
**OPENING REMARKS BY MR UNATHI KAMLANA,
COMMISSIONER OF THE FINANCIAL SECTOR CONDUCT AUTHORITY (FSCA)
AT THE FSCA INDUSTRY - WIDE CONFERENCE
13 MARCH 2024**

Good morning, ladies and gentlemen,

Thank you so very much for making the time to come out here and welcome to our industry-wide conference. We are looking forward to engaging in great and insightful conversations about our work, and our role and getting an understanding of developments pertaining to the financial sector.

I wish to extend a special welcome to Mr. Lesetja Kganyago, the Governor of the South African Reserve Bank, the 10th Governor of our central bank. Thank you very much for honoring our invitation and we are also looking forward to your keynote address later.

Let me offer a few contextual remarks, intended to frame the discussions over the next day and a half and position the strategic importance of this engagement in terms of the work programme of the FSCA and our mandate.

If I would try and suggest the key phenomena which have characterized the state of the South African financial sector in recent times, from a conduct perspective:

The first issue would be the cost-of-living crisis and the increasing vulnerability of consumers (Governor, no pressure for your meeting with the MPC later this month), but really what do we see and how do we think about the role of financial institutions in that context. So that's the first issue.

The second issue, which could have easily been the first, it's this issue of market integrity – the need for us to get ourselves off the FATF greylist – and to do so within the agreed timeframe in terms of the action plan that we have. This issue directly impacts the reputation and credibility of the South African financial sector on the global stage. So it is urgent.

The third issue, is the structural change that the two pot system represents in terms of retirement savings how we think about retirement savings policy and outcomes and the last issue – is about the theme of this conference, which is about building trust in the financial sector – what is our assessment of where the sector stands in terms of conduct reputation and levels of trust in the sector – and that includes a lot of things, whether you are looking at innovation and how technology is deployed as business models change and evolve, our ability to respond to those changes and deliver on treating customers fairly and all these good things in terms of customer outcomes. The ability of leaders at the highest level in organisations to champion these issues – around culture, governance, accountability, transparency, transformation – all of these contribute to good conduct.

Executive Committee:

Commissioner: U. Kamlana | **Deputy Commissioners:** A. Ludin | K. Gibson | F. Badat

I am mentioning these four – and really don't intend to touch on all of them in my opening remarks – but I certainly hope that we can hear from yourselves about what you think about these issues and how we should work together in addressing them.

The cost of living crisis

On the cost of living crisis the issue of interest for us is the increasing vulnerability and fragility of households, with many struggling to cope with the rising costs of basic necessities. How's the sector thinking about this and is the response adequate – it's an issue to debate and agree an approach.

It's also about levels of household debt, it's about debt service costs, what financial products are sacrificed in order for people to make ends meet, as industry your role becomes even more crucial in this context.

South Africa grey-listing

Then on the issue of the grey-listing, I guess the central question is are we doing enough, all of us – to get our country off the greylist timeously. Many jurisdictions have been able to get themselves off, will we be able to, given the economic cost of this. Some of you have been on the receiving end of our actions as we try to address FATF recommendations. Just to say that those who have not yet been affected – your letters are in the mail. Coming to a letter box near you.

But seriously, the message about this is that it is a collaborative effort and Treasury is leading us on this and we are all doing our part.

Retirement Funds Two-Pot system

Historically, retirement funds have focused on long-term savings accumulation, with limited access before retirement, aiming to secure a substantial financial base for individuals' retirement years. However, this approach often left members without an immediate financial safety net, leading to premature withdrawals that could compromise their long-term financial health and retirement readiness. To address these challenges, the two-pot system introduces a flexible framework allowing for emergency access to a portion of savings without endangering future retirement security. This change aims to enhance member trust and engagement by providing a balance between immediate financial needs and long-term savings objectives. As regulators, we are actively collaborating with the industry to ensure seamless implementation of this system.

Our approach is both capacity to deal with rule amendments in the short term but also to focus on education in order to enhance member outcomes. The second part of the reforms – which talks to compulsory preservation should also have adequate coverage in terms of the conversation.

The Importance of trust in the financial sector

So let me come to this issue of levels of trust in the sector. Firstly I raise this because trust is an essential ingredient of something more important that is necessary in the sector – and that is confidence and that's essential for another important thing – that is stability. So I would really be interested in hearing what is your view of the levels of trust in the sector

and what can be done to improve it. We have chosen this focus as a theme because of its strategic importance for our work as the FSCA – it's fundamental, it's foundational for the entire system and how it operates. The scandals and the reputational knocks that the sector takes are not helpful – to be clear. We need to take proactive measures to uphold and rebuild trust.

Leadership and Culture

Leadership and culture is at the center of it. It doesn't help when we have scandals around the integrity and qualifications of leaders and their credibility. We must talk about this and resolve it. Tone from the top – there's no other way.

In collaboration with the Prudential Authority, we are developing a joint standard on culture and governance. This standard will set the benchmark for ethical behavior and leadership accountability, ensuring that these critical elements are consistently upheld across the sector. The draft Joint Standard is going through targeted industry consultation, which will be followed by formal public consultation.

Reflection on the FSCA's Journey

As an organization, we celebrated our fifth anniversary last year. Over that period, we have undergone a profound transformation, guided by the principles of the Twin Peaks model—a framework that has shaped our approach to financial regulation. Embracing both the opportunities and challenges presented by this new regulatory landscape, we have implemented strategies and initiatives to promote fair customer treatment and ensure the efficiency and integrity of financial markets.

We have moved beyond mere compliance-based approaches to proactive risk identification and mitigation. To outcomes- and principles-based regulation and supervision, focusing on fair customer outcomes rather than prescribing detailed rules. This approach allows you as the sector, the flexibility to design their products and services to meet customer needs within the overarching principles set by us.

Recognizing the evolving landscape of financial technology, we established an internal Fintech department to ensure we remain at the forefront of developments and drive responsible innovation. Playing a crucial role in providing thought leadership on emerging innovations in the sector and has made significant contributions to the work of the Intergovernmental Fintech Working Group (IFWG). Since its establishment, the department has published several papers, including a Position Paper on open finance and the most recent report on a crypto assets market study. These have helped our inrail approach to regulating crypto assets

Furthermore, our digital transformation journey began with the launch of our Digital Transformation Strategy, a critical step towards becoming a more agile, innovative, and digitally savvy organisation. We have recently acquired an Integrated Regulatory System that will enable us to understand conduct risks more holistically across regulated entities and enhance our regulatory oversight capabilities. This system will streamline processes and improve collaboration by providing a centralised platform for sharing information and coordinating efforts.

Looking Ahead: Challenges and Opportunities

Technology innovation and associated risks

These advancements also come with significant risks, such as cybercrime and data privacy concerns.

As a regulator, we are concerned about cybersecurity risks associated with technological advancements. These risks can undermine trust and stability in the financial sector, leading to substantial financial losses, eroding customer confidence, and disrupting essential financial services. In response, we, in collaboration with the Prudential Authority, will be making a joint standard on cybersecurity to ensure financial institutions implement robust measures and resilience strategies. The critical nature of this issue requires us to remain vigilant and proactive in ensuring the financial system's resilience against evolving cyber threats.

Artificial Intelligence, another topic we will tackle here today, has emerged as a significant innovation poised to redefine the financial services industry, promising efficiencies and new capabilities. Acknowledging the significant implications of AI, we will conduct a market study this year on its impact on financial services. This study will explore the potential benefits and associated risks, ensuring that as we embrace AI's advancements, we maintain a balance between innovation and the safeguarding of customers and the integrity of our sector.

Conduct of Financial Institutions (CoFI) Bill

The forthcoming Conduct of Financial Institutions (CoFI) Bill is set to enhance our regulatory approach further, enabling agile responses to cross-sector risks through conduct standards. The CoFI Bill, currently being finalised by National Treasury before proceeding to Parliament, is a significant step in reforming the conduct regulatory framework by consolidating various financial sector conduct laws into a single legislation. Anticipating the significant changes, the CoFI Bill will bring, we are not waiting for its official enactment to adjust our frameworks and processes. Instead, we are proactively aligning our current practices with the Bill's principles to ensure a smooth transition, thereby minimizing disruptions and maximizing benefits for both consumers and the industry.

Financial markets legislative reform

As we proactively prepare for the implementation of the CoFI Bill, our focus on legislative reform extends beyond conduct of financial institutions to encompass financial markets. We are also working with National Treasury, Prudential Authority, and other stakeholders to reform South Africa's financial markets' legislative framework based on proposals outlined in the National Treasury's policy paper released in March 2020, titled "Building Competitive Financial Markets for Innovation and Growth". These proposals include a move from a purely self-regulatory model to a shared responsibility, with the FSCA taking greater oversight responsibility, especially in the area of cross market surveillance. We are currently exploring and evaluating these proposals to determine the most effective way to implement them.

In preparation for assuming greater oversight responsibilities, we are enhancing our capacity for market oversight and surveillance, especially in over-the-counter and fragmented exchange-traded markets. This will involve the licensing and development of a

trade repository for central data collection, analysis, and monitoring of trends. These reforms, which also stem from the recent IMF Financial Sector Assessment Program, will help ensure that the FSCA is fully equipped to detect and prevent market manipulation and insider trading.

Furthermore, we have been working on a Conduct Standard for Market Infrastructures, which will be published for public consultation in due course. Through this conduct standard, we aim to ensure that a level playing field is established among market infrastructures.

Promoting sustainability

Governance and culture are essential foundations for promoting sustainability within the financial sector, providing the structure, values, and incentives necessary to integrate sustainability considerations into business practices effectively. In an era of increased concerns over climate change, social inequality, and governance challenges, we are proactively positioning ourselves to play an active role in enabling a financial sector that supports sustainable objectives. In this regard, we have taken a significant step forward by publishing our introductory Statement on Sustainable Finance and program of work. This publication outlines the FSCA's plan to cultivate a financial sector that is not only fair, efficient, and resilient but also supports inclusive and sustainable development. As a market conduct regulator, it is clear that the FSCA has a vital role to play in improving the availability of credible and consistent information in the South African financial markets. The program of work underway includes promoting the adoption of a common taxonomy for sustainability, aligning disclosure and reporting requirements, and ensuring that customers remain protected against risks of greenwashing, social washing, and other risks that may arise as markets for sustainable financial products expand. As an organisation, the FSCA has adopted sustainability as one of our values. We will publish a Sustainable Finance Roadmap in the coming weeks, which will serve as our guiding document in our efforts to promote sustainable finance over the next few years.

Conclusion

As I conclude, let us take a moment to appreciate the journey we have embarked upon together with the sector and with our sister regulators. As we shift our focus to the period ahead, let us embrace the uncertainty with courage and optimism, knowing that each step forward brings new opportunities for learning, collaboration, and innovation.

Over the course of today and half of tomorrow, we are set to explore a multitude of topics, ranging from the FSCA's plans for the period ahead to the challenges posed by the FATF grey-listing, as well as the progress made in exiting the grey list, and the exciting opportunities and risks brought about by technological advancements.

I encourage each one of you to actively participate and engage in the meaningful dialogues that will unfold today and tomorrow. Your insights, questions, and discussions are the key components that will drive the success of this gathering.

Thank you and welcome to the conference. I hope that you will find the discussions rewarding, and the entire conference enjoyable.

At this point, please allow me to invite the Governor to give his keynote address.

ENDS

Enquiries: Financial Sector Conduct Authority
Email address: communications@fsca.co.za
Telephone: 0800 203 722