## 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."

## Pipeline of Regulatory Change