KPMG

KPMG Regulatory Centre of Excellence

Be on the inside

Important Links	Contact Us	Subscribe	Previous Editions

KPMG in South Africa

Regulatory Updates till for the week ended 24 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.

- Regulatory Developments
- Market Developments

Regulatory Developments

Working Paper – WP/19/02:The role of the rand as a shock absorber

The South African Reserve Bank published a working paper on the role of the rand as a shock absorber. The paper investigates the impact of rand shocks on industry output and various other South African macroeconomic variables. It shows that the currency tends to react to changes in the relative fundamentals of the economy and that the independent impact on the economy of exchange rate changes that are unrelated to fundamentals is estimated to be small *Link*

Working Paper – WP/19/03: Credit Market Access and Efficiency in South Africa

The South African Reserve Bank published a working paper on the Credit Market Access and Efficiency in South Africa. The paper explores whether the frictions in the credit market are constraining the efficient allocation of capital in South Africa. The results indicate that access to finance in South Africa for manufacturing firms is not a major constraint on their business. It states that the country has a lower proportion of firms reporting access to finance constraints than most of its emerging market peers. *Link*

AI | Compliance in control

KPMG United States of America published a Point of View paper, AI:Compliance in control. The PoV talks about how the adoption of artificial intelligence (AI) systems and advanced analytics is accelerating across financial institutions, creating evolving regulatory and compliance challenges. *Link*

Draft Conduct of Standards: Minimum skills and training required for board members of pension funds

The Financial Sector Conduct Authority (FSCA) released draft conduct standards prescribing minimum skills and training required for board members of pension funds. The standards are open for public comment to be submitted on or before 4th July 2019. *Link*

Ombudsman for Short-Term Insurance (OSTI) – Annual report 2018

The Ombudsman for Short-Term Insurance (OSTI) released its Annual Report on Operations for 2018 which is responsible for providing consumers with a fair and transparent dispute resolution mechanism when it comes to short-term insurance disputes. As per the report:

- In 2018 the Ombudsman closed 9,474 complaints and recovered more than ZAR87 million in favor of consumers;
- Motor vehicle insurance complaints made up 48 percent of the total number of finalised complaints, followed by homeowner's insurance at 21 percent;
- Commercial insurance complaints increased from 8 percent in 2017 to 9 percent in 2018 while household content insurance grievances decreased from 6 percent in 2017 to 5 percent in 2018;
- The OSTI also recorded a low overturn rate, the percentage of matters where some portion of the insurer's decision was overturned *Link*

Market Developments

International

Over GBP27 million reported lost to crypto and forex investment scams

The Financial Conduct Authority (FCA) and Action Fraud are warning the public to be wary of investment scams carried out via bogus online trading platforms. This warning comes as cryptoassets (crypto) and forex investment scams reports more than tripled last year to over 1,800. As part of the FCA's ScamSmart campaign, FCA will be running advertising to raise awareness of online trading scams. Running on social media, the ScamSmart adverts aim to make consumers more sceptical of get rich quick trading scams promoted online. *Link*

---

ctors. Cross-border claims on non-bank financial institutions grew rapidly, expanding at an annual rate of 12 percent. *Link*

ASIC consults on proposal to intervene to stop consumer harm in short term credit

ASIC has released a consultation paper on the first proposed use of its new product intervention power. The product intervention power allows ASIC to intervene where financial and credit products have resulted in or are likely to result in, significant consumer detriment. The new product intervention power is an important addition to ASIC's regulatory toolkit. It reinforces ASIC's ability to directly confront, and respond to, harms in the financial sector. *Link*

APRA enforces stable funding requirements on banks

The Australian Prudential Regulation Authority (APRA) has required several banks to tighten the intra-group funding arrangements for their Australian operations and therefore, conducted a review of funding agreements across the authorised deposit-taking (ADI) industry. APRA's review found some of the banks were improperly reporting the stability of the funding they received from other entities within the group. These banks had provisions in their funding agreements that would potentially allow the group funding to be withdrawn in a stress scenario, undermining the stability of the Australian bank. *Link*

APRA proposes stronger requirements on remuneration to enhance conduct, risk management and accountability

The Australian Prudential Regulation Authority (APRA) released a draft prudential standard aimed at clarifying and strengthening remuneration requirements in APRA-regulated entities. APRA proposed creating a new prudential standard to better align remuneration frameworks with the long-term interests of entities and their stakeholders, including customers and shareholders. APRA is proposing:

- To elevate the importance of managing non-financial risks, financial performance measures must not comprise more than 50 per cent of performance criteria for variable remuneration outcomes
- Minimum deferral periods for variable remuneration of up to seven years will be introduced for senior executives in larger, more complex entities. Boards will also have scope to recover remuneration for up to four years after it has vested
- Boards must approve and actively oversee remuneration policies for all employees, and regularly confirm they are being applied in practice to ensure individual and collective accountability. *Link*

Optimising the Senior Managers and Certification Regime: Policy Statement 19/20 and Feedback to CP 19/4

The Senior Managers and Certification Regime (SM&CR) aims to strengthen individual accountability and help set a new standard of personal conduct for people working in financial services. The Policy Statement summarises the feedback received against the consultation paper, and have implemented the proposed changes to the regime, including:

- Confirming that the Head of Legal function is excluded from the requirement to be approved as a Senior Manager;
- Clarifying the requirements and scope of the Certification Regime; and
- Extending Senior Manager Conduct Rule 4 (SC4) to non-approved Executive Directors at Limited Scope firms. *Link*

FCA launches consultation guiding firms on the fair treatment of vulnerable customers

The Financial Conduct Authority (FCA) launched a consultation on proposed guidance for firms on the fair treatment of vulnerable customers. The guidance sets out the FCA's view of what the FCA principles require of firms to ensure that vulnerable consumers are consistently treated fairly across financial services sectors. *Link*