ISSUE NO. 1

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finsoc UKZN Finance Society

UNIVERSITY OF KWAZULU-NATAL INYUVESI YAKWAZULU-NATALI

FINSOC PULSE

FINANCE-MARKETS-BUSINESS ECONOMICS

WHAT'S INSIDE YOUR MAY ISSUE.

Editor's note

To friends and supporters of Finsoc Pulse.

We are thrilled to launch Finsoc Pulse (your go-to quarterly magazine for the latest news, insights, and analysis on finance, business, markets, and economics).

In our May issue, we delve into the latest trends in our defined surface area, including the brewing regional banking crisis in the United States, the transition towards sustainable policy integration by South African retailers, and a deep dive into South Africa's looming energy crisis, amongst others.

We strive to provide you with the most relevant and up-to-date information in the world of finance, business, markets, and economics. We hope you enjoy this issue and find the articles informative and helpful.

Best regards,

Kusa Nkosi
Chief editor at Finsoc Pulse
Vice President of the UKZN Finance Society

Finsoc President's note

Dear members of the UKZN Finance Society,

As the world becomes more interconnected and complex, the role of finance professionals in bridging the gap between academia and commerce becomes increasingly important. The UKZN Finance Society plays a critical role in this process by providing a platform for students to learn, network, and engage with the world of finance and investing.

I am thrilled to see that we have this magazine that will serve to provide vital information that will be readily accessible to you. The articles we publish are informative, insightful, and relevant to the world of finance and the broader corporate world. By staying up-to-date on the latest trends and developments, we can ensure that we are well-equipped to meet the challenges of the future.

I would like to commend the editorial team for their hard work and dedication in bringing this magazine to fruition. Their commitment to excellence and their passion for finance is truly inspiring. As members of the UKZN Finance Society, we are fortunate to have such a talented group of individuals driving the success of our organization.

In conclusion, I encourage all of you, our members, to make the most of the opportunities provided by the UKZN Finance Society. Whether it's attending a networking event, participating in a workshop, or reading the latest edition of our magazine, there is always something new to learn and discover. Let's continue to strive for excellence in all that we do and make a positive impact in the world of finance.

Sincerely,

Ndumiso Mngoma
President of the UKZN Finance Society

SCHRÖDINGER'S VALUE AND UNCERTAINTY IN INFORMAL MARKETS

By Abraham Augustine : Senior Reporter at TechCabal and 2022 EJCP Fellow

Like any other market, informal markets love scale. Unlike formal business or virality of digital reach, scale in informal markets is built on people and small communities that are themselves connected in a random series of hubs and spokes. When you look at this from this perspective, it's easy to see that informal markets are actually very formal, hierarchical and follow defined rules—even if they are mostly unspoken.

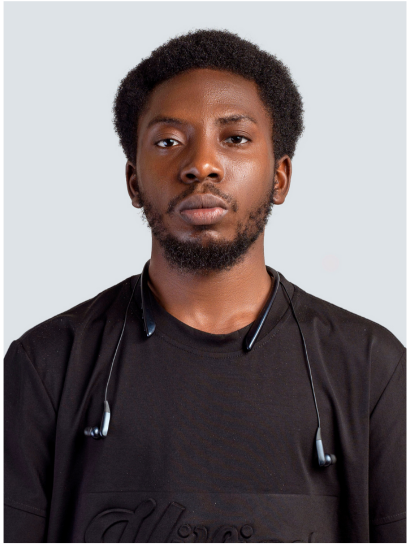
In fact, formal markets usually arise when hardy entrepreneurs recognise and are able to build processes around the organic patterns of distribution and how people consume. It is why "formal" mass producers like Coca-Cola thrive even in the most out-of-the-way places. To put it plainly, "the invisible hand" is very much alive in informal market situations and it is often at odds with pre-planned formal models. Co-evolved formality doesn't always have this problem.

Why is the scale component of the informal market important? For digital products, scale or adoption rate is the market's vote on the value of the utility of your product. In other words, your product is only useful when enough people use it to output and receive value. Every product in an informal market segment needs to be network-effect-first.

The art of communal networks

The Kariakoo neighbourhood is the largest market area in Dar es Salam, Tanzania. Originally planned as a residential area for African workers, Kariakoo has become the home to thousands of shops, street hawkers and vendors. The symbolic and geographic heart of Kariakoo is the main market, a three-storey concrete affair that was constructed during the socialist regime of Julius Nyerere to replace the market hall built by the German colonial government in 1914.

As a nod to the era's socialism in design and operating principles, most shops in the upper section of the market were owned and run by state-owned parastatals and cooperatives. Only the agricultural wholesale market, located on the underground floor of the market, broke with the prevailing statist model.



At this level, agricultural produce traders built their businesses on the Mali Kauli informal credit system. Mali Kauli was essentially a credit relationship that manifested in informal letters of credit based on verbal promises.

It enabled wholesalers to trade relatively large amounts of produce with little cash at hand. The Mali Kauli chain linked farmers, upcountry suppliers, and Kariakoo wholesalers. In some cases, it even extended to urban retailers, and end consumers.

It was simple, suppliers aggregated produce from rural farmlands and supplied them to wholesalers they trusted. When the wholesaler had disposed of the produce, they paid the supplier the earlier agreed-upon price.

'Wholesale traders in Kariakoo by and large operated according to the mali kauli system. Immediate cash transactions were the exception, credit transactions the rule. Mzee Peni, a wholesale rice traders, started to work at the Kariakoo market in the early 1960s. He first traded potatoes, tomatoes, okra, and cassava leaves before he got into the rice trade when the new Kariakoo market building opened in 1975. He either waited at his market stall in the Kariakoo market building for upcountry traders, who handed their rice over to him on mali kauli basis, or he went to one of the rice- producing areas himself and bought rice from farmers and small-scale traders there when there was not enough rice being supplied to Kariakoo.

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In Mzee Peni’s case, he went to Ifakara in Morogoro region, at about 300 miles south-west of Dar es Salaam on a partially non-tarmac road. From there, he transported the rice to Dar es Salaam on one of the Asian-owned buses or lorries and sold it at the Kariakoo market. He bought one kilogram of hulled rice in Ifakara for 300 Shillings and sold it in Kariakoo for 500 Shillings. Transportation costs ate up most of the 200 Shilling difference in price. Furthermore, he had to pay a small government tax at the Kariakoo market. Buying the rice in Ifakara on mali kauli basis, Mzee Peni’s initial costs were negligible. He only had to pay for part of the transportation costs and the tax. Once sold, he paid the rest of the transportation costs as well as the price for the rice in Ifakara. Mzee Peni boasted: “I could go to Ifakara even without any money at all, with nothing but my pants and my shirt and I could still do business. '
— Brühwiler (2014).

My mother sold foodstuffs near the butcher section in the Mile 3 market in Port Harcourt, Nigeria. She was one of the largest snail traders in the market and supplied a few hotels in the city. Twice or thrice every week (depending on how well we traded), she traveled to the “bush markets” in Abua near Bayelsa to buy bags of snails. I distinctly remember her talking about the supplier “customers” she needed to repay on her next trip. Throughout my stay in the market, I saw this replayed.

It is a familiar part of doing business in informal markets. Whether it is called mali kauli or not, the point is that informal markets have well-developed social rails on which they run. In the case of mali kauli the social rail on which it ran was trustworthiness or uaminifu. Uaminifu was something that could be cultivated, built and invested upon. It was not just a perception. In its purest form, uaminifu was the informal market’s intangible replica of what you would call creditworthiness. Those shared social rails exist in different forms throughout informal market verticals and no digital product or formalised system can succeed without understanding these different manifestations. They are the key to scale.

You really need to know how these people work, from the bottom, their culture,” Salie Mlay, the NMB branch manager in Kariakoo, told researcher Benjamin Brühwiler in 2014.

Mlay helped convince traders at the Kariakoo main market to switch to formal loans in the early 2000s. Similarly, B2B payment firms for example can seek to understand push payments in informal markets, so that they don’t have to fight over the few big and formal SMEs, opening them to innovating for larger markets. Schrödinger's art of communal networks is the challenge that faces digital product complements or substitutes in informal markets.

If it does not enhance the network value and resilience, it will not gain scale, and if it does not gain scale, it is neither useful nor can enhance network value. Communication products like WhatsApp or even SMS are good examples of products that does this effortlessly.

It’s a pointer to the value of timely information in informal markets. Even so, there is much more than communication involved in the chain that moves products around in informal markets before reaching the final consumer.
It goes unsaid, but firms seeking to digitise x in Africa will have to come to terms with the fact that they have to create—not carve out—their own market.

Caveat: Informal markets, like all markets, are often subject to external interventions that may distort the market. From touts who police market participants, to landlords who extract rent without creating additional value inputs, informal markets are shaped by what goes unsaid. It is the nature of operating in poorly governed spaces.
The silver lining here is that some of these externally imposed pain points are the fissures that present complementing opportunities for digital products. Seeking protection from these fissures is also partly why some informal markets operate the way they do.

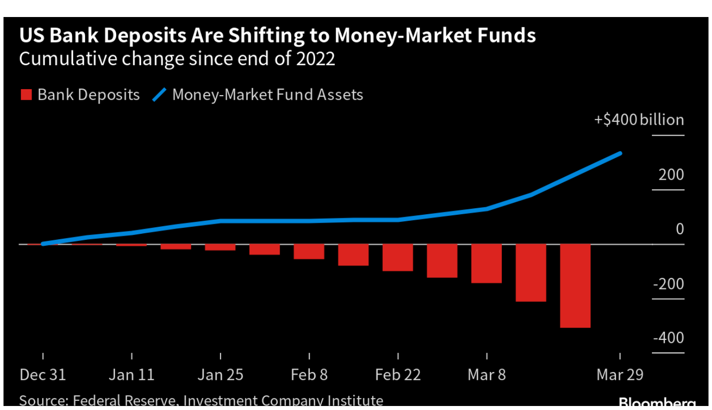
THE UNRAVELLING OF FIRST REPUBLIC BANK: A CAUTIONARY TALE FOR SMALL US BANKS.

By Kusa Nkosi : Post Graduate Diploma in Finance Banking and Investment Management student at UKZN

When reserve banks started raising interest rates and taking on quantitative tightening to fight inflation, it was widely accepted that soon, something within the system would start breaking. Whilst there was broad consensus on the direction that risk was headed, little was evident on the speed and length towards that direction. A few rate hikes down the line and another US bank is fighting for survival. First Republic Bank's (FRB) market value is down 98% in four months. What on earth happened?!

The underlying risk FRB faced.

When rates rose, they sparked credit, interest rate and deposit risk for banks. The risk that debtors would default on debt, that the market value of fixed rate loans portfolios would collapse (being highly elevated for FRB considering that the key business model for the bank has focused on attracting high net worth individuals' deposits using extremely low fixed rate mortgage bonds and business loans), and that money market funds that tracked short term treasury bills would offer higher yields than savings and interest yielding checking accounts, leading to depositors withdrawing their deposits from banks to high yielding money market funds.



The events as the demise was triggered.
The first market value wipe out for FRB was in tandem with and largely triggered by the Silicon Valley Bank (SVB hereon) debacle, triggered by impaired customer and investor confidence, highly due to outsized losses on the bank's fixed income portfolio and a capital raise via common share issue that left investors doubtful of the bank's liquidity.

Consequently, FRB's share price fell 73% between the period 8 to 13 March 2023 (more than other small sized banks that saw a fall too) in similar fashion to SVB. At that point, concerns around FRB were speculative, but proved to be well found when the bank released its 2023 Q1 earnings report early this week (24 April 2023). A few highlights from the report:

<u>Financial Results</u>

- Year-over-year:
  - Revenues were $1.2 billion, down 13.4%.
  - Net interest income was $923 million, down 19.4%. (1)
  - Net income was $269 million, down 32.9%.
  - Diluted earnings per share of $1.23, down 38.5%.
  - Book value per share was $76.97, up 10.4%.
- Net interest margin was 1.77%, compared to 2.45% for the prior quarter. (1)
- Efficiency ratio was 70.4%, compared to 63.9% for the prior quarter.

<u>Balance Sheet</u>

- Year-over-year:
  - Loans totaled $173.3 billion, up 22.6%.
  - Deposits were $104.5 billion, down 35.5%. (2)
  - Borrowings were $106.7 billion, up $101.2 billion.

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The bank's deposits are down from $176.4 billion (2022 yearend) to $104.5 billion (end of Q1 2023). Excluding the $30 billion uninsured rescue deposit received from various American banks as reported on 16 March, the bank's net deposit outflow is $101.9 billion.
An analysis reported by Reuters showed that FRB had suffered the biggest percentage withdrawals in the entire financial services (banking) industry and small sized banks category in the US. At 35. 5% (including the $30 billion deposit injection) and 58% excluding.

Final words.
The risk for small sized (regional) US banks remains high as depositors continue to seek safer and higher yielding investment options, the winners; money market funds and "too big to fail" banks. Things are starting to break.

First Republic Bank (FRC.N)	**Reported deposit outflows of more than $100 billion, excluding $30**
PacWest Bancorp (PACW.O)	Deposits fell nearly 17% to $28.19 billion
Charles Schwab Corp (SCHW.N)	Deposits shrank 11% to $325.7 billion
M&T Bank Corp (MTB.N)	Total deposits fell nearly 3% to $159.1 billion
State Street Corp (STT.N)	Deposits at State Street fell 3% to $210 billion
Bank of New York Mellon Corp (BK.N)	Average deposits fell 3% to $274 billion
Citizens Financial Group Inc (CFG.N)	Average deposits fell 2.6% to $174.4 billion
Western Alliance Bancorp (WAL.N)	Total deposits fell 11.3% to $47.6 billion
PNC Financial Services Group Inc (PNC.N)	Total deposits rose marginally to $436.8 billion
First Horizon Corp (FHN.N)	Total deposits declined 3% to $61.4 billion
U.S. Bancorp (USB.N)	Average total deposits increased 5.9% to $510.32 billion
Zions Bancorporation (ZION.O)	Total deposits declined 3% to $69.2 billion
Fifth Third Bancorp (FITB.O)	Total average deposits were down marginally at $160.65 billion
Comerica Inc (CMA.N)	Average deposits fell about 5% to $67.8 billion
Truist Financial Corp (TFC.N)	Average deposits dropped 1.2% $408.5 billion
KeyCorp (KEY.N)	Average deposits fell about 1.6% to $143.4 billion

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HOW SOUTH AFRICAN RETAILERS ARE INTEGRATING SUSTAINABILITY POLICIES INTO THEIR DAY-TO-DAY OPERATIONS.

BY LONWABO MANQANA: NATIONAL ENVIRONMENTAL DATA CONTROLLER (ESG), THE SPAR GROUP LTD

Sustainability/ESG has become quite a popular term in the past 5 to 10 years in the corporate space as well as retail business. This is attributed to investors and consumers demanding full transparency and accountability across the entire supply chain, from farm to folk. ESG provides many opportunities in the retail space, it also works as a useful risk assessment and mitigation tool. This enables businesses to be proactive with environmental, socioeconomic, and governance risks.

South African retailers have jumped on the sustainability wagon, focusing mainly on risk and compliance. Lately, however, sustainability is being embedded into the company's strategy with specific KPA's being formulated. This tells us that sustainability/ESG is no longer a tick box exercise but an intentional and purpose driven exercise to know and understand the kind of impact the retail space has on the environment and the social wellbeing of their consumers.

Leading retailers in the country have set targets and commitments relating to sustainability. E.g.:

- Woolworths has a net zero carbon commitment by 2040, all their energy sourced from renewable sources by 2030, fully transparent & traceable supply chain by 2025 and all private label products designed to be reused, repaired, or recycled by 2025.
- SPAR has a net zero by 2050, committed to reduce food waste by 50% in 2030, 100% of plastic packaging to be reusable, recyclable, or compostable by 2025. Since 2017 SPAR has increased renewable anergy by 404% across all the distribution centres and had a 34.7% reduction on grid electricity usage. SPAR further reports on CDP climate change, water, and Forestry.
- Shoprite reports on CDP, has set a 1.5° C on their Science base targets (SBTi), and further committed to reduce scope 1 & 2 emission by 42% by 2030 and scope 3 by 25%, and have a Net-zero by 2050 commitment.

These retailors also have an obligation to the environment and communities they're situated in. Almost all South African major retailers have their policies and commitment publicly available on their websites and are involved in many socio-economic development programmes as part of their ESG strategies. E.g., SPAR has the Rural hubs, the supplier development programme, and the gender-based initiative. Woolworths is engaged in the Farming for the future programme and Fishing for the Future to name a few, of which all play a huge part in developing local economies.

The important part is that all these initiatives done by these retailers are bound to each of their strategies and aligned with the Sustainable Development Goals (SDGs).

Even though I think there's still more to be done, what these retailers have achieved in a developing country such as South Africa and amid inflation is astounding, and have done well to integrate sustainability into the core of their businesses.
Above are just some examples of what is happening in the retail space.

The question however remains: How is ESG/Sustainability beneficial to the SA retail sector?

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Sustainability needs a collaborative effort to be achieved.Hence retailors play a vital role in getting the message across as well as taking accountability for contributions they may have on the environment and the communities they are in.

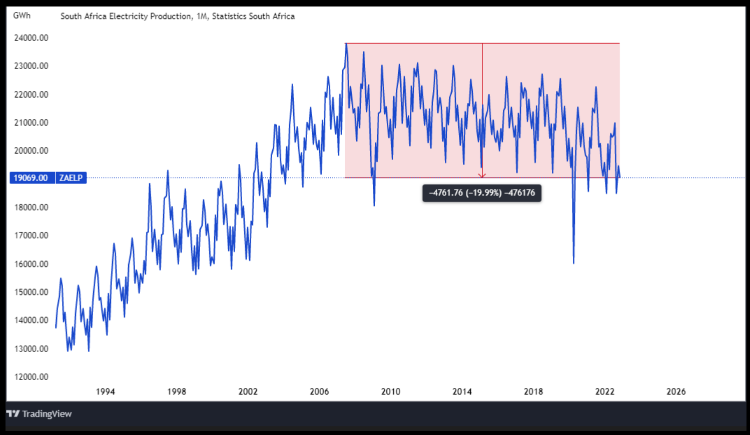
Retail is most vulnerable to climate change and global warming because these have a direct impact on the physical and economic risk through the value chain from farm/manufacturing to shelf. Hence, staying up to date and moving compliantly minimises these risks and gives room for proactive risk management.

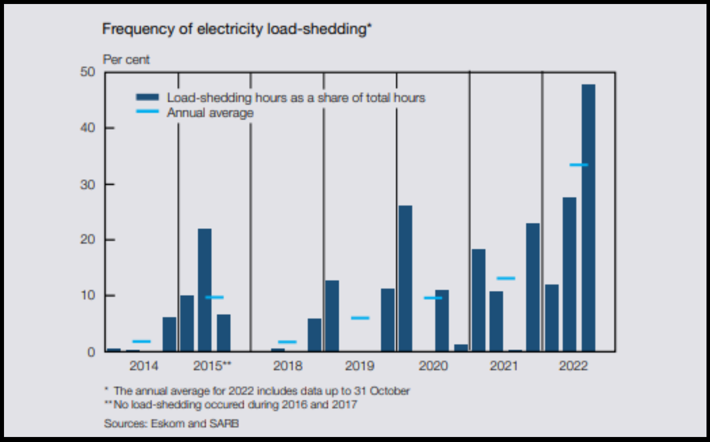
ESG in business is beneficial as it ought to provide thought leadership to the entire business, hence why it is important for any business to make ESG the centre of their business strategy. This enables simple risk assessment and mitigation strategies for the business. But the most important part is doing the right thing for the environment/ planet we live in and sustaining it for the future generations to come. While ESG can be a great marketing tool it can be abused which tends to encompass green washing and that greatly denounces the pro/initial objective of the entire course, but that’s a topic for another day.

South Africa’s Energy Crisis in Perspective.

By Kusa Nkosi

It is widely accepted that energy remains one of south Africa’s greatest socio-economic bottlenecks. As per the South African Reserve Bank (SARB), electricity load-shedding has increased from 9.7% of the time (an averaged of 3 calendar days per month) in 2015, to 33.4% of the time (an average of 10.4 calendar days per month) in 2022. At peak in the 3rd quarter of 2022, power outages were at 47.7% of the time (an average of 14.8 calendar days per month).

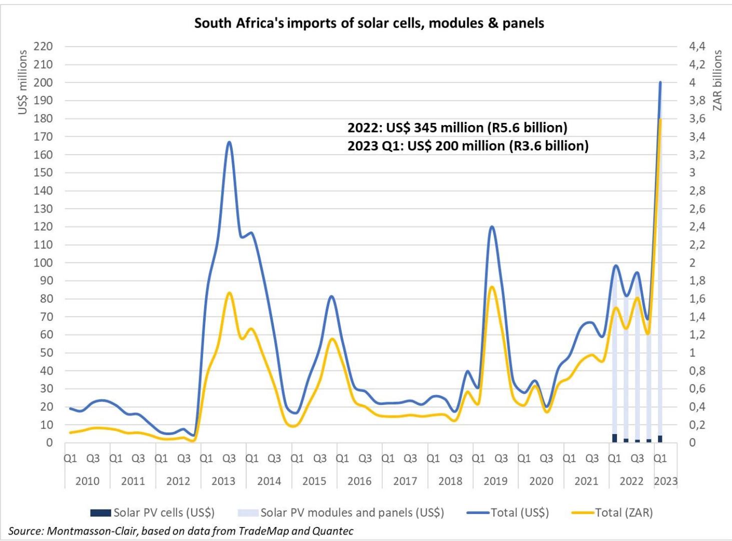




With The world economic forum’s 2023 global risk report identifying the “collapse of services and public infrastructure” as the second risk along with debt, after state collapse for SA, the risk for economic downturn remains highly elevated. The same old “pessimistic in the short run, but optimistic long after” is the default sentiment, but it soon begs the counter argument highlighting the prolonged patience the country has had on debilitating public infrastructure.

It is least surprising that electricity generation has decreased by 20% (as of now) since 2007 to date.

THE NEWS

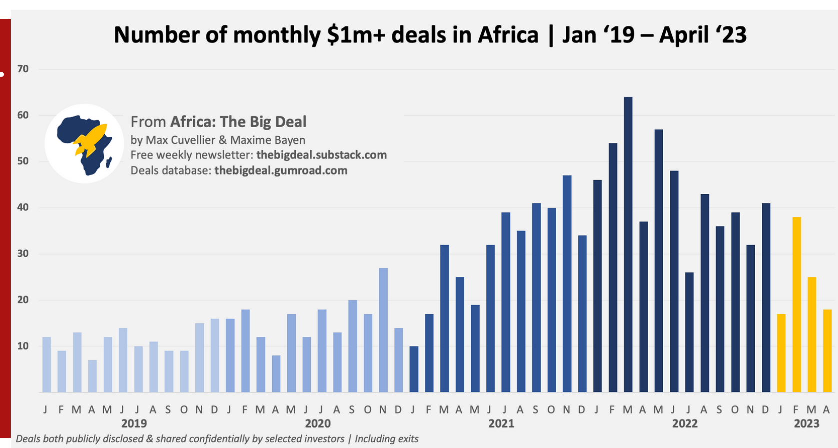


Q1 SOLAR IMPORT BOOM IN SOUTH AFRICA.

South Africa's imports of solarpanels has reached $200 million in Q1, an all-time high, 3 times the previous quarter.The market for solar panels is heating up, both in the public and private sector.This comes after finance minister, Enoch Godongwana tabled demand stimulating tax rebates for corporates and households during his ferbuary budget speech. Delibetating power supply and the move to ESG investing have also incentivised locals to seek renewable energy alternatives.
Data source: Gaylor montmasson clair

APRIL STARTUP FUNDING IN AFRICA.

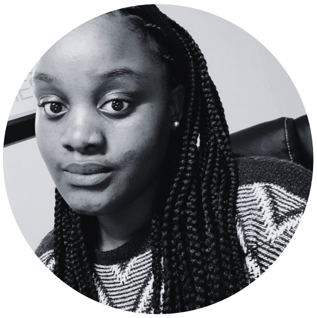
April numbers continue to validate a downtrend in the number of deals in Africa (venture capital flowing to startups/ capital raised by startups). With less than 20 deals above valuation of $1 million. In total $130 million was raised on the continent in April, 3.5 times less than April 2022, and less than in April 2021. Private in markets Africa are starting to price in high interest and inflation rates induced negative economic growth and recession expectations.
Data source: Africa - The Big Deal



DIGITIZATION OF FINANCE A BANK RUN RISK FOR BANKS.

"Due to the digitalization of finance, the speed at which bank runs can happen today is incredible. As Goldman notes, in 2008 in took 9 days for Washington Mutual to lose $18 bn in deposits. In 2023, it took 4 hours (!) for SVB to lose $42 bn of deposits!" - *Alfonso Peccatiello*

CAREER BOX: IS FINANCIAL PLANNING FOR YOU? A DEEP DIVE INTO A CAREER IN FINANCIAL PLANNING!



By Nqobile Ngobese: Financial planner at Lonfin Wealth, a franchise of Sanlam Life Insurance Limited

The purpose of this article is to give you an understanding of what financial planning is, what a career as a financial planner entails, and the unique combination of skills and qualities that make a successful financial planner.
As a finance student you must have heard about financial planning is a possible career path, but what is financial planning anyways? Where does a financial planner usually work? And what does a typical work week of a financial planner look like?

What is financial planning?

Considering how the terms financial planner and financial advisor are used interchangeably in South Africa, there is a growing misconception amongst students on the scope of work of a financial planner. While both professionals are involved in assisting clients in achieving their financial goals, the scope of the two roles differs slightly as financial planning is a subset of financial advisory, focusing on creating strategies to meet. Other subsets of financial advisory include insurance agents, brokers, and bankers.

Financial planners create strategies to meet clients' short- and long-term financial by considering all aspects of their client's financial state. This means looking at all the client's income, assets, liabilities, taxes, investments, retirement planning, estate planning, and risk management and optimizing all that information to create a comprehensive plan for the client.

Qualities that make a successful financial planner

Considering that people are usually emotional about their finances, they will be reluctant to let anyone they don't feel comfortable around or confident in analyze their finances, hence a financial planner needs to be passionate about working with people, and good at forming and maintaining healthy relationships.

A financial planner needs to be a good listener, to have a good understanding of his/her client personally and their financial background, lest the possibility that the planner comes up with a plan that is not suitable for that particular client is high.

Planners understand that all clients aren't the same and as such they never try to come up with a "one size fits all" type of solution but ensure that they give their undivided attention to all their clients or potential clients and treat each case as separate from the last. A planner will further care to manage his or her clients' emotions when the threat of making irrational financial decisions looms.

Where do financial planners work?

Financial planners are usually employed by major financial services companies; these include companies that are traditionally known to banks (African Bank, ABSA, FNB, etc.) and companies traditionally known to be insurance companies (Old Mutual, Liberty Group, Sanlam, etc.).

As representatives of these companies, financial planners will usually incorporate in their financial plans for their clients any of the financial products offered by the respective representative companies that are suitable for the client thus also making sales for the companies they are representatives of.

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It is important to note that sales are an important aspect of a financial planner's work as in some institutions, financial planners are only paid on commission, a commission from the financial product sales they make hence more sales more money earned. Some companies, however, do offer their

financial planners a basic salary and allow them to earn commission as well, while other companies will only offer their financial planners a basic salary without commission on sales made. The work of a financial planner is a financially rewarding one regardless of basic income structure because of the many monetary incentives companies offer to their financial planners for meeting weekly or monthly targets.

There is (ordinarily) no limit to how high a financial planner can earn each month, hence as a planner, one must have an entrepreneurial spirit because a huge part of one’s work is also making sales for the representative company.

A financial planner is a professional like any other, as such it is expected that they meet certain educational milestones by completing industry-specific qualifications and working under the supervision of qualified seniors for a certain period. This is to ensure that they are competent in their work and that any advice they give to clients, any plans they help create for clients, and any financial products they sell to clients are all done with the utmost care, and professionalism and do not mislead clients in any way.

Why financial planning?

One of the reasons postgraduate students and young mothers and regular 9-5 jobs do not offer that. The work of a financial planner, although challenging, is also flexible, one is not bound to being in an office for 8-9 hours a day, 5 days a week. I plan my work schedule when I go to the office, and it is very seldom that I go. I plan when I meet with my clients or potential clients, and I can meet with my seniors and colleagues anywhere.

I hope I have given you a much clearer picture of what being a financial planner entails and if you feel that you have an interest in this career and believe that you have what it takes to be successful, do not waste any more time and get applying. The best place to find posts for LinkedIn. Companies are always looking to recruit new and young people to groom and grow into great finance professionals. Happy applying and good luck.

Tshepo's Nugget: Banking liquidity Crunch is Baking in Economic Downfall Concerns in the US.

By Tshepo Kgaphola.

Third year finance student at Wits University.

Liquidity concerns have become a growing issue for many banks, particularly smaller ones, in the United States. As the Federal Reserve is expected to raise interest rates further, consumer borrowing and spending will slow down, threatening businesses’ profitability. This, in turn, can lead to businesses and households facing the risk of mortgage defaults, which eventually affects the banks.

The liquidity concerns facing US banks are significant, and the potential fallout from the collapse of several smaller banks would have far-reaching consequences on the US economy.

In contrast, the South African banking sector appears to be in a safer position due to the conservatism behind our strong financial services regulation. It will be interesting to keep an eye on this space for future developments.

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