# MANAGING REGULATORY CHANGE

We believe in a regulatory system that contributes to a safer financial system for all and that facilitates sustainable economic growth in Africa. We support the move towards a more principles-based regulatory framework that focuses on fair and beneficial outcomes for clients, as well as the stability and integrity of the financial system.

The pace, volume and scope of changes in regulation remains a concern for us, and we work with policymakers and regulators to identify the likely effects of regulatory reform and potential unintended consequences. We continue to invest in our capabilities to understand and comply with the multiplicity of regulatory requirements facing a universal bank operating in more than 20 countries.

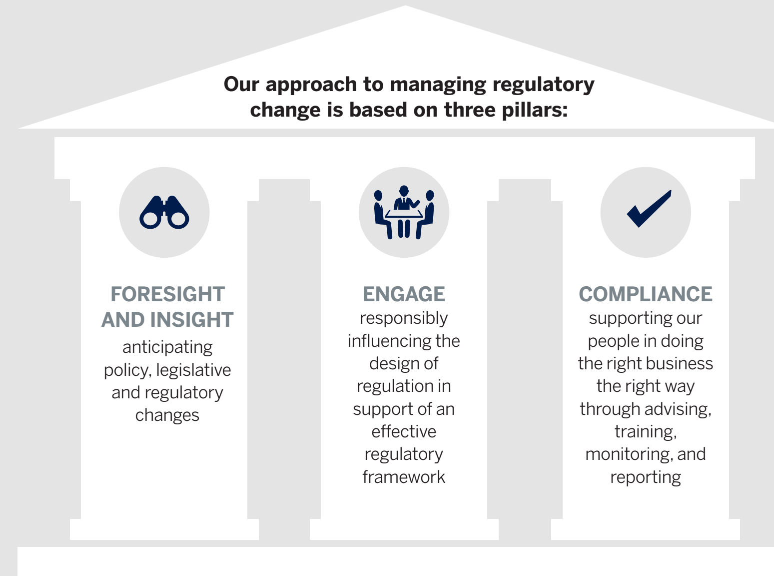
## RETHINKING REGULATION

In the past 12 months, there has been no lessening of the pace, volume, and scope of regulatory change impacting the bank. In South Africa, for example, the authorities publish, on average, one new regulation, directive, or draft law, every week. Changes in public policy, legislation and regulation affect every part of the group. For our South African operation, managing rapid regulatory change is "business-as-usual", as the processes of assessing, influencing, and implementing new regulatory requirements is embedded in normal operations. The focus has now shifted to embedding similar processes and capabilities across all our operations.

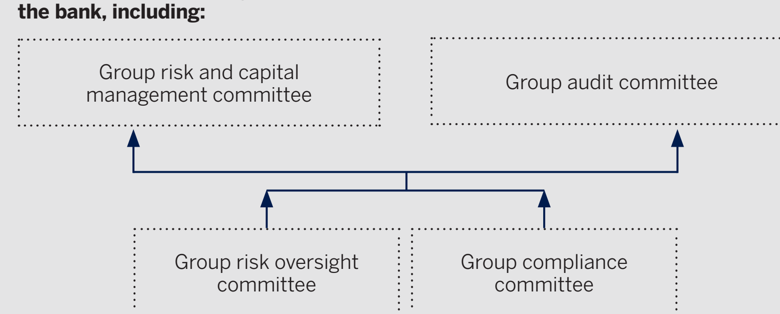
**Our ability to effectively manage regulatory change is central to the trust that our stakeholders place in us:** our clients want to know that their interests are protected; our people want to do the right business the right way; governments want to ensure that policy problems are solved and unintended consequences avoided; our regulators want to know we are compliant; and our shareholders are keen to minimise the costs of disruptive change programmes.

We support a regulatory framework that is appropriately balanced between promoting financial stability, protecting clients, ensuring a sustainable banking sector, and promoting economic growth. The characteristics of an effective regulatory framework are:

- Evidence-based regulatory impact assessments
- Clarity in what is required
- Consistency of application
- Appropriate to local conditions
- Efficiently and economically administered.




**This work is overseen by several board and management committees in the bank, including:**




## FORESIGHT AND INSIGHT: WHAT'S ON THE REGULATORY CHANGE RADAR?

### Financial stability and making the financial system safer

The central challenge confronting policymakers and regulators is how best to manage competing policy imperatives: the need for economic growth and financial stability, the need for greater financial inclusion and better consumer protection, and the need to allow for national discretion within globally consistent standards. Getting this balancing act wrong can have adverse consequences for developing economies. For example, proposed changes to the Basel Capital Framework, that require global banks to hold considerably more capital, could contribute to disinvestment from some African countries by some banks, restricting access to much-needed finance for infrastructure investment, cross-border trade, and renewable energy.

Global standard-setting bodies such as the Basel Committee on Banking Supervision and the Financial Stability Board continue to consider ways to strengthen the safety of the financial system. Current proposals include revisions to the assessment of credit and operational risk, and changes to how much capital banks are required to hold.

## The Twin Peaks system is a game-changer for South African banks

The "Twin Peaks" model of financial sector regulation is being implemented in South Africa through the Financial Sector Regulation Bill. Once enacted, it will usher in substantial changes to the way in which banks and other financial services providers are supervised. Large financial firms – like ourselves – will be subject to conglomerate supervision by a new Prudential Authority. This means that the regulator will look at all the different businesses we have, both individually and in combination, to assess the health of the group as a whole and ensure that it is not "too big to fail". The conduct of banks towards their customers will now be supervised by the Financial Services Conduct Authority – a new supervisor to be established in place of the Financial Services Board that will focus on financial inclusion, the integrity of financial markets, and Treating Customers Fairly.

Following on the Financial Sector Regulation Bill in 2017, will be the much-anticipated Conduct of Financial Institutions Bill which will outline the regulatory standards in relation to Treating Customers Fairly and market conduct for all financial services providers. The social partners in Nedlac discussed the policy imperatives underpinning this Bill during 2016, and Standard Bank was part of this process.

Principles-based standards for regulating a wide range of matters are expected from the new regulatory authorities in 2017, including how the information customers receive about products and services is disclosed, how fees are disclosed, what fees can be charged, ensuring the fair treatment of customers, how conflicts of interest should be dealt with, improving the complaints management process, what conduct principles need to be in place for financial advisors, what levels of capital need to be held, how shadow banking should be managed, and what the recovery and resolution plans should contain.

## Other significant regulatory changes on our radar

**Consumer credit regulation** remained a focus in 2016 as policymakers sought ways to tackle levels of indebtedness. Recent developments have seen specific proposals to assist vulnerable indebted customers, such as retrenched workers in the mining and manufacturing sectors. There are plans to improve the debt mediation and debt counselling system, clarify laws on debt collection, and increase the powers of the credit regulator to enforce the law. A cap on the amount which could be charged for fees and interest rates on loans was set in 2016, and the cap on the charge for credit life insurance will be released early in 2017.

The Financial Sector Regulation Bill is the start of South Africa's move to the Twin Peaks system of regulation. Policymakers have started working on phase two of the move to Twin Peaks, which is making sure all other laws and regulations align with the Twin Peaks system. One of these is the **Insurance Bill**, which sets out the safety and stability requirements for the insurance sector, but also puts in place the regulation for micro-insurance, to increase insurance cover to more people.

The **Retail Distribution Review** makes the provision of financial products more transparent and fair by improving the way in which financial institutions provide information to customers, ensuring there is no conflict of interest within an institution, and requiring principles of good conduct for providers.

Globally there is a move to improve and strengthen the monitoring and control of money laundering and countering terrorist financing. In South Africa, the **Financial Intelligence Centre Amendment Bill** improves the country's monitoring systems by making sure banks' know-your-customer processes include being able to identify who a payment goes to, and increased due diligence for politically influential persons.

One of the greatest risks banks and their customers face is cybercrime. South Africa is far along in developing laws to improve cybersecurity and criminalise cyber-fraud and hacking. The draft **Cybercrime and Cybersecurity Bill** is designed to increase the cyber-safety of both the country and bank customers by, for instance, ensuring critical online systems are protected and crimes such as hacking and phishing can be prosecuted.

In South Africa, policymakers have outlined the **Macroprudential Policy Framework** that will be used to develop the **Special Resolution Act**, designed to manage financial system events such as a financial crisis. Depositor Insurance is a proposed protection tool under this framework, with policymakers discussing the most appropriate way to implement it. Standard Bank continues to work on and ensure there are Recovery and Resolution plans for operations across the group.

**Regulatory trends in broader Africa**
The scope and volume of regulatory change is similarly high in our other countries of operation in Africa. Areas of focus for policymakers include increasing access to financial services, conduct of financial firms, corporate governance, strengthening the detection and management of financial crime, and exchange control.

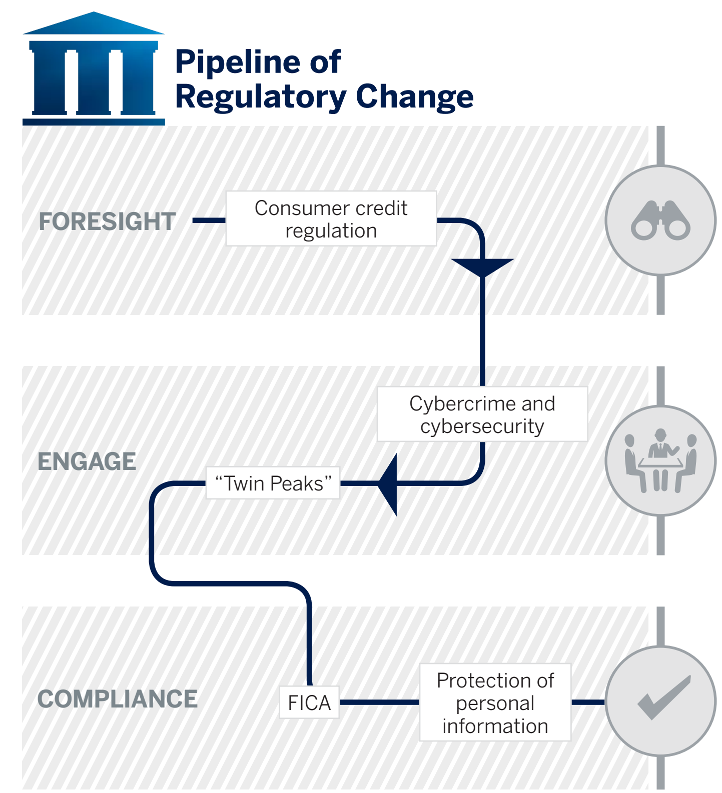
Several countries have introduced legislation to enhance consumer protection, particularly in respect of bank fees. Malawi, Kenya, Swaziland, Zimbabwe, Namibia, Lesotho and Tanzania have introduced legislation capping fees and/or interest charged, and/or prescribing the interest paid on deposits. **Kenya's Banking Amendment Act**, for example, caps the interest that banks may charge.

Regulators remain focused on preventing money laundering and terrorist financing. Cross-border payment regulations have focused on **exchange control** rules, as well as improving the reporting of these.

**ENGAGE:**

## EMERGING REGULATORY FRAMEWORKS FOR CLIMATE CHANGE AND SUSTAINABILITY RISKS

The Financial Stability Board at the request of the G20 is developing a framework for reporting on climate-related financial risks. The framework sets out principles for all public companies – not only those in the financial sector – to use when identifying and describing such risks, as well as risk mitigation actions that have been taken. The responsibility to disclose and manage climate-related financial risks is increasing in prominence globally, with the aim that investors, analysts, and bank supervisors consider this risk along with traditional risk types such as credit risk or operational risk. There is a growing concern that the lack of information about climate-related financial risks could undermine financial stability. For example, Michael Carney, the Governor of the Bank of England and Chairman of the G20's Financial Stability Board, was quoted as saying: "This must change if financial markets are going to do what they do best: allocate capital to manage risks and seize new opportunities. Without the necessary information, market adjustments to climate change will be incomplete, late and potentially destabilising."



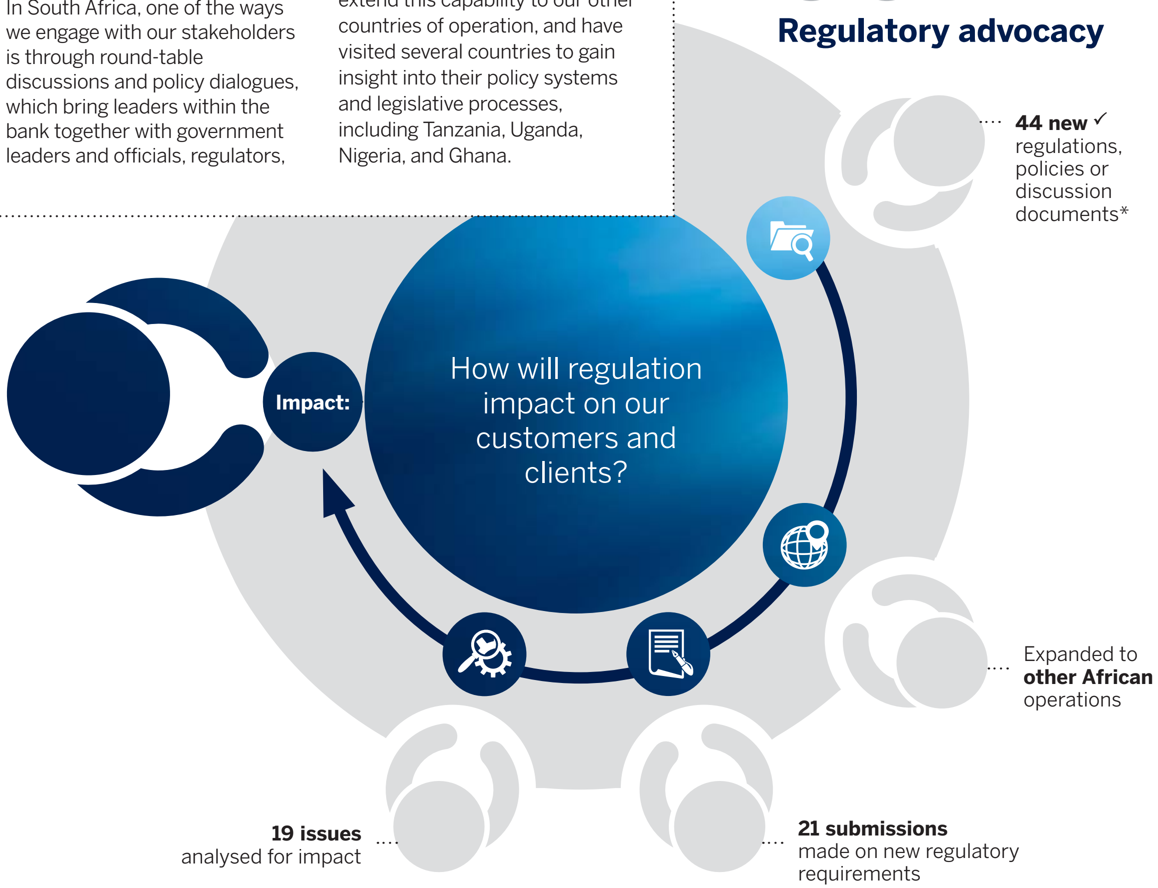
## ENGAGE:
## ADVOCATING FOR AN EFFECTIVE REGULATORY FRAMEWORK

We regularly engage with government departments, regulators, and members of parliament to provide input and feedback on policy and regulation. **Our intention is to provide evidence-based analysis that will support policymakers in identifying and minimising unintended consequences** associated with particular proposals, while remaining true to the intention of the proposed interventions.

In South Africa, one of the ways we engage with our stakeholders is through round-table discussions and policy dialogues, which bring leaders within the bank together with government leaders and officials, regulators, and policy analysts to discuss and understand the drivers behind policy and regulatory changes. In 2016, dialogues took place on property rights, and consumer credit. We are also active participants in various trade associations and business organisations, including the Banking Association of South Africa and Business Leadership South Africa.

We are currently working to extend this capability to our other countries of operation, and have visited several countries to gain insight into their policy systems and legislative processes, including Tanzania, Uganda, Nigeria, and Ghana.

### Regulatory advocacy




* Deemed material to Standard Bank, that were issued for comment, screened and finalised within 2016

## COMPLIANCE:
## SUPPORTING OUR PEOPLE IN DOING THE RIGHT BUSINESS THE RIGHT WAY

### Strengthening our compliance capability

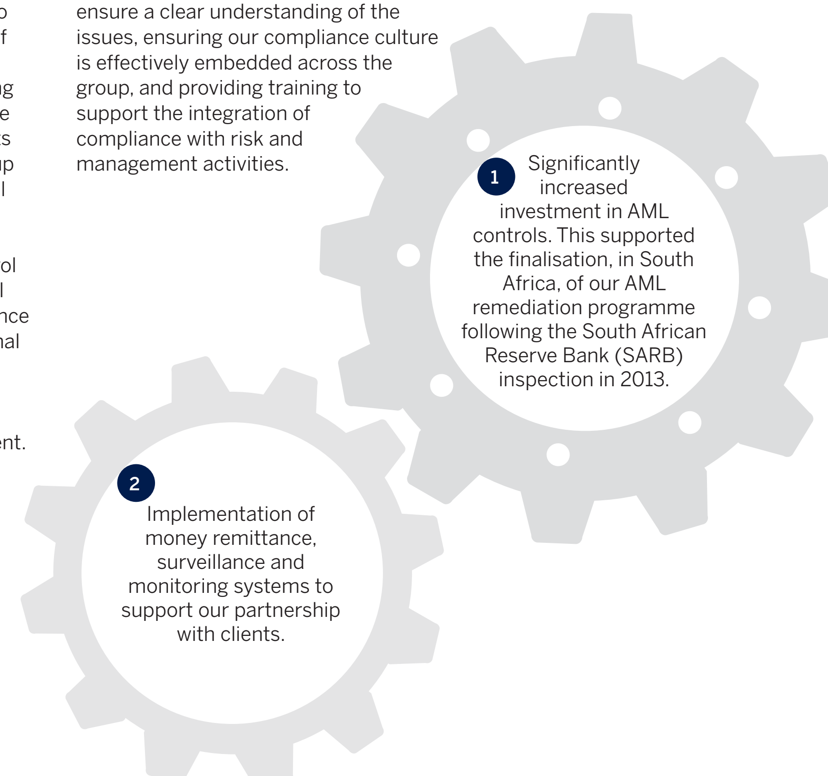
We've standardised our compliance model across the group, and have strengthened our compliance teams at both group and country level. This includes investing significantly in our compliance surveillance and training, and employing more compliance officers across our countries of operation. This supports the requirement to advise, train, monitor and report.

Compliance teams are playing a bigger role in executive level business decisions. Group internal audit and integrated operational risk are represented on the group compliance committee, and compliance is represented on various business and governance committees. Compliance meets regularly with internal audit to ensure that there is no duplication of effort, while increasing compliance coverage. The compliance monitoring team adopts a combined compliance monitoring assurance approach in its planning and reviews, including group internal audit, integrated operational risk, and the review teams of group compliance. This includes business compliance officers, exchange control compliance monitoring and financial services monitoring. Group compliance also works with integrated operational risk on ensuring that compliance incidents are loaded on the bank's operational risk incident system, to support appropriate risk management.

Conglomerate supervision is expected to increase in 2017. This will require enhanced compliance cooperation with our businesses in our various countries of operation. Collaboration with Liberty on compliance-related matters has been enhanced, particularly in the area of anti-money laundering (AML) and combating the financing of terrorism. There will be a strong focus on anti-bribery and corruption programmes in 2017.

During 2016, our compliance team enhanced the support it provides to board members and management teams in all our countries of operation. We undertook various visits to our operations across Africa, meeting with board members and executives to ensure a clear understanding of the issues, ensuring our compliance culture is effectively embedded across the group, and providing training to support the integration of compliance with risk and management activities.

We've introduced a number of technology solutions in the past year, to support more effective compliance surveillance and reporting. These include:



## Helping our people keep up with regulatory change

Over the past year, we've worked hard to encourage regulatory awareness and a culture of compliance among all our employees, using innovative technology to make compliance integral to how we think and work.

Since 2015, we've had a dedicated **compliance training unit** that focuses strongly on technology and innovation. Compliance training is compulsory, with consequences if training is not completed by all our people – including non-permanent employees, contractors and third party service providers.

**Training and assessments** are easy to access – everything is available online, and our system automatically sends individualised reminders of training requirements to our people, as well as user-friendly reports to enable line managers and business areas to track employee completion rates. We're currently in the process of refreshing all of our compliance training modules and these will be rolled out in the second quarter of 2017.

The **new training modules will be available on our people's smart devices**, enabling them to ensure that their training is up to date even if they're out of the office.


## Standard Bank's impact on combating crime

Know your customer (KYC) is a crucial compliance requirement for banks the world over. It's how we ensure that our services are not being used to process fraudulent, illegal or corrupt transactions, or used to channel funds to support terrorism or other illegal activities. But it's often the source of frustration for customers, who might be unable to proceed with a transaction, or might find their bank account frozen, because they have failed to comply with KYC requirements. The KYC process has been particularly challenging in countries that don't use a national identification system. In such cases, banks have relied on documents such as passports and drivers' licences to ascertain a client's identity. But these documents expire – creating challenges for the process. Over the past several years, we've been implementing electronic document management in all our countries of operation, to make the KYC process more efficient, and less of an inconvenience for our customers. The aim is to have only one digital record per client, and we've completed the scanning of all existing documents. We're now in the process of implementing automatic document scanning in branches for all new clients.

One of the challenges faced by African financial markets in 2016 was the withdrawal of several international banks from some countries as a result of de-risking decisions. During the course of the year, a number of Standard Bank's clearing banks informed us that they could no longer act as our clearing bank for US dollars in certain African jurisdictions. **We tackled the challenge proactively, with the support of the South African Reserve Bank, and we believe we're well-placed to manage any further developments in this area in 2017.** We also believe that our stringent compliance with anti-money laundering requirements is a competitive advantage, as it positions us as a favoured correspondent bank.

SE Read more about why and how we close accounts in the Special Edition: Report to Society on **pages 30 – 31**.
**http://sustainability.standardbank.com/downloads.php**

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## I SEE MY JOB DIFFERENTLY...

**Lerato Moloi – Regulatory advocacy manager**

As a member of the group policy, advocacy and sustainability (GPAS) team, the basis of my work, from day-to-day, is about SEEing things differently. The work we do includes scanning the socioeconomic, political and legislative landscape and providing analysis on developments of this nature. This allows the bank to remain ahead of the curve on any potential risks and opportunities. Our work requires the ability to SEE things differently by understanding the nuances and thus connecting dots where it may seem like there is no connection to be made. This ability is especially important in light of the bank's purpose – Africa is our home, we drive her growth – as it is critical to understand the different environments within which we operate so that we can do business effectively and provide shared growth and value for all our stakeholders the continent through.