



MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

**ADDRESS TO STAFF AT LAUNCH OF THE FINANCIAL SECTOR CONDUCT
AUTHORITY**

**Financial Sector Conduct Authority
(previously FSB)**

**NHLANHLA NENE
Minister of Finance**

Good morning all.

It gives me great pleasure to address you all for the first time as staff of the brand new Financial Sector Conduct Authority (FSCA)! It has been a long journey since the Cabinet decision in 2011 to shift to a Twin Peaks regulatory system, based on the establishment of a market conduct regulator, now called the FSCA, and a prudential regulator called the Prudential Authority within the SA Reserve Bank. Congratulations on being part of this milestone.

As you are all aware, the Twin Peaks reform journey represents the biggest change in our financial sector regulatory landscape since democracy. The decision to make this major shift was informed by the need to ensure that

our world-class financial sector remains relevant to the needs of its people, and produces the best possible outcomes. It represents a paradigm shift that recognizes that we must go beyond prudential supervision to make the financial sector safer, and also deal with the real concerns of customers, recognizing that the financial sector did not always treat them fairly and operated opaquely.

We are all too familiar with the persistent poor customer outcomes witnessed in the financial sector. Complex and opaque financial products, which are hard to understand and compare. High fees and charges that eat away at investment growth. Frustrations with fraudulent debit orders, which eat away at bank account balances. Products and services that are inappropriate or mismatched to the needs of customers and provide no real benefits. And unfortunately, cases of outright fraud where the savings and benefits meant for customers are instead siphoned off by unscrupulous individuals, entrusted with protecting their financial interests. We have seen these practices in the many bank failures we experienced after democracy in 1994, like Regal Bank, Saambou, BoE, and also in non-banking crises like the 2006 bulking profits scandal and the 2007 exposure of how Fidentia stole the funds of widows and orphans.

In an era of light touch regulation, the report of the 2008 Jali banking enquiry, established by the Competition Commission, proved to be a path-breaking report focusing on customer outcomes and improving the way financial institutions conduct their business, given the asymmetric power they wield and oligopolistic nature of the South African financial sector. This history is particularly relevant for the establishment of a new market conduct regulator.

Our financial sector is well-capitalised and stable. It weathered the 2008 global financial crisis well, and has managed the closing down of many banks and other institutions in an orderly fashion. But it is well-recognised that it can be doing much more to serve South Africans better.

The Financial Services Board was established largely as a non-banking prudential regulator, but then expanded its regulatory framework to include issues of customer protection. It did not wait for the 2011 Twin Peaks reform process to be completed, but had already begun to address identified poor outcomes. The Treating Customers Fairly (TCF) initiative, launched via a roadmap in 2011, started the conversation about fair customer treatment in the financial sector. Financial institutions have begun considering how better to ensure that they are relevant and responsive to the needs of the customers on whom they depend for business.

The creation of the FSCA aims to give you a strong clear mandate and a range of tools to entrench better market conduct in South Africa. This new authority has a wide scope of jurisdiction, strong regulatory and supervisory tools, and the ability to take swift enforcement action. It will continue to drive key projects underway. One such project is the Retail Distribution Review, aimed at ensuring that financial products are distributed in ways that support delivery of TCF outcomes, and ensuring sustainable business models for financial advice. Another seeks to address unclaimed benefits in a consistent and effective manner. While currently focused on the pensions industry, efforts to ensure the proper treatment of unclaimed monies should be consistently applied across the financial sector. **The FSCA will now also regulate the conduct of retail banks and payment services.** The National

Treasury has commissioned a diagnostic study into the retail banking sector, to be released shortly. The recommendations from this report will assist in developing a comprehensive strategy for regulating retail banks and addressing identified poor customer outcomes. These projects together illustrate the penetrating reach – and potential impact - of the new agency, and will be embedded under a more streamlined and harmonized market conduct legislative environment with the development of the Conduct of Financial Institutions Bill.

The FSCA also has a mandate to ensure the efficiency and integrity of financial markets. To better address financial market abuses, a comprehensive Financial Markets Review is already underway under the leadership of former SARB Deputy Governor James Cross. It is likely that many recommendations from this review will be implemented by the FSCA in fulfilling its financial markets mandate.

The third pillar of the FSCA mandate is consumer education to promote financial literacy and capability. Whilst not a new responsibility for the FSB, making it an explicit mandate means that the new Authority is well positioned to become the thought-leader in South Africa's financial education landscape, supporting the work of the National Consumer Financial Education Committee chaired by the National Treasury. South Africa's first MoneySmartWeek planned for October reflects the progress strong leadership and coordination can bring, and I am excited for the opportunity to champion this event.

We are in an increasingly digital world, and fintech is an inescapable reality in that world. As you may know, an **Intergovernmental Fintech Working Group** has been established, on which the FSCA will continue to be represented. The Working Group will host its inaugural workshop in April, creating a platform for regulators and policymakers to engage with industry, identify key considerations and develop a harmonised approach to fintech-driven innovations for the benefit of all South Africans.

Underpinning our twin peaks journey is the **Redbook: A Safer Financial Sector to Serve South Africa Better**. This policy highlighted the importance of a financial sector that serves *all* South Africans, and not just a privileged few. Part of your challenge is to foster a financial sector that not only protects customers, but is accessible to those that have been excluded, especially lower income households and small business. A developmental economy like ours requires an ambitious developmental financial sector, that nurtures emerging “disruptors” to the status quo, promoting competition. Fintech is one way to support an inclusive and transformed sector, but this policy prerogative must filter across your day-to-day work programmes. **The Financial Sector Summit scheduled for June will provide an opportunity to drive the necessary change.**

The launch of a brand new organisation, responsible for a wider range of matters, and expected to start producing better outcomes in the financial sector, may seem like a daunting task. But, it is clear that the momentum is already there, and there is much work already well underway. While the FSCA will build on the momentum created by the FSB, it will now also represent a significant break from the past, with a more intensive and

intrusive approach to regulation and supervision, and lay the basis for revolutionizing and transforming the financial sector to serve customers and South Africa better. I look forward to the FSCA driving these projects and of course, the new initiatives that will come, with vigour and enthusiasm.

A key foundation of the reforms has been to drive much better cooperation and coordination amongst the different regulators in our financial sector. The Prudential Authority also launches today, and the two new regulators should be strong supporting partners to each other as they carry out their mandates. Close working relationships should be maintained with the **National Credit Regulator**, particularly given the dual oversight of credit providers, and **Financial Intelligence Centre**. When regulators work well together, it is customers and the economy that will benefit. The job of a regulator is a tough one at the best of times, given the objective of protecting the interest of customers – even though a market conduct regulator needs to be tough and take strong action against those who abuse their customers, these **powers should be exercised with extreme care, so as not to inadvertently destabilize the system, and the need to be a problem-solver**. This is not an easy balance, and will require much maturity of both the prudential and market conduct regulators. Regulators today need to be pro-active, to be curious and ask many questions, and not to be influenced by the type of herd mentality that characterizes failures like Steinhoff.

Organisational change can be unsettling. The phasing out of the FSB and the phasing in of the new Financial Sector Conduct Authority, organized in a very different way, must have resulted in more than a few jitters and uncertainty amongst staff members. I want to reassure you that we will do

everything possible to make sure the transition is managed as painlessly as possible. We have established a transitional management committee, under the very capable leadership of the former Chair of the FSB Board, Mr Abel Sithole, and comprised of the Executive Committee of the FSB who have led the process to convert the FSB into the FSCA.

The transitional management committee will be responsible for implementing the necessary transitional requirements, until the Commissioner and Deputy Commissioners are appointed. I have every faith in their ability to ensure that this is a smooth and non-disruptive process. And I will certainly do my part in making sure the appointment of the Commissioner and Deputy Commissioners is concluded speedily.

As I conclude, I want to remind you all that the financial sector is increasingly an integral, everyday part of everyone's lives, and so your work at the FSCA will touch the lives of all South Africans. Thank you for being part of this journey to a new era of regulation in South Africa. I wish you all the best of luck as you get down to work as the new FSCA.

I thank you.