



MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

LAUNCH OF THE FINANCIAL SECTOR CONDUCT AUTHORITY

SPEECH BY MINISTER OF FINANCE NHLANHLA NENE

4 June 2018

The acting Commissioner,
The Transitional Management Committee of the FSCA
The staff of the FSCA,
Honoured guests,
Ladies and gentlemen

We gather today two months after the official birth of the Financial Sector Conduct Authority (FSCA) and its twin, the Prudential Authority (PA). Birth marks the start of a new life, with many opportunities ahead. The birth of the FSCA and the PA marks the beginning of a new era for financial sector regulation in South Africa. It is an era where things will be done differently, drawing from the lessons of the past and driving the best outcomes for our country and those who live in it.

The financial sector touches almost each and every South African. It is therefore vital that there is strong oversight of the financial sector. The gestation period for creating this new regulatory regime has been long. It started way back in 2007 with the review of financial regulation, a review which whose scope was expanded after the global financial crisis in 2008. The outcome of that review was the publication in 2011 of what became known as the “Red Book”. The Red Book proposed the shift to a Twin Peaks model of regulation, a shift which was informed by the need to ensure that the financial sector remained not only world class but that it served the interests of the people of South Africa. The new model recognised that to truly serve the interests of the people of South Africa, regulation must go beyond prudential supervision to include how financial services firms treat their customers. South Africa’s financial sector is well-capitalised and stable. That’s why it weathered the 2008 global financial crisis. However, it is common knowledge that the financial sector can do much more to serve the needs of South Africans better.

The financial sector can better serve the needs of South Africans by making:

- Financial products less complex, if not just plain simple;
- Fee structures simple to understand so that customers can assess the real value and the total cost of the products and services they are buying;



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- Products and services appropriate to the needs of customers and therefore provide real benefits to customers; and
- The financial sector safer for customers by weeding out the unscrupulous characters who siphon off the monies of customers and other beneficiaries.

The Financial Sector Regulation Act therefore created the FSCA as a market conduct regulator, with a clear mandate to ensure that financial services firms treat their customers fairly. The FSCA takes the baton from the Financial Services Board which had already started some of the projects that the FSCA will continue with.

The notion of 'Treating Customers Fairly' was not part of the financial sector lexicon until the FSB launched the Treating Customers Fairly campaign in 2011. However, treating customers fairly must stop being a term that the financial sector makes reference to, it must become part of the financial sector's culture. It is now the responsibility of the FSCA to ensure that the fair treatment of customers does become second nature to the financial sector.

The other project underway is the development of the regulatory framework for how financial products and services are distributed to consumers. The delivery of financial products and services has huge impact on the fair treatment of consumers. There is also the issue of unclaimed benefits, in particular ensuring that this issue is addressed in consistent and effective manner. Currently, there has been greater focus on the retirement industry. Unclaimed benefits must be treated consistently across the entire financial services sector.

The FSCA will also regulate the conduct of retail banks and payment services. In this regard, National Treasury has commissioned a diagnostic study into the retail banking sector. The recommendations from this exercise will inform the development of a comprehensive strategy for regulating retail banks and addressing identified poor customer outcomes.

The FSCA also has a mandate to ensure the efficiency and integrity of financial markets. To better address financial market abuses, a comprehensive Financial Markets Review is already underway under the leadership of former Senior Deputy Governor of the South African Reserve Bank, James Cross.

The third pillar of the FSCA mandate is consumer education to raise the levels of financial literacy. This will support the work of the National Consumer Financial Education Committee chaired by the National Treasury. One initiative in this regard is South Africa's first MoneySmartWeek planned for October this year.



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While the FSCA will build on the momentum created by the FSB, its operations will be a significant break from the past, with a more intensive and intrusive approach to regulation and supervision. This approach will lay the basis for transforming the financial sector to serve customers and South Africa better. Work is also underway to harmonize market conduct legislation. Once passed into law, the Conduct of Financial Institutions Bill will entrench principles of fair customer outcomes across the sector. It will also enable the FSCA to take a proactive, proportionate and risk-based approach to regulation.

The FSCA will mark its six-month anniversary with the release of its regulatory strategy, setting out in detail its approach over the next three years.

A market conduct regulator needs to be tough and take strong action against those who abuse their customers but it must exercise its powers with great care so as not to inadvertently destabilise the financial system. The FSCA will need to develop close working relationships with other regulators in the financial sector like the Prudential Authority and National Credit Regulator.

Much effort has gone into ensuring the transition from the FSB to the FSCA is as smooth and non-disruptive as possible. A transitional management committee has been put into place, under the leadership of the former Chair of the Board of the FSB, Abel Sithole. The committee is comprised of of the former executive committee members of the FSB.

The transitional management committee is responsible for implementing the necessary transitional requirements, until the Commissioner and Deputy Commissioners are appointed.

In conclusion, we need a financial sector that serves all South Africans, and not just a privileged few. The FSCA has a big role to play in this regard. The FSCA's success must surely be measured by how well it helps bring about a financial sector that not only protects customers, but meets the needs of all South Africans, specifically lower income groups, rural households, and small businesses. A country with such developmental challenges as ours, needs an ambitious financial sector but one that is not reckless in how it lends.

Thank you.