

Financial, Insurance, Real Estate and Business Services

Sector Overview:	<ul style="list-style-type: none"> ▪ The Financial Services sector, which includes Finance, Insurance, Real Estate and Business Services, has grown steadily to account for almost one-fifth of South Africa’s economic activity ▪ Sectoral contribution to GDP rose from 12.3% in 1990 to 17.3% in 2007. Sector growth has been three times faster than that for the secondary sector ▪ This growth emanates from the country’s well developed and increasing deregulated Financial Services sector with sophisticated banking, bond and insurance markets ▪ Although the 2008 global financial crisis is likely to put a damper on domestic financial service growth, the sector is likely to retain its leading position in the economy ▪ Given the high wages offered in this sector, a severe downturn in Financial Services could impact on overall domestic demand, making economic recovery that much more sluggish ▪ The sector’s role is highlighted in the National Industrial Policy Framework (NIPF) as a crucial cross-cutting intermediary in effectively allocating capital resources for industrial upgrading, productive investment and easing costs of capital for small and medium ▪ In 2008, 1.98 million people were employed in the Financial Services sector, 98% of which were formally employed. From the late 1980s, the rate of employment growth in Financial Services has accelerated faster than in all economic sectors as a whole, but appears closer to overall employment growth after 2003 ▪ The sector was characterised by a net trade surplus of R13.1Billion in 2008
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Risks		Opportunities	
Regulatory	<p>A number of players in the financial sector are characterised by significant emissions, including the Bidvest Group, Old Mutual, FirstRand and the Absa Group, all of whom are placed in the top 30 emitters reporting to the CDP (CDP, 2009). Electricity based emissions are the major area of concern for most companies in this sector.</p> <p>Larger companies in the sector are therefore at risk from increased electricity prices through the implementation of carbon pricing and the introduction of emission reduction limits. Mandatory reporting of</p>	<p>The growth of the global carbon market in a relatively short period of time has demonstrated the potential commercial opportunities in the trading of environmental commodities.</p> <p>The maturation of this market has created a host of opportunities for the financial services industry encompassing carbon asset traders, clean energy conventional and venture capital funds and carbon brokerage services, in conjunction with emission reduction project developers. Although South Africa’s primary involvement in this market through the Clean Development Mechanism (CDM) has been more limited to date, the role of</p>	Carbon Markets

Risks		Opportunities
<p>emissions and stipulated energy efficiency targets are both likely as part of compliance with emerging national climate policy.</p> <p>In addition, regulatory risks are evident at the regional and international scale, dependent on the scope of activities undertaken by each company. The Bidvest Group, for example, has highlighted that their aviation and shipping related business could both be affected by global climate legislation.</p> <p>As discussed in detail under the 'Transport, Storage and Communication' sector above, both the EU Directive on Aviation and moves by the IMO to regulate shipping emissions could impact companies operating in this arena.</p> <p>Investor</p> <p>Investor risk from climate change is a key area of concern in the Financial Services sector, and applies particularly to:</p> <ul style="list-style-type: none"> ▪ Current and anticipated investments ▪ Project related screening activities <p>Given the potentially far reaching commercial implications of climate change, the range of actual or potential investment related risks for the finance sector are highly dependent on the investment portfolios of each investment group. As such a full assessment of the risks and opportunities discussed in this document would apply to current and prospective investments.</p> <p>For companies in this sector, it is quite likely that major climate concerns could relate to investment portfolios, and not necessarily to company operations.</p> <p>In addition, as the pricing of carbon within the economy is given greater scrutiny, so the issue of company level shadow prices for carbon and project climate</p>	<p>market based mechanisms is consistently recognised as a key component to achieving cost effective and efficient greenhouse gas abatement at national, regional and global scales.</p> <p>An area of particular interest relates to the development of new emissions trading mechanisms in the post 2012 framework, which could include new forms of sector based carbon markets, providing wider opportunities for South African companies and financial services groups to link into a variety of global trading schemes.</p> <p>The rise of new technologies, most recently the exponential commercialisation of renewable energy on a global scale, has helped bring into focus the investment related opportunities present in low carbon markets.</p> <p>Venture capital, but also private equity and hedge funds have begun to play an increasing role in low carbon project development and the establishment of climate change related companies. Significant commercial opportunities can also be offered in South Africa, ranging in the relative make up of risk and return, based on the establishment of an enabling investment climate, given the country's significant renewable energy resource.</p> <p>Investor related products have also been commercialised in recent years that evaluate investment portfolios and screen potential projects for climate related factors, to assist companies to reduce costs and convert investment risk into opportunity.</p>	<p>Investor</p>

Risks		Opportunities
<p>screening gains further importance. As for investment related decision making, it is envisaged that climate change concerns, including potential carbon pricing, are best integrated within existing risk management systems and project evaluation procedures, as an additional driver of commercial risk and value.</p> <p>Currently the most notable investor related risk from climate change for the Financial Services sector would apply to investments made into long-lived fossil fuel infrastructure, particularly coal fired power stations.</p>	<p>The implementation of effective mitigation responses in South Africa offers a number of potential commercial opportunities for professional service providers, and the wider business services industry. Areas of potential service provider involvement include:</p> <ul style="list-style-type: none"> ▪ Assistance in the establishment of greenhouse gas reporting, including monitoring and verification procedures ▪ Assistance in the implementation and monitoring of emission reduction activities, including opportunities for emissions trading ▪ Support in the procurement and facilitation of carbon offsets ▪ The provision of strategic advisory services on climate change, ranging from investment decision making and project screening, through to legal implications and the development of specialised climate change strategies and policies <p>There are also various employment opportunities in the services industry related to support for energy efficiency standards and green buildings in the country, including:</p> <ul style="list-style-type: none"> ▪ Efficiency standard implementation, monitoring and enforcement 	<p>Professional Services</p>

Risks	Opportunities
	<ul style="list-style-type: none"> ▪ Energy auditing, savings and management ▪ Commercial opportunities for professionals service providers including architects, consulting engineers, legal service providers and sustainable building specialists in the rollout of low carbon developments <p>Finally, South Africa is characterised by a considerable level of experience and expertise in climate change science and policy. This is an area that is considered to have strong potential for further advancement in South Africa, including in support of both mitigation and adaptation programmes on the African continent (DST, 2008).</p> <p>Companies in this sector have the potential to enhance reputational gains through the effective management of climate change within their organisation, and to link these efforts to wider Corporate Social Responsibility (CSR) objectives.</p> <p>Commercial opportunities can also be realised through this approach, including through the attraction of environmentally conscious consumers and improved access to capital. Such an approach has been taken by the Nedbank Group, for example, and has resulted in the bank securing loan capital from the International Finance Corporation (IFC) and further agreements with the African Development Bank, based on the company's' climate credentials (Engineering News, 25 September 2009).</p>

Reputational

Summary:	<p>The Financial Services sector is at some risk from the secondary impacts of climate change, including concerns related to reporting requirements, energy efficiency targets and increased electricity prices through carbon pricing. However, the sector is fairly well advanced in climate change issues and has a number of companies voluntarily reporting to the CDP. In addition, improved efficiency measures in the commercial sector, whilst requiring an upfront cost, are likely to yield strong cost savings over the medium-term. A potentially far greater threat relates to climate change risk within company investment portfolios. Effective portfolio and project screening, and the incorporation of climate factors within risk management systems, is required to address major obstacles.</p>
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Significant opportunities are offered in this sector to support the development of an advanced knowledge based economy in South Africa, drawing on the country's well established banking and finance industries. Areas of opportunity include carbon markets and trading, including the expected development of global sector based trading schemes, energy management, climate change science, policy and research, as well as a host of professional services.