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Financial sector update

This annexure provides an update on regulatory changes in the financial sector.

Response to COVID-19

Monetary, fiscal and regulatory authorities have taken steps to mitigate the effects of COVID-19 on the economy, mainly by providing financial assistance to companies and workers as well as reducing the regulatory burden on financial institutions in an effort to support economic activity. These policy interventions were designed to limit social distress and avert unnecessary bankruptcies.

In 2021, financial sector policy will focus on sustainably supporting the recovery. Effective policies to address structural challenges facing the sector could result in a faster and more durable economic recovery. These include harnessing financial technologies to broaden and deepen financial inclusion, and promoting the sector's contribution to a green economy.

Measures to ensure financial stability

To support the financial sector during the pandemic, the Prudential Authority – which regulates banks and the broader financial sector – announced a temporary relaxation of regulations to support businesses and regulated financial institutions. These measures included:

- Lowering the minimum capital and liquidity coverage ratio requirements for banks.
- Reducing capital requirements for loans that banks restructured to assist their customers and guiding banks on the application of expected credit loss provisioning and accounting practices.
- Advising banks to refrain from paying bonuses and dividends.
- Monitoring banks' operational risk and business continuity more closely to ensure the health and safety of staff and customers.
- Extending financial and regulatory reporting timelines for financial institutions affected by strict lockdown restrictions.

Measures to help customers

The Financial Sector Conduct Authority (FSCA), which regulates the market conduct of financial sector institutions, implemented measures to support customers and regulated entities. These measures included relaxing regulatory reporting timelines for entities.

To ensure that customers were treated fairly, the FSCA communicated its expectations of COVID-19-related conduct to financial institutions. In addition, the FSCA adjusted regulations to support insurance premium relief for policyholders, allowing them to still claim while minimising disruptions to the expected income of intermediaries.

The insurance industry has faced significant uncertainty over how to manage COVID-19-related claims. The FSCA communicated on specific issues, such as publishing its stance on business interruption cover. While industry participants sought legal certainty regarding their business interruption cover obligations through the courts, the FSCA obtained agreement from affected non-life insurers that they would provide interim relief – in the form of payments – to policyholders with the appropriate contagious disease extension.

In addition, the FSCA advised the boards of trustees for retirement funds and financially distressed employers to consider allowing the suspension or reduction of retirement contributions. Where funds did not have rules enabling this, they were requested to submit such rules for FSCA approval. The FSCA also encouraged employers and funds to continue paying full risk-benefit premiums for members to ensure that they and their families continued to be covered in the event of death or disability.

Measures to support small businesses

The National Treasury, in partnership with the Reserve Bank and the Banking Association South Africa, launched the COVID-19 loan guarantee scheme in May 2020, and revised it in July 2020. This arrangement was designed to enable commercial banks to support firms until economic activity could resume. The National Treasury guaranteed support of up to R100 billion (later increased to R200 billion) for this scheme.

To date, banks have provided R17.8 billion in relief to 13 173 approved beneficiaries. The arrangement is being expanded through non-bank financial institutions to reach a greater number of distressed firms, but the final outlay is expected to remain well below the guaranteed amount. At the height of the pandemic, banks provided R617 billion in restructuring of credit exposure following guidance from the Prudential Authority. A portion of this was provided to small businesses.

Fighting financial crime and corruption

South Africa's financial integrity system is undergoing a mutual evaluation by the Financial Action Task Force (FATF). This review, which takes place regularly in all FATF member countries, evaluates national systems against international standards to prevent money laundering, terror financing, and the financing of the proliferation of weapons of mass destruction. The COVID-19 pandemic delayed the completion of this review from September 2020 to 2021. The review will provide recommendations on how South African authorities can enhance the integrity of the financial system.

Simplifying cross-border trade and financial flows

In 2021, the National Treasury and the Reserve Bank will continue to develop the legislative framework for the new capital flow management system announced in the 2020 Budget. The system is expected to be substantively completed this year. The Reserve Bank will issue a new set of Capital Flows Management Regulations in terms of the Currency and Exchanges Act (1933). This framework is being developed with the Financial Intelligence Centre and the South African Revenue Service.

From 1 March 2021, specific rules for companies with a primary listing offshore, including dual-listed structures, will be aligned to current foreign direct investment rules. This change will be applied automatically to affected companies once the Reserve Bank has finalised these arrangements.

During 2021, government will continue working to implement reforms promoting South Africa as a financial hub for the continent in light of the African Continental Free Trade Agreement.

Supporting financial stability

In January 2021, the National Treasury and the Reserve Bank finalised the Financial Stability Framework that defines how the Reserve Bank will independently fulfil its financial stability responsibilities in terms of the Financial Sector Regulation Act (2017).

Promoting financial technology to improve financial inclusion

Financial technology (fintech) can provide greater access to cheaper, faster and more seamless services. However, it poses risks such as cybercrime, money laundering and misuse of consumer data.

Fostering innovation and promoting competition

To leverage fintech benefits and contain risks, the Intergovernmental Fintech Working Group launched an innovation hub in April 2020. To date, innovators have used the hub to engage regulators quickly and collectively on over 80 queries related to their innovations. The hub also provides a coordinated facility (or “sandbox”) to enable the live testing of new financial products or services in a controlled setting. Four products and services have been approved through this facility. Regulators are also using the hub to publish their policies and regulatory stances on crypto assets, open banking – the system and process of allowing third-party applications to access and control banking and related financial services – and the regulation of digital platforms (such as crowdfunding platforms).

Reimagining the financial sector for a more inclusive economy

In 2021, the Reserve Bank will review the feasibility of a retail central bank digital currency or digital cash, which is a digital form of currency that would be issued to the general public. The review, which will be published after completion, will assess potential effects on financial inclusion, monetary policy, financial stability and financial intermediation.

Responding to climate risks and building a sustainable economy

In May 2020, the National Treasury published a draft paper, *Financing a Sustainable Economy*, as a framework for financial institutions to disclose and report on issues related to climate risk, and highlighting opportunities for the sector to support the transition to a low-carbon and climate-resilient economy. The key recommendations include developing a green finance taxonomy, creating technical guidance for disclosures (such as the Task Force on Climate-related Financial Disclosures), and developing a climate risk scenario for use in stress tests.

Other reforms

International assessment of South Africa’s financial sector

In 2020, South Africa participated in a comprehensive review of the functioning of the financial sector through a G20-mandated Financial Sector Assessment Programme conducted by the International Monetary Fund and the World Bank. The review found that the country’s regulatory framework is operating effectively under the supervision of the Prudential Authority and the FSCA. The review also suggested areas that require strengthening – such as updating regulations on corporate governance, related entities and large exposures to align with current Basel Committee standards or guidance – and enhancing regulator independence and accountability. The review will be finalised by June 2021.

Broadening and deepening financial inclusion

In 2020, the National Treasury published a draft policy paper, *An Inclusive Financial Sector for All*, for public comment. It aims to establish a policy framework for financial inclusion in South Africa. Over

20 institutions provided comments. The National Treasury will facilitate workshops with stakeholders to discuss these comments before finalising the paper this year. It will also work with industry and civil society working groups and forums to develop a financial inclusion strategy, including a monitoring mechanism, to assess the state of financial inclusion and the impact of this policy.

The Conduct of Financial Institutions Bill

The second draft of the Conduct of Financial Institutions Bill was published in 2020 for public consultation. The National Treasury is engaging stakeholders to discuss and clarify comments received. A revised draft of the bill will be tabled in Parliament in 2021.

Transformation and financial inclusion

The Financial Sector Transformation Council established seven subcommittees to review the targets in the Financial Sector Code to strengthen transformation. The subcommittees are developing targets for management control and skills development, socioeconomic development and consumer education, retirement funds and ownership, access to financial services, preferential procurement and empowerment financing. This year, the subcommittees will finalise and submit the revised targets to the Financial Sector Transformation Council for approval and then to the Department of Trade, Industry and Competition to publish for public comment.

Financial markets legislation

Various reforms are under way to enhance competitiveness and dynamism in financial markets. In February 2020, the National Treasury published a discussion paper, *Building Competitive Financial Markets for Innovation and Growth – A Work Programme for Structural Reforms to South Africa's Financial Markets*, and it is reviewing comments received. During 2021, a draft bill will be published to adjust the Financial Markets Act (2012) in line with some of the received comments and recommended reforms aligned with international standards. The Prudential Authority and the FSCA are engaging with the financial sector and analysing the feasibility of regulatory instruments in response to the recommendations.

Retirement fund reform

The COVID-19 pandemic has influenced many countries to consider allowing individuals to access their retirement savings as an interim relief measure. Alongside the 2020 *Medium Term Budget Policy Statement*, the National Treasury published an explanatory note with financial sector updates that noted numerous requests to allow limited pre-retirement withdrawals from retirement funds under certain conditions, such as disasters. Government continues to engage with trade unions, regulators and other stakeholders to discuss how to allow these withdrawals, together with mandatory preservation requirements.

Annuitisation for provident funds takes effect from 1 March 2021. In addition, the National Treasury has published draft amendments to Regulation 28 of the Pension Funds Act (1956) for public comment. The proposed amendments seek to make it easier for retirement funds to increase investment in infrastructure and improve the measurement of infrastructure investment by the FSCA. The proposed amendments refer to infrastructure investment already permitted through various asset classes and suggest delinking the asset category related to "hedge funds, private equity funds and other assets not referred to in this schedule". Delinking this asset category will make private equity a separate asset class with a higher investment limit.

Levies

The Financial Sector Levies Bill, to be submitted to Parliament in 2021, will provide for levies enabling financial sector regulatory bodies to carry out their duties. Details are contained in Chapter 4.