

Let them eat cake

Many of you may remember the words attributed to Marie Antoinette the French queen in the 18th century, in response to the starving French peasant majority. Historians have not been able to confirm whether the words were actually spoken by her... But I digress. So to the point, these words have become a symbol which speaks to the complete lack of understanding, empathy and reading of the feeling of the proletariat and poor majority, by the aristocratic powerful and wealthy.

Who's problem is it?

Today in South Africa we are faced with some of the hardest challenges any country could face, unsustainable levels of poverty, unemployment and inequality. The solving of these problems is not only the responsibility of Government – they should though shoulder a larger portion of it and do their jobs. But it is also the role of our powerful South African private sector companies – specifically the financial sector – to actively problem solve these issues, instead of sitting on the sidelines and point out Governments failures, many though they may be. The private sector along side all South Africans, regardless of social standing, should be taking on their share of responsibility in solving these problems... Not to make them worse.

The problem with concentration in financial services

I often opine about the high level of concentration in the asset management industry and that it is a major challenge to Economic Transformation. When looking at the long-term savings and investment industry, the entire pool stands at approximately R10 Trillion, including the Public Investment Corporation (PIC) at R3 Trillion. What is interesting is that the top six largest asset managers make up more than 60% of the pool, surely it is plain for all to see that this level of concentration cannot be sustained if we would like to see more entrepreneurial businesses enter and succeed in this market.

Speaking specifically about the small and medium sized black asset managers in South Africa, their challenge of making inroads into this industry is made that much harder. The mammoth incumbents which have entrenched relationship with asset owners and have massive sales and marketing budgets to sway opinion, are positioned as skyscrapers relative to the small entrepreneurs standing on the street at ground level. The task of building an entrepreneurial business from the ground up faces almost insurmountable hurdles, this exacerbated by the low levels of small business support and little support in the form of industry legislated enterprise and supplier development (ESD) programmes.

Fewer hands controlling capital

Observing some of the bigger consolidation deals in the asset management industry recently, starting with the ABSA Asset Management and Sanlam Investments

Mark's musings



deal which propelled Sanlam Investments into the position of the second largest asset manager in SA. Then even before the dust was settled from that deal, the Sanlam Investments and Ninety One deal which will now create by far the biggest asset manager in the country – almost 20% of the market. More than double the size of the second largest asset manager – staggering.

But at what cost? Have we allowed the situation where these businesses are now too big to fail. Government should be looking at this situation and asking themselves some hard questions about how much more liability they can take on should the worst happen. Some may say that the worst cannot happen considering the world class sophistication of SA's financial system... May I remind you of an institution called Lehman Brothers, a business which we said the same about in 2008 and which ultimately filed for bankruptcy. Effecting the global market in many negative ways and giving support to the too-big-to-fail thinking.

Are members actually benefitting from this

It is well known that retirement savings represent the only saving most South Africa's actually have. When looking at the demographic make-up of the entire R10 Trillion pot of savings and investments, most of the future liability is attributable to black people. So the question is, who is actually benefitting from these consolidation transactions which are concentrating the pool of South African savings into fewer and fewer hands, which as it turns out are not black hands. From what I can see, when it come to time spent on thinking about how to solve the intractable problems which all South Africans are facing, the mammoth incumbent asset allocators are not focussing efforts on these solutions, they it would seem, are thinking about the next big investment into bankable developed business.

Conclusion

Knowing the history we come from, have we lost sight of the South Africans whose savings the financial industry is managing and adopted an approach of profit at any costs – especially for those few in the laager. I often think about the future South Africa my children will inherit and ask, what did I do to try and solve the intractable problems. Did I raise a hand of disagreement when I saw actions which I believed were not solving these problems.