



KPMG Regulatory Centre of Excellence

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KPMG in South Africa

Regulatory Updates for the week ended 3 May, 2019

FinWatch – A Weekly Newsletter

Find the latest edition of **FinWatch** which provides a gist of all regulatory developments impacting the financial services industry in South Africa.

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Regulatory Developments

Banking flavor-of-the-year: guidance notes

The Prudential Authority (PA) published three guidance notes in terms of section 6(5) of the Banks Act 94 of 1990:

-Flavor-of-the-year-topic “Effective capital and liquidity risk management practices in foreign branches” – The guidance note informs the branches of foreign institutions and auditors about the topic for the discussion for the meetings to be held in the upcoming year focusing on capital management and liquidity risk management practices [Link](#)

Flavor-of-the-year-topic “Life cycle of outsourcing” – The guidance note informs all South African banks with an asset value of less than ZAR50 billion about the topic for discussion for the meetings to be held in the upcoming year focusing on strategy, selection of outsourcing partners, entering and terminating of contracts [Link](#)

Flavor-of-the-year-topic “The creation and institutionalisation of a culture of ethics and awareness” – The guidance note informs all South African banks with an asset value of more than ZAR50 billion about the topic for discussion for the meetings to be held in upcoming year focusing The Banks Act No. 94 of 1990. [Link](#)

Draft conduct standards for banks

The FSCA published draft Conduct Standards for banks under section 106(2)(b) of the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017) (FSRA) in respect of banks, mutual banks and co-operative banks. The objective of the draft Conduct Standard is to introduce requirements that promote the fair treatment of financial customers of banks. It will be added to any other requirement already imposed on banks by other financial sector laws. The draft was designed to follow the sequencing of the six Treating Customers Fairly Outcomes (TCF outcome) taking into account the sequencing of the typical financial product lifecycle. [Link](#)

Market Developments

International

FCA begins review of financial advice market

The Financial Conduct Authority (FCA) begins reviewing the Retail Distribution Review (RDR) and the Financial Advice Market Review (FAMR). The review will look at consumer's requirements from the market and the way market deliver this. It will also consider new market trends and developments which can affect the future development of advice and guidance services. [Link](#)

APRA demands life insurers improve sustainability of individual disability income insurance

The Australian Prudential Regulatory Authority (APRA) has asked the life insurance industry to address concerns regarding the sustainability of individual disability income insurance. APRA has been concerned about disability income insurance sold to individuals due to its ongoing poor performance. The industry has collectively lost US\$2.5 billion through this product offering over the past five years, with no signs of improvement. APRA raised the concerns recognised by a review of individual DII about the eight largest providers of individual DII. It highlighted:

- Unsustainable products resulting in failure to deliver satisfactory customer experience;
- Reduced competition, accessibility and affordability in the event of companies exiting DII market;
- Need for strong, proactive leadership at an industry level; and
- Need to regain community trust and restore sustainable DII market

[Link](#)

FCA sets out progress and next steps in promoting innovation in financial services

Christopher Woolard, FCA Executive Director for Strategy and Competition, gave a speech at the 2019 Innovate Finance Global Summit on the impact of the FCA's work to promote innovation in the interests of consumers and [their](#) commitment to take this work further. He also published an evaluation report, which highlights:

- FCA is enabling faster innovations onto the market. Groups of firms that have gone through FCA's Innovate programme have come to market 40% faster than equivalent financial services firms reducing three months from testing to roll out
- 700 firms have received some kind of assistance
- Around 38 firms are operating in the market, with the necessary authorisation, and there are a further 63 in the pipeline.
- Around 44 start-ups were tested in the first three Sandbox cohorts, out of which half of them either received additional investment or were acquired during or after their test.
- Efficient, better value or more convenient services are available to consumers. [Link](#)

Review of APRA's 2013 superannuation prudential framework

Australian Prudential Regulation Authority (APRA) has published a post-implementation review on its 2013 superannuation prudential framework. The review concluded that the prudential framework has resulted in improved practices across the industry and stakeholders did not identify any material unintended consequences. While the original objectives of the prudential framework were largely met, further enhancements to the framework are needed to enable it to remain fit for purpose given the evolution of the industry and changing stakeholder expectations. In this regard, the review has identified some specific areas where APRA will consider enhancements to the framework and/or to its supervisory practices. [Link](#)

APRA consults on updated member outcomes assessment

Australian Prudential Regulation Authority (APRA) has commenced consultation on an updated prudential standard requiring registrable superannuation entity (RSE) licensees to assess the outcomes they are delivering for members. The standard introduced a number of requirements, including an outcomes assessment requiring licensees to annually evaluate their performance in delivering sound, value-for-money outcomes to all members, covering both MySuper and choice products. RSE licensees will be required to undertake an annual Business Performance Review requirement, which must take account of the legislated outcomes assessment and meet other requirements designed to ensure APRA's original policy objectives are met, such as:

- Reviewing the performance of their business operations through robust business plan monitoring
- Analysing the outcomes delivered to different membership cohorts
- Considering whether they will continue to deliver quality member outcomes into the future; and
- Taking action to address any identified areas of required improvement.

[Link](#)

OTC derivatives statistics at end-December 2018

BIS published OTC derivatives statistics for the period ending on December 2018. Key highlights from the statistics stated that:

- Notional amounts of OTC derivatives declined from end-June to end-December 2018, from US\$595 trillion to US\$544 trillion
- Market value of OTC derivatives fell from US\$10.3 trillion to US\$9.7 trillion majorly due to decline in US dollar interest rate derivative contracts
- Gross market value share of interest rate contracts fell from 80 percent at end-June 2014 to 66 percent for period ending December 2018. [Link](#)