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KPMG in South Africa

Regulatory Updates for the week ended 11 October 2024

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

South Africa

South African Reserve Bank imposes administrative sanctions on HSBC Bank Plc – Johannesburg Branch
The South African Reserve Bank (SARB) has imposed administrative sanctions on HSBC Bank Plc's Johannesburg Branch for non-compliance with the Financial Intelligence Centre Act (FIC Act). Following a 2021 inspection, HSBC received three cautions and a total financial penalty of ZAR9.5 million, with ZAR4 million conditionally suspended for 36 months. The violations included inadequate customer due diligence, failure to address transaction monitoring alerts promptly, and deficiencies in its Risk Management and Compliance Programme. HSBC has cooperated and taken remedial actions to address these issues. *Link*

Life insurers pay claims and benefits worth ZAR298 billion in the first half of 2024
According to ASISA, South African life insurers paid ZAR298 billion in claims and benefits to policyholders, covering events such as death, disability, and retirement in the first half of 2024. Despite these significant payouts, the industry remains well-

capitalised, holding ZAR4.3 trillion in assets against ZAR3.9 trillion in liabilities, resulting in ZAR377 billion in free assets. However, 4.3 million risk policies lapsed during this period, leaving many without coverage. The industry shows resilience, with a modest growth of 1.7 percent in recurring premium risk policies amidst economic challenges. *Link*

SARS takes aim at tax-dodging holders of crypto assets and trades
According to the article, The South African Revenue Service (SARS) is intensifying efforts to ensure compliance among taxpayers regarding the declaration of crypto assets and trades. With over 5.8 million South Africans reportedly holding crypto assets, SARS is concerned that many are not declaring these on their tax returns. The agency has noted significant growth in the use of digital currencies in South Africa and is implementing stricter monitoring to address potential tax evasion, warning taxpayers of possible audits and penalties for non-compliance. *Link*

Implementation of the Two Pot system at the IRFA Conference 2024
Astrid Ludin, Deputy Commissioner of the The Financial Sector Conduct Authority (FSCA) at the IRFA Conference, reported on the implementation of the Two Pot system, revealing that 851 applications for rule amendments were received, with 821 registered, resulting in a 96 percent completion rate. Currently, 23 applications are still awaiting responses from the industry. She also talked about regulatory updates at the IRFA conference. *Link*

South African Reserve Bank and Prudential Authority Annual Reports for 2023/24
On 10 October 2024, the South African Reserve Bank and the Prudential Authority presented their Annual Reports for 2023-24 to the Standing Committee on Finance. The presentation outlined the SARB's mandate, emphasising its role in ensuring price and financial stability, issuing currency, and regulating financial institutions. It also highlighted the SARB's governance structure, noting that shareholders do not influence monetary policy. Additionally, the Prudential Authority's report included key updates, particularly regarding financial oversight and regulatory matters. *Link*

International

Basel III capital and liquidity ratios remained stable in the second half of 2023
The latest Basel III monitoring exercise indicates that capital and liquidity ratios remained stable in the second half of 2023. Current capital ratios slightly increased, while fully phased-in ratios decreased. The average Liquidity Coverage Ratio (LCR) for large internationally active banks (Group 1) was stable at 138 percent, and the Net Stable Funding Ratio (NSFR) decreased to 123 percent. No regulatory capital shortfalls were reported for Group 1 banks, reflecting a positive compliance status with Basel III requirements as of 31 December 2023. *Link*

Predictable volatility - FCA International Capital Markets Conference 2024
At the FCA International Capital Markets Conference 2024, Nikhil Rathi highlighted the successful transition from LIBOR to risk-free rates. He called for a new mindset towards risk, embracing innovation and reform to enhance market efficiency. Rathi stressed the importance of investing in cybersecurity and leveraging technology for liquidity. He advocated for deep market engagement, seeking diverse input to better understand and manage risks, ultimately preparing for the unpredictability of financial markets. *Link*

CP12/24 – Resolution assessments: Amendments to reporting and disclosure dates
The Prudential Regulation Authority (PRA) proposes amendments to rules regarding firms' reporting and disclosure obligations for resolution assessments. Current two-year submission cycles would be replaced with periodic reporting, allowing firms to prepare

more flexibly. The changes involve removing fixed submission and disclosure dates and updating supervisory expectations in SS4/19. Relevant to UK banks and building societies, these amendments aim for clarity without significant cost implications. The consultation closes on 08 November 2024, with implementation expected by the end of Q1 2025. *Link*

Delivering vibrant capital markets - FCA International Capital Markets Conference 2024

At the FCA International Capital Markets Conference 2024, Ashley Alder, Chair of the FCA emphasized the need for vibrant capital markets to drive investment in the real economy. He highlighted significant reforms in the UK's public equity markets aimed at enhancing access and mobilizing domestic savings. Alder also discussed the importance of financial advice and guidance to support individuals' financial needs and the value-for-money framework for workplace pensions, aiming to foster a culture of investment and growth in the UK economy. *Link*

The 2023 banking turmoil and liquidity risk: a progress report

The Basel Committee has published a progress report for the G20 on the 2023 banking turmoil, focusing on liquidity risk dynamics. The report analyzes liquidity outflow rates from distressed banks and evaluates factors not covered by the Basel III Liquidity Coverage Ratio. It aims to enhance supervisory effectiveness and assess the Basel Framework's performance during the turmoil. The Committee plans to implement follow-up initiatives to strengthen global guidance and ensure consistent application of Basel III standards moving forward. *Link*

Market developments

South Africa

Capitec Connect 'SA's fastest-growing mobile business'

According to the article, Capitec Connect, launched by Capitec bank two years ago, aimed to challenge high prepaid data and airtime prices. It has quickly grown to over 1.2 million active SIM cards, making it the biggest MVNO in the country. Capitec offers non-expiring data bundles and has expanded to include expiry options. With a strong client base and extensive branch network, Capitec Connect is positioned as a significant player in the mobile market, generating substantial revenue growth. *Link*

Old Mutual launches cellphone service with data packages starting at ZAR5

According to the article, Old Mutual has launched a Mobile Virtual Network Operator (MVNO) called Old Mutual Connect on Cell C, aiming to enhance mobile connectivity for lower-income markets. The service promises competitive data packages and affordable connectivity, crucial for customers to engage in the economy. Users can purchase SIM cards from Old Mutual branches starting at ZAR5 and receive 1GB of free data upon activation. Additionally, a two-for-one data bundle offer is available, and customers can port their existing numbers to the new service. *Link*

Sanlam completes acquisition of Assupol

According to the article, Sanlam has successfully acquired Assupol, with the deal finalised on 07 October 2024. This acquisition strengthens Sanlam's position in the retail mass market, which is a strategic priority for the group. Assupol, known for its funeral and life insurance products, will continue to operate under its own brand. The merger is expected to enhance both companies' market presence and ability to provide comprehensive insurance solutions. Sanlam aims to leverage this acquisition for sustained growth in the financial services sector. *Link*

Absa gets regulatory approval for Charles Russon as interim CEO
According to the article, Absa has appointed Charles Russon as interim group CEO following Arrie Rautenbach's early retirement. Russon, who has been CEO of Absa's Corporate and Investment Bank since 2018, will transition into this role effective 15 October 2024. He has held various senior positions at Absa since joining in 2006, including CFO and COO. Additionally, Yasmin Masithela has been appointed interim CEO of Absa Corporate and Investment Bank. Both appointments aim to ensure a smooth leadership transition during the search for a permanent CEO. *Link*

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