



Financial Sector
Conduct Authority

MARKET CONDUCT PRESENTATION

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Supervision

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Agenda

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2. FSCA Mandate and Regulated Entities
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7. What does Market Conduct mean to customers
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Background: Twin Peaks Reform

- ❖ The Twin Peak reform process was initiated by the National Treasury post the 2008 global financial crisis.
 - ❖ The Financial Sector Regulation Act 9 of 2017 (“FSR Act”) established and gave effect to two new regulatory authorities being Prudential Authority (PA) replacing the Bank Supervision Department and the Financial Sector Authority (FSCA), replacing the Financial Services Board
 - ❖ With the promulgation of the FSR Act in April 2018, the FSCA assumed its mandate as Market Conduct regulator
 - ❖ The FSR Act provides FSCA with powers that can be used in conjunction with the existing sector specific legislation, giving the FSCA necessary tool to effectively regulate and supervise financial institutions and take necessary enforcement actions.
 - ❖ The shift to market conduct regulation brings about significant regulatory change to both the regulator and the financial institutions – a change in what financial institutions need to do in response to regulatory compliance requirements
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FSCA Mandate and Regulated Entities

- ✓ The FSCA's Mandate is to enhance the efficiency and integrity of the financial markets, promote fair treatment of customers by financial institutions, provide financial education and promote literacy, and assist in maintaining financial stability.
- ✓ The FSR act extends the jurisdiction of the FSCA to include oversight of financial products services which includes, amongst others, banking, services related to credit and buying and selling of foreign exchange.
- ✓ FSCA regulates and supervise the following entities:
 - Insurance / Micro insurer
 - Credit Rating Agencies
 - Collective Investment Schemes/Hedge Funds
 - Friendly Societies
 - Banks
 - Payment Providers
 - Financial Advisory and Intermediary Services
 - Capital Markets
 - Retirement Funds

The Evolving Approach

Forward looking

Pre-emptive and proactive

Outcomes focused

Risk based and proportionate

Comprehensive and consistent

Intensive and intrusive

- FSCA / firms to identify future conduct risks
- Market and consumer research
- Not just responding to complaints
- On-site visits, thematic reviews, off-site reporting, mystery shopping
- Addressing risks at source (culture, governance, structural interventions)
- Firms to demonstrate delivery of TCF outcomes
- On-site / off-site testing of TCF commitment
- Testing TCF in complaints handling
- Tiered regulatory framework based on risks to customer outcomes
- Expanding scope of conduct supervision
- Cross-cutting activity-based focus areas
- Consolidated legislative framework
- Build up a centralised “conduct profile” of entities & groups
- Visible enforcement

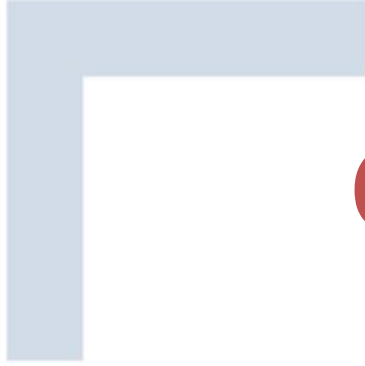


Conduct Risk throughout stages of product development

- ✓ **Business Model**
 - ✓ business strategy and its execution
 - ✓ value chain of the business, its purpose, goals and plans for achieving them
 - ✓ determines the core products and services, business processes and policies

 - ✓ **Business Management**
 - ✓ Culture -
 - ✓ Governance and internal structure
 - ✓ Systems and process

 - ✓ **Manufacturing risks**
 - ✓ product development and design
 - ✓ value for money and pricing
 - ✓ market targeting
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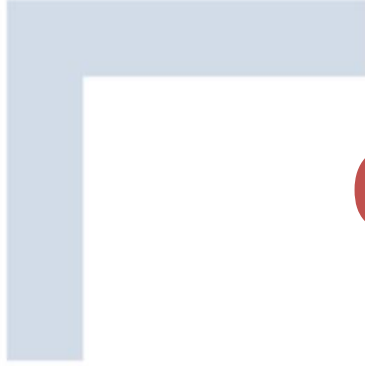


Conduct Risk throughout stages of product development

- ✓ **Delivery risks**
 - ✓ marketing
 - ✓ distribution
 - ✓ sales

- ✓ **Product management risks**
 - ✓ product monitoring and review
 - ✓ ongoing product disclosure
 - ✓ complaints handling





Conduct Standards for Banks

- ✓ Recently published Conduct Standard for Banks
 - ✓ New regulation that requires all banking institutions to comply with the promotion of the fair treatment of customers. The Standard will assist the FSCA monitor the conduct of banks by ensuring that their customers are central to the development of products and through the provision of their services. This will be demonstrated through their customer-centric culture, strategy and governance processes
 - ✓ Through the introduction of the Banking Conduct Standard, the FSCA wants to improve outcomes for customers, where Banks should provide; better disclosure, and that product offerings must be designed and targeted to appropriate customer group/s.
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What does Market Conduct Regulation mean for Regulated Entities?

- ✓ Market conduct regulation is concerned with how the individual firm behaves with customers, other firms; i.e. how it conducts itself in the market.
- ✓ For regulated entities market conduct means:
 - ✓ A clear tone from the top to foster, instill a market conduct culture and drive ethical behavior, governance within the entity
 - ✓ Ensuring that fair treatment of customers is at the core and key driver of strategic objectives
 - ✓ Appropriate disclosure, suitability of products, informed customers through entire customer value chain
 - ✓ Failure by regulated entities to adhere to market conduct regulations and principles may lead to dire consequences, e.g. Administrative penalties , etc.



What does Market Conduct Regulation mean for financial customers?

- ✓ Financial customer have a voice and can challenge unfair treatment by regulated entities.
- ✓ Products and services marketed and sold are designed to meet the needs of identified customer groups , targeted as such
- ✓ Financial customers will be given appropriate information about a financial product or financial service at the point of sale to help guide the customer's decision-making in relation to entering into, using, or maintaining the product or service in plain simple language.
- ✓ Financial customers will be able to raise their concerns when faced with unreasonable post-sale barriers imposed by Banks to change products, switch providers, submit a claim or make a complaint
- ✓ Financial customers will be able to keep regulated entities accountable that their products perform as promised and be confident that they are dealing with an entity, where the fair treatment of its customers is central to its culture

Conclusion

- Now the focus needs to be on the implementation, supervision and enforcement.
- The first responsibility for achieving positive consumer outcomes lies with the financial industries. We expect them to apply the highest standards of conduct and culture.
- We need to ensure stronger conduct of business supervision:
 - ✓ Supervision that goes beyond checking compliance with point of sale disclosures;
 - ✓ Supervision that reinforces market monitoring, product assessment, and if needed uses product intervention powers;
 - ✓ Supervision that is attentive to business models and the way that they potentially deliver consumer detriment;
 - ✓ Supervision that implements a sound conduct risks assessment, uses sound retail risks indicators to define priorities, but also supervision that communicates clearly to the industry and consumers, in a language that can be well perceived and understood.

THANK YOU