administrative outsourcing market represents a significant export opportunity for the Western Cape, particularly in insurance and asset management, though possibilities in banking may also exist. Obviously, there will also be opportunities in call-centre activity but profitability in this activity appears to rest heavily on costs of labour and telecommunications. Given the importance of sector-specific expertise in financial service administration outsourcing, the Western Cape's competitive advantages may be stronger in this area, since few rival locations would have a well-established presence in the industry.

Both major insurance companies in the Western Cape have moved into the financial service outsourcing market in recent years, though their progress has been hesitant, and their underlying strategy unclear. Old Mutual established an outsourcing division in its Cape Town base at the end of2003, with the stated intention to provide outsourced administration services not only to the entire Old Mutual group globally, but also to offshore clients (Old Mutual *Citizenship Report 2003*; see also BR, 03/12/03). Its in-house business school offers a short course in 'Third party administration' explicitly aimed at winning foreign business. Yet during 2004 and 2005, four different Old Mutual subsidiaries in the US and the UK announced that they had outsourced back office operations to other organisations based in their respective countries of operation[6], and OM Asset Management indicated it planned to extend outsourcing of its own operations to non-captive providers outside the OM stable.

Similarly, Sanlam entered an agreement in April 2001 to promote third-party administration with a UK-based software supplier to the insurance industry, Marlborough-Stirling, from whom it had

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[5] J Shuck (2005), "Shifting sources of value in financial services outsourcing", outsourcingfinancialservices.com, reporting on a study of 446 large financial services outsourcing transactions between 1999 and 2004. This study also found that North American banks and insurance companies were responsible for only 36% of outsourcing transactions, with European institutions accounting for 35%.

[6] OM Investment Partners in the US outsourced its managed accounts business to Mellon in July 2004, OM Asset Managers in the UK outsourced its fund administration to RBC in February 2005, and OM Financial Network in the US outsourced its custodian services to JP Morgan in April 2005 and some of its life policy administration to McCamish systems in May 2005.

purchased a software system in 1999. This arrangement fell into abeyance soon after, after beng unable to obtain business. But Sanlam continues to promote itself as offering offshore outsourcing to US and UK insurers, with detailed presentations (dated 2004) available on its website to potential purchasers. Furthermore, as discussed in Paper 1, Sanlam Investment Management, the asset management subsidiary, had established a successful administration unit in 2000, TASC, which had grown to be the largest third-party asset administrator in South Africa, with 15 clients, R320 billion in administered assets and 140 employees, as well as operations in Ireland and Namibia. In March 2004, TASC was sold to JP Morgan Investor Services division as SIM decided to 'focus on core business', and continues to operate in Cape Town.

For both companies, therefore, there appears to be an ambivalence about using their Western Cape operations to attract international outsourcing business. The reasons for this are not clear. Foreign companies with administration outsourcing operations in the Western Cape have a different view of the potential – JP Morgan acquired TASC as part of its effort to build a global investment administration operation, while CSC, a US-Indian company which has provided outsourced IT services to Old Mutual since 1999, has leveraged that arrangement to provide IT BPO services to at least six or seven international customers from Cape Town. It is also worth noting again the successful activities of Capital Alliance, the Johannesburg-based insurer which has successfully brought several 'closed books' onto its balance sheet during the past 7 years. These operations are not dissimilar to acquiring third-party administration contracts, and are similarly dependent for their profitability on improvements in process engineering. Capital Alliance (acquired by Liberty Life in December 2004) has already established itself in the Australian insurance market (though this is smaller than the South African market) and is now preparing to move into the UK, demonstrating that South African financial institutions are capable of successfully exporting their services.

These examples illustrate that international administration outsourcing is possible in South Africa, and that problems like telecoms charges are not insurmountable. Successful entry into this market is possible for well-established large institutions, rather than small firms with a limited capital base, few linkages with potential customers abroad and no record of operating in the financial services industry. Government effort should therefore be focussed on the three major insurance companies in the province. The first step should be direct engagement with Old Mutual or Sanlam to learn more about their approach to the market, the reasons for their apparently inconsistent strategy and the potential for government assistance of various sorts to address the obstacles they have identified. In other words, the intervention would, at least initially, be primarily catalytic and co-ordinating.

Subsequently, there may well be scope for more directed interventions, including development of physical infrastructure, facilitating or subsidising company co-operation in training of lower-skill workers, providing job placement services, international marketing to attract potential foreign investors to the province and promoting co-operation with Gauteng government. By engaging with industry lobby groups and training institutions, provincial government could help to identify areas of potential co-operation amongst private companies to enhance market growth.

## 4. Promoting access in banking

The inability of many low-income consumers to access financial services or to retain access after their initial entry into the financial system is due to the lack of appropriate products, high service charges levied by the banks and the time and money costs to the consumer of contact with institutions' service points. These factors are linked to some extent and need to be addressed by the adaptation of products as well as service delivery mechanisms. Addressing the absence of appropriate products is already underway, stimulated by the negotiation and conclusion of the Financial Sector Charter. As discussed in Paper 1, the Mzansi product rollout since October 2004 has been rapid and extensive, with nearly 1 million new customers, of which about 85 000 were in the Western Cape. However, with an estimated 14.7 million adults nationally and 1.17 million in the province estimated to be 'unbanked' before the rollout, there is still a long way to go. It also remains to be seen whether Mzansi accountholders are able to retain their presence in the system over the long-term.

Although the development process in relation to the Mzansi bank account and similar 'public good' products in insurance is a national one, there may be scope for provincial government involvement. Direct provision by a government-owned institution is a potential policy intervention to address market failure in financial services and has been tried at the wholesale level in the housing and small enterprise markets during the past decade. While there is clearly a dearth of institutions in the low-income segment of the retail market, there is already a publicly-owned provider in this market in the form of Postbank. It is hard to see additional benefits of another direct government provider being established at the provincial level, where there is little operational expertise in banking. An additional public sector provider would not resolve the problem of the monopoly held by the major commercial banks over the national payments system. However, public-private partnerships with appropriate financial institutions could be established to experiment with intermediate instruments and solutions to low-income access in banking and insurance. Foreign and local institutions with a record of providing access to low-income clients should be approached to explore whether public sector support may enable expansion of scale or adaptation of products which have been used successfully in low income markets elsewhere – of particular interest is the recent entry into South Africa of ICICI Bank, which has the largest customer base of all private banks in India.

Perhaps a more obvious intervention by the provincial government lies in addressing the physical infrastructure requirements of extending access to the banking system. Although the commercial banks have a very extensive branch and ATM network, which is further extended by Postbank, the costs of transport to branches or other service points remains a barrier to ongoing use of accounts by poor people. Illustrating this, several studies have shown that many poor people who do own bank accounts tend to use them simply as 'paypoints', into which salaries or pensions are deposited whereupon the full amount is withdrawn as a lump sum each month. The Western Cape retail banker interviewed for Paper 1 emphasised that his bank made extensive use of mobile banks to service Mzansi accountholders in the province's rural areas.

This implies the need to extend the banking network into low-income residential areas, both rural and urban. Provincial governments may be better placed for intervention in this respect than other levels of government because of their responsibilities in social infrastructure and public service provision. There are two possible levels of government intervention here, both of which would require improved provincial co-ordination amongst banks. At a minimum, access to financial institutions' service points (branches and ATMs) should be incorporated into planning and implementation of infrastructure expansion for housing settlement and transportation. The need for this was explicitly articulated by the bank retail manager interviewed. This would lower the risk facing banks in extending their network. Network growth could be further accelerated through public-private partnerships to develop electronic financial service access points (ATMs and dedicated communication systems linked to call-centres) which could be used by all participating banks. This would extend the principle of co-operation in shared non-competitive services underlying the Mzansi process as well as build on the growing complementarity in banking services between personal and e-based services.[7] The direct contribution of government here would be financial through subsidising the construction cost of the infrastructure, but the indirect contribution of government co-ordination is likely to prove critical in persuading the private investors, the banks, to participate.

As with the development and refinement of financial instruments, the Western Cape is particularly well-placed to lead the way in experimenting with different approaches to the extension of physical infrastructure in financial services, because its mix of urban and rural population will provide lessons for most other parts of the country.

Three further proposals are briefly elaborated below.

**5. SME promotion via BEE procurement from the financial sector**

As noted in Paper 1, the Financial Sector Charter (FSC) provides strong incentives to financial institutions to transform their procurement practices to increase the proportion of goods and services purchased from BEE firms. By 2008, 50% of procurement must be from BEE-accredited companies, and by 2014, 70%. Banks and insurance companies have already begun to respond by decentralising their decision-making and purchasing patterns, and in this process, both 'Bank X' and Sanlam (both interviewed for Paper 1) have focussed on their internal provincial structures to play a more prominent role in procurement. Linked to its BEE equity deal, Sanlam has established provincial 'advisory boards' which have the task of promoting and facilitating the FSC targets within the organisation for financial services access as well as procurement. 'Bank X' plans to decentralise procurement to branch level in some instances, opening up opportunities for black-owned businesses even in small towns where bank branches are located. This bank is adapting its IT systems to enable small firms to tender and sees the potential for achieving cost savings by greater reliance on electronic B2B procurement procedures and reduced transport charges for many goods, rather than only on economies of scale linked to purchases from large nationally-focussed corporations.

Given the substantial buying power of the major financial institutions, this process has great potential to accelerate and lock-in the process of developing black entrepreneurs and SMEs. However, there are two types of risk in the process. One is linked to information: given the size

[7] This implies that expanded service provision to low-income consumers is unlikely to be a major driver of job creation.

disparities between the parties on either side of these procurement transactions, it will take time to establish an effective flow of information about opportunities between the procurement units of the financial institutions and potential suppliers amongst small firms, and for the learning process (on both sides) in relation to the requirements of completing, evaluating and awarding tenders. The second risk is linked to the cost and quality of goods and services supplied: if the BEE process is to be credible, sustainable and have a positive growth impact, it is essential that 'new' firms and suppliers meet high performance standards in relation to both cost and quality. In the absence of the latter, the cost and quality of financial services will be adversely affected with negative impact on consumers, including low-income consumers.

The financial services industry purchases large shares of the output of the printing and publishing and the recorded media products industries, as well as of business services (see Table 26 in Paper 1), which are important sectors in the Western Cape economy. This situation presents an opportunity and a rationale for provincial government intervention to facilitate and support the transformation process in procurement. The provincial government should interact closely with financial institutions, both individually and as a group, to identify opportunities for SME procurement together with potential suppliers. A web-based gateway supported by the provincial government could facilitate contact between the two sides, though other mechanisms will also be necessary as potential suppliers (especially in small towns) may not have the electronic access needed. Over and above enabling 'introductions', the provincial government should investigate the possibility of providing mentoring and business service support to successful SME tenderers, to assist them to meet performance standards.

There may well be initiatives of this sort already underway in the province in relation to procurement by large corporations and/or supplier support to small firms. In his case, these should be increased in scale and scope to ensure they can deliver support to the financial services sector, given its importance in the provincial economy. If such initiatives do not exist, the financial services sector offers a good opportunity for their development, given its significance in the economy but also the fact that the BEE process in the sector is relatively more advanced than other sectors.

## 6. Skills development and training of high-skill financial services staff

Paper 1 noted that a skills shortage in the sector was a possibility in the future, due in part to the BEE requirements of the Financial Sector Charter. However, it was also pointed out by interviewees in the banking sub-sector that many high-level staff already employed in the sector – both managers and professionals – lack the skills necessary implement the sector's rapidly evolving business models and to adapt to new regulatory requirements, such as the Basel II accord. The skill-set needed by senior employees at branch level now include generic capacities in areas such as sales and human resource management, as well as specific technical skills such as personal financial advising, risk management and security management. Similarly, professionals in back office and middle office positions also need a wider set of skills than are available in the traditional courses and programmes undertaken by bank employees. According to the retail manager of 'Bank X', the institutional and organisational infrastructure for training in the sector is inadequate: neither the tertiary sector institutions nor the sector-specific institutions, such as the SETA or dedicated training providers such as the Institute of Bankers, are offering training which equips employees with the skills required.

In insurance, there is also a need to adapt training provision. The higher level of customer awareness and the stricter regulation of sales activity (in the form of the FAIS Act) together with the decline of the industry's standard products in the face of greater competition from other sub-sectors, mean that employees and agents are now required to have a wider knowledge base than in the past, and offer a much more general financial advisory service to clients. In addition, the industry is moving to bring in a large group of new agents to enable it to penetrate new market segments, especially amongst the black population. These agents will need to be trained as will middle office employees such as underwriters, claims assessors etc to service clients in the new markets. As in banking, the skill sets required by the middle-level employees in the sector is different from that traditionally provided to employees. Finally, the initiative proposed above to promote BPO in insurance and asset management has a corollary in training. As noted above, the Old Mutual in-house training institute is offering a course in international BPO but this is a very limited initiative (6 hours *per annum*). Thus, even the large institutions would benefit from support and assistance with their training processes.

There is an opportunity for the Western Cape to establish itself as the primary location in South Africa for financial services training. The provincial government's role should be catalytic and co-ordinating, to support and facilitate collaborative initiatives amongst local tertiary education institutions, private financial institutions and sector training bodies, including curriculum development processes. To the extent the Western Cape is successful in becoming the location of sector training nationally, it would have wider benefits in terms of the location of sector activities in the future. It would also complement the financial services export initiative proposed above.

**7. <u>Intervention in national processes</u>**

Finally, it has been noted throughout this paper and Paper 1 that national policy and regulatory processes impact directly on the prospects for the sector within the province. Given the sector's significance in the provincial economy, there is a case for provincial government involvement in the national policy debate. The Western Cape government should explore with the relevant national agencies the modalities and substance of possible interventions in:

(i) the ongoing development of a South African response to the GATS requests by other countries, where selective liberalisation of access may be beneficial to the province; and

(ii) the increasingly activist shareholder stance of the Public Investment Commission, whose assets include provincial employees' pensions.