

Role of Compliance in the Embedment of the Market Conduct Regulation

Absa Group Limited – FSCA Presentation

27 February 2023





LAYOUT OF THE PRESENTATION

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FSCA LEADERSHIP TEAM

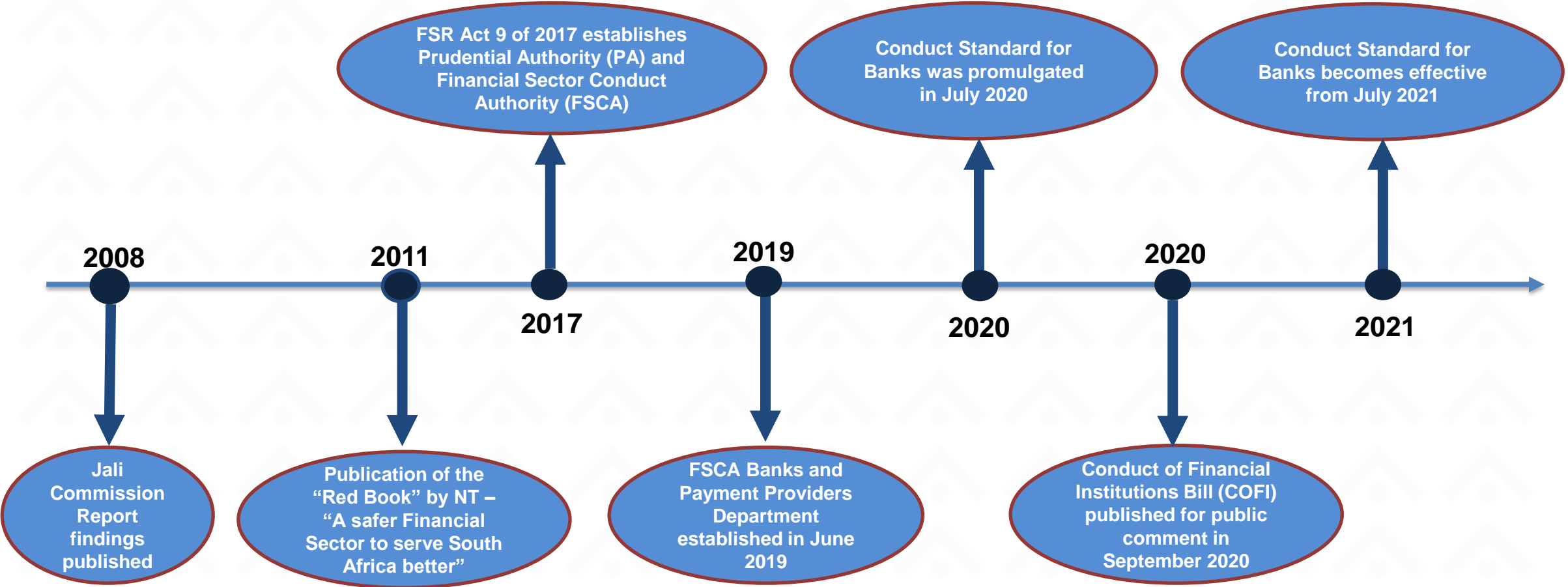




FSCA MANDATE

- Enhance the efficiency and integrity of financial markets
- Promote fair customer treatment by financial institutions
- Provide financial education
- Promote financial literacy
- Assist in maintaining financial stability

OUR JOURNEY



FSCA REGULATORY STRATEGY 2021-2025



Strategic Objective	Intended Outcomes
1. Improve industry practices to achieve fair outcomes for financial customers	<ul style="list-style-type: none"> • Good conduct and Treating Customers Fairly (TCF) principles embedded consistently across the financial sector • Conduct risks mitigated
2. Act against misconduct to support confidence and integrity in the financial sector	<ul style="list-style-type: none"> • Trust in the financial sector maintained
3. Promote the development of an innovative, inclusive, and sustainable financial system	<ul style="list-style-type: none"> • Transformation in the financial sector supported • Financial inclusion of low-income households and small businesses deepened • Greater competition and contestability in the financial system enabled • Sustainable finance and investment in the financial sector fostered
4. Empower households and small businesses to be financially resilient	<ul style="list-style-type: none"> • Financial customers able to make better and more informed financial decisions
5. Accelerate the transformation of the FSCA into a socially responsible, efficient, and responsive organization	<ul style="list-style-type: none"> • Operational excellence embedded across all functions of the FSCA • FSCA is recognised and trusted by financial institutions, financial customers, financial sector ombuds and other financial sector regulators in South Africa and internationally

GUIDING PRINCIPLES FOR OUR SUPERVISORY APPROACH

Pre-emptive and proactive	Pre-empt unfair customer outcomes by looking at governance, processes, procedures and trend analysis
Intensive and Intrusive	Gain a deeper understanding of the financial institution's strategic drivers and culture and apply a judgment-based style of supervision; incl. challenging strategic decisions and business practices of institutions under our supervision
Risk based and proportional	Approach and prioritize supervision by assessing conduct risks based on governance and culture, business models and distribution channels
Transparent and Consultative	The FSR Act requires us to be consultative and transparent in our regulatory and supervisory framework. Such includes giving the general public an opportunity to comment on our proposed regulatory instruments
Outcomes-based	Our intention is to monitor the extent to which financial institutions are delivering fair outcomes for financial customers

GUIDING PRINCIPLES FOR OUR SUPERVISORY APPROACH CONT.....

Comprehensive and Consistent

Ensure that our regulatory framework is comprehensive enough to capture all activities that impact on the integrity of our financial markets; fair outcomes for financial customers framework must not allow arbitrage between different sets of requirements

Credible deterrent

Enforcement action must discourage financial institutions or regulated persons from non-compliance, and more generally discourage conduct that leads to poor customer and market outcomes

Aligned with applicable international standards

Participate in the international regulatory community; keep track of relevant international standards and developments; adopt principles and methodologies according to international benchmarks i.r.t to financial institutions and persons supervised by the FSCA; inform its regulatory, supervisory and enforcement approaches

BANKS – REGULATORY EXPECTATIONS

Culture and Governance

✓ Act honestly, fairly, with due skill, care and diligence, and in a manner which does not bring the financial sector into disrepute.

Design, Suitability and Performance requirements for Financial Products and Services

✓ Monitor and review the design and suitability of its financial products and financial services on an ongoing basis

Advertising

✓ Clear, fair and not misleading

Disclosures

✓ A balanced presentation of benefits and risks. Appropriate and takes into account the nature and complexity of the products/services



BANKS – REGULATORY EXPECTATIONS

CONT...



Complaints

- ✓ Establish, maintain and operate an adequate and effective complaints management framework

Refusal, Withdrawal or Closure of Financial Products or Services

- ✓ A bank may not take any of these actions without providing reasonable prior notice to the financial customer

Termination, Closure or Switching of Financial Products or Services

- ✓ No unreasonable barriers where a financial customer requests the termination, closure or transfer to another bank, of a financial product or service

ROLE OF COMPLIANCE IN MARKET CONDUCT

- ✓ “Judgment-based” approach to conduct risk management
- ✓ Look beyond strict compliance with the letter of the law
- ✓ Ask questions relating to the “rightness” of a particular course of action or decision – even if not explicitly prohibited in regulation
- ✓ Focus on outcomes of actions and decisions by business
- ✓ Help to create an audit trail of decision making by senior management – rationale for decision making linked to fair customer outcomes
- ✓ Advise business on how to align strategic business decisions with supervisory expectations relating to fair customer outcomes (e.g., impact of business model changes, acquisition of distribution channels, geographic expansion/reduction initiatives)
- ✓ Provide assurance on adequacy of conduct reporting submitted to the Regulator
- ✓ Assess whether internal compliance reporting supports these expectations



MEASURES OF SUCCESS

Combined/Integrated Assurance Activities

- ✓ Active participation on joint risk and strategic forums
- ✓ Regular engagement with other assurance functions and business strategists
- ✓ Co-ordination of assurance, risk identification and business planning activities

Conduct Risk Framework Development and Continuous Monitoring

- ✓ Input into development/enhancement of risk indicators unique to business and operating model
- ✓ Challenge management assumptions, risk indicators and risk profile
- ✓ Validate identified conduct risk indicators
- ✓ Make your questions relevant and agile – not checklist based

Conduct Risk Reporting

- ✓ Assess quality and appropriateness of data used by business
- ✓ Interrogate management information submitted by business
- ✓ Provide assurance on maturity of conduct risk environment to Board



MEASURES OF SUCCESS CONT...

Culture Audits

- ✓ Focus on “how” business does things, rather than “what” business does
- ✓ What factors are considered in “fair customer outcomes” decision making?
- ✓ Find evidence of continuous improvement across customer experience value chain (e.g. link between complaints data and product improvements)

Risk Based Coverage Plan

- ✓ Identify and prioritize based on risks inherent in business and operating model
- ✓ Greater focus on thematic reviews (outcomes) rather than legislation focus (e.g. POPIA)

Strategy Development

- ✓ Regulatory horizon scanning – use as a basis to provide input into strategic decision making and business planning
- ✓ Understand and guide on the interplay between prudential and conduct issues



KEY SUPERVISORY FOCUS AREAS 2023/2024

- ✓ Alliance partnership and 3rd party suppliers
- ✓ Transformation in the Banking Sector
- ✓ Disclosure of terms and conditions to customers
- ✓ Fraud and Mule Accounts in collaboration with SABRIC
- ✓ Roll-out of the Omni CBR
- ✓ Culture and Governance
- ✓ Cyber Security and Operational Resilience



Thank you!

