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Regulatory Updates for the month of February 2018

FinWatch – A Monthly Newsletter

Find the latest edition of **FinWatch** which provides a pan-Africa view of all regulatory and market developments impacting the financial services industry produced by the South Africa Regulatory CoE.

Pan Africa Updates

Zambia

BOZ IFRS 9 guidance note & deferment of compliance with corporate governance directives
The circular provides guidance on how provisions under IFRS 9 will be treated for regulatory purposes. The guidance note also outlines transitional arrangements to ensure that the negative impact of the anticipated higher provisions at the time of the standard are moderated. *ZICA*

Tanzania

Tanzania imports insurance portal
The Tanzania Insurance Regulatory Authority (TIRA) in collaboration with the Insurance Institute of Tanzania (IIT), launched a digital platform portal that will help Tanzania importers to buy insurance policies to local insurance companies for all imported goods. With effect from January 1st 2018, all imports into Tanzania whether by road, rail, sea or air must be insured by Tanzanian registered companies. TRA will require proof of purchase of Tanzanian marine insurance prior to issuance of import clearance. *TIRA*

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Global Updates

Australia

ASIC reports on how large financial institutions manage conflicts of interest in financial advice

The review was part of a broader set of regulatory reviews of the wealth management and financial advice businesses of the largest banking and financial services institutions as part of ASIC's Wealth Management Project. The review looked at the products that ANZ, CBA, NAB, Westpac and AMP financial advice licensees were recommending and at the quality of the advice provided on in-house products. The review found that, overall, 79% of the financial products on the firms' approved products lists (APL) were external products and 21% were internal or 'in-house' products. However, 68% of clients' funds were invested in in-house products. The report also highlighted some of the initiatives that ASIC has undertaken with various institutions to improve compliance and advice quality such as:

- improvements to monitoring and supervision processes for financial advisers; and
- improvements to adviser recruitment processes and checks. *ASIC*

ASIC takes action against payday lending companies for unpaid fines

The Federal Court fined the companies a total of 730,000 AUD, after finding in proceedings brought by ASIC that the companies breached consumer credit laws by engaging in credit activities without holding an Australian credit licence. The companies operated under a business model where consumers seeking small value loans were required to sign documents which purported to be for the purchase and sale of diamonds in order to obtain a loan. *ASIC*

ASIC licenses first crowd-sourced funding intermediaries

The Australian Securities and Investments Commission (ASIC) has licensed the first crowd-sourced funding (CSF) intermediaries under the new CSF regime. Seven companies have been issued with Australian Financial Services (AFS) licence authorisations to act as intermediaries able to provide a crowd-sourced funding service. With the grant of these new authorisations eligible public companies will now be able to use the CSF regime to raise capital by making offers of ordinary shares to investors via the on-line platform of one of these intermediaries. The CSF regime is designed to provide start-ups and small to medium sized companies with a new means to access capital to develop and grow. CSF offers are subject to fewer regulatory requirements than other forms of public fundraising. *ASIC*

Company refunds 17.2 million AUD in add-on insurance premiums

ASIC found that for sales of MTA Guaranteed Asset Protection (GAP) insurance between 2009 and 2017:

- It was unlikely that the customer would be able to claim on the insurance, because, for example, they may have paid a large deposit on the car loan, so that the insured value of the car was more than the amount borrowed.
- The cover under the GAP policy was unnecessary as it duplicated replacement vehicle cover held by customers under their comprehensive car insurance policies.
- Customers were sold a more expensive level of GAP cover than they needed.
- Many customers did not receive rebates under their GAP policies when they paid out their loan early, even though cover under those policies had ended.

For the MTA Consumer Credit Insurance (CCI), ASIC found that the life cover was sold to young people who were unlikely to need the cover if they had no dependents. *ASIC*

Insurance company refunds 45.6 million AUD in add-on insurance premiums

The refund program covers four add-on insurance products sold between December 2010 and November 2017:

- Motor Equity Insurance (MEI) – a Guaranteed Asset Protection (GAP) insurance that pays the difference between the amount the customer owes on the car loan, and the amount the car is insured for under comprehensive car insurance, if the car is written off.
- Loan Protection Insurance (LPI) – a type of Consumer Credit Insurance (CCI) designed to meet some of the repayments under a customer's loan contract if they die, suffer a traumatic illness (such as cancer), or become disabled or unemployed.
- Tyre and Rim Insurance (TRI) – that meets the cost of repairing or replacing a vehicle's tyres and rims if they are punctured or suffer a blowout.
- Warranty Insurance products (Warranties) – that provide cover for some repairs to a

vehicle, once any manufacturer's new vehicle warranty has expired. *ASIC*

The UK

Statement on transitional arrangements for trading venues under MiFIR
On account of the risks resulting from the application of the access rights under Article 36 as regards exchange-traded derivatives to the orderly functioning of the trading venues referred to above, as required by MiFIR, the FCA has decided to agree a transitional arrangement for those entities. Accordingly, with effect from 3 January 2018, ICE Futures Europe and LME will not be required to consider open access requests made under Article 36 insofar as they relate to exchange-traded derivatives, until the expiry of the transitional period on 3 July 2020. *FCA*

Aligning the Financial Services Compensation Scheme levy time period
This paper propose:

- allowing the 2017/18 compensation year to run to its original timeframe;
- requiring the Financial Services Compensation Scheme (FSCS) to run a nine-month compensation levy year for the period 1 July 2018 to 31 March 2019 with pro-rated class thresholds;
- delaying the introduction of arrangements for firms who pay fees on account by one year until April 2019; and

FCA is also consulting on minor clarifications to the new rule about levy paying arrangements for firms who pay fees on account. *FCA*

Financial Conduct Authority consults on widening access to the Financial Ombudsman Service for small businesses
The Financial Conduct Authority (FCA) launched a consultation on plans to give more small businesses access to the Financial Ombudsman Service (the Ombudsman). This follows a review of the protection available to small and medium sized enterprises (SMEs) as users of financial services. Under the changes proposed by the FCA, approximately 160,000 additional SMEs, charities and trusts would be able to refer complaints to the Ombudsman. This would be done by changing the eligibility criteria to access the Ombudsman, so businesses with fewer than 50 employees, annual turnover below 6.5 million GBP and an annual balance sheet (i.e. gross assets) below 5 million GBP would become eligible. *FCA*

RTGS Renewal Transition Working Group
The initial programme scope has been developed and emerging thinking would be shared with the wider payments industry at the briefing sessions planned in December. Work was being progressed across a number of other areas, including assessing the impact on the Bank's operating model and developing the solution architecture. . The Bank would circulate a transition questionnaire to members and some other stakeholders in January 2018. The Chair outlined that the purpose of the questionnaire is to establish members' preferences regarding the sequence in which new functionality is delivered and to understand what constraints members' face that might impact timelines. *BoE*

FCA fines broker for poor market abuse controls and failure to report suspicious client transactions
The brokerage firm delegated its post-trade monitoring to a team based at another company within the the Group in the US. However, the UK firm failed to adequately input into the design and calibration of the post-trade monitoring systems, or test their operation, to ensure that potential market abuse by its clients would be captured, and it failed to provide effective oversight of the US team's conduct of the reviews of the reports produced. In particular, it carried out no quality assurance or monitoring of the review of the reports, and it failed to ensure that the staff conducting the reviews were adequately trained. *FCA*

International Updates

Effectiveness of unconventional monetary policies in a low interest rate environment
The model presented in the working paper suggests that higher policy rates in the major advanced economies could coincide with an increase in estimated "natural" rates. However it warns that if central banks place too little weight on this possibility, an overly procyclical monetary policy could result, and central banks could find themselves unwittingly falling progressively behind the curve. *BIS*

Structural changes in banking after the crisis

The report contains several key observations on structural changes in the banking sector after the crisis. Firstly, while many large advanced economy banks have moved away from trading and cross-border activities, there does not appear to be clear evidence of a systemic retrenchment from core credit provision. Secondly, bank return on equity has declined across countries, and individual banks have experienced persistently weak earnings and poor investor sentiment, suggesting a need for further cost cutting and structural adjustments. Thirdly, in line with the intended direction of the regulatory reforms, banks have significantly enhanced their balance sheet and funding resilience and curbed their involvement in certain complex activities. *BIS*

Global factors and trend inflation

Global factors have a sizeable influence on inflation behaviour. However, this is mainly temporary and appears to reflect movements in commodity prices. The effect of global factors on trend inflation is small. Global factors have a much larger role in countries with more diverse monetary policy regimes. A possible explanation is that inflation targeting may have reduced the influence of global factors on trend inflation. *BIS*

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