March 2022

FSCA NEWSLETTER

HIGHLIGHTS

- **The FSCA Regulatory Strategy**

  Guiding Market Conduct Regulation for the next three years

- **FSCA Transformation Strategy out for public comment**

- **Secure your digital payments and avoid being a victim of cyber fraud**

- **The FSCA grants Sovereign Africa Ratings (Pty) Ltd a credit rating agency licence**

- **Launch of the financial literacy facilitator course**

Editor's Note

The FSCA plays a critical role in fostering a financial system that is not only fair, efficient and resilient, but one that supports inclusive economic growth in our country. Our activities in the past financial year have really been geared at ensuring that every day we take a step closer to ensuring that this goal is realised.

In this issue we look at some of those significant steps, including our recently published Regulatory Strategy which will play an essential role in guiding market conduct regulation in South Africa for the next three years.

Another big-ticket item for us has been transformation, as we've worked to refine our approach and put together a Transformation Strategy, which is currently out for public comment. We will keep you updated on any developments in this regard.

On the licensing front, the FSCA recently approved an application Sovereign Africa Ratings (Pty) Ltd (SAR)allowing this entity to operate as a credit rating agency in South Africa from 8 March 2022.

In other news.... have you ever wondered what you can do to secure your digital payment and avoid being a victim of cyber fraud? Well, we talk about this more in-depth in this issue as we look at the delicate balance between rapid technological advancements in the digital payment space and ensuring that these payments are secure.

We have all this and more in store for you in this edition. Thank you for the continuous feedback on the newsletter. We are even more committed to bringing you better content as we prepare to start our new financial year. To be one of our contributors, you can send your article to: publications@fsca.co.za

Till next time...

Tembisa Marele

The FSCA Regulatory Strategy

Guiding Market Conduct Regulation for the next three years

By Reneilwe Mthelebofu - Communication and Language Services Department

The revised Regulatory Strategy of the FSCA, which outlines its key priorities for the next three years - 14 December 2021 to 31 March 2025, has been published, allowing the organisation to better fulfil its mandate.

Over the next three years, the FSCA will be focused on establishing and implementing its approaches to policy development, regulation and supervision in order to drive fair customer and market outcomes. This is not to say this was not the focus of the inaugural Strategy. Since 2018, the focus was on managing the transition from the Financial Services Board (FSB) to the FSCA - whose dedicated mandate was lined with an extended scope in jurisdiction and adapting new dynamic approaches to conduct regulation and supervision. It was also about streamlining and improving internal processes, procedures, capacities and competencies, which at times presented various challenges like the COVID-19 pandemic, among others.

Despite these challenges, the FSCA achieved a lot of the outcomes that were set in the 2018 Strategy, such as the development of regulatory frameworks to fill any gaps in regulation; the development of new supervisory approaches; a new organisational design; moving from a sector-based regulator to a functionally structured conduct regulator; and exploring new ways of doing business with the establishment of the fintech department - amongst many others.

Publishing this new strategy is in line with the Financial Sector Regulation Act (FSR Act), which requires the FSCA to periodically publish a Regulatory Strategy that addresses regulatory and supervisory priorities. The strategy is also aligned to the FSCA's Strategic Plan (2020 – 2025) and Annual Performance Plans (based on the financial year starting 1 April of each year). The strategic objectives as indicated across these various documents are ultimately aligned.

The five strategic objectives

The FSCA has for the next three years namely to:

- Improve industry practices to achieve fair outcomes for financial customers
- Act against misconduct to support confidence and integrity in the financial sector
- Promote the development of an innovative, inclusive and sustainable financial sector
- Empower households and small businesses to be financially resilient
- Accelerate the transformation of the FSCA into a socially responsible, efficient, and responsive conduct regulator

In achieving the first objective which is - *improving industry practices to achieve fair outcomes for financial customers*, the Authority aims to promote the consistent embedding of Treating Customers Fairly (TCF) principles by developing clear and coherent conduct standards across the financial sector. Properly embedding good conduct requires strong cultural and leadership commitment to customer centricity throughout all levels within financial institutions. To see this through, the FSCA, in collaboration with the Prudential Authority (PA), is in the process of developing a cross-cutting regulatory framework for culture and governance aimed at establishing baseline requirements to be implemented by financial institutions. This will help ensure a more consistent and measurable approach to supervising how financial institutions embed such within their organisations.

The FSCA will also increase awareness of its conduct requirements and expectations of good conduct, including the use of a risk-based supervisory approach. Its supervisory framework will be informed by, among others, analysis of the statutory Conduct of Business Returns, which will be rolled out incrementally over the period. The conduct outcomes across the financial sector will be measured, tested and tracked through research on financial customer experiences and the how suitable financial products and services are. This will be done in collaboration with industry and particular sub-sectors, to ensure that efficient processes are in place.

The Authority will also improve on its ability to respond to emerging and systemic conduct risks by developing and implementing systems and approaches to collect and analyse relevant data and undertake targeted interventions to address these emerging risks in a timeous manner. Possible responses include thematic supervisory and research efforts. Examples of specific risks that have already been identified relate to crypto assets and increasing cyber and systems threats, which can expose consumers to loss of assets or identity.

The guiding principles on how work will be undertaken

The new Regulatory Strategy also sets out the FSCA's guiding principles, inclusive of how it will perform its regulatory and supervisory functions. These guiding principles warrant the FSCA to be:

- Pre-emptive and pro-active
- Intensive and intrusive
- Risk-based and proportional
- Transparent and consultative
- Outcomes-based
- Comprehensive and consistent
- A credible deterrent
- Aligned with applicable international standards

Being *pre-emptive* and *pro-active* for example, will require the organisation to not only mitigate risks that have already resulted in prejudice to financial customers, but also adopt a forward-looking approach by pre-empting prejudice and proactively identifying and responding to emerging conduct risks. This forward-looking approach is inherent to the licensing "gate-keeper" function and is being embedded across supervisory practices, including through enhanced reporting frameworks (for financial institutions) and research capability.

In order to be *intensive* and *intrusive* the FSCA will have to adopt a judgment-based style of supervision to interrogate - and where necessary challenge – the strategic decisions and business practices of supervised entities. From a conduct perspective this requires having deep insight into the culture, business models and drivers of behaviour in these entities, to ensure that they understand and mitigate the resulting risks posed to customers and financial markets.

The FSCA's Regulatory Strategy shows that the Authority is dedicated to contributing to the vision of a fair, efficient, and resilient financial system that supports inclusive and sustainable economic growth in South Africa.

Read the full Regulatory Strategy by clicking on the link below:

https://www.fsca.co.za/News%20Documents/FSCA%20Regulatory%20Strategy%202021-2025.pdf

FSCA Transformation Strategy out for public comment

One of the strategic objectives of the FSCA is to promote the development of an innovative, inclusive, and sustainable financial system, supporting the transformation of the financial sector. This support by the FSCA towards advancing the transformation agenda is evident in the recent publication of the FSCA's Strategy for promoting financial sector transformation. The document outlines the FSCA's approach to promoting financial sector transformation within the existing policy framework, including the Financial Sector Regulation (FSR) Act, as well as outline an approach for the FSCA to promote transformation under the future Conduct of Financial Institutions (COFI) Act framework.

Some background

The overall policy framework for broad-based black economic empowerment (B-BBEE) in South Africa is the Broad-Based Black Economic Empowerment Act, 2003 (Act No. 53 of 2003) (B-BBEE Act). Under this, the Financial Sector Code (gazetted in 2012 and subsequently revised and gazetted in 2017) reflects the accord reached by key financial sector stakeholders regarding their joint commitment to fostering B-BBEE in the financial sector.

In recognition of the need for a stronger focus on transformation by financial sector regulators, the FSR Act, which establishes the FSCA, includes as an object of the Act the promotion of transformation of the financial sector. The COFI Bill, which is expected to be tabled in Parliament this year, includes key proposals to further strengthen the powers of the FSCA in relation to financial sector transformation.

The FSCA's approach

The FSCA's approach to promoting financial sector transformation will take effect in a two-phase approach.

In phase 1 - Promoting transformation under the existing policy and legislative framework, the FSCA aims to achieve the following objectives:

- Engaging with financial institutions on existing transformation plans levels of compliance
- Improving availability and quality of transformation data, especially in relation to ownership
- Build strong co-operative relationships with the FSTC and the Commission
- Developing a collaborative approach to transformation of the financial sector with the Prudential Authority
- Supporting initiatives of the National Economic Development and Labour Council (NEDLAC) and FSTC related to financial sector transformation
- Supporting small businesses in the financial sector
- Developing licensing, regulatory and supervisory frameworks that promote transformation of the financial sector
- Internal readiness for Phase 2

Under the objective of developing licensing, regulatory and supervisory frameworks that promote transformation of the financial sector for example, the licensing, regulatory and supervisory requirements of the FSCA should not in themselves pose a barrier to entry for small financial institutions, particularly those owned by previously disadvantaged individuals. In support of transformation, the FSCA will develop regulatory and supervisory frameworks and instruments that allow for proportional application of requirements, minimising undue barriers to entry and compliance burdens. Where appropriate, regulatory instruments may also introduce explicit requirements aimed at transformation.

An example would be provisions in Regulations made under the Long-term Insurance Act and Short-term Insurance Act require insurance binder agreements to provide for mechanisms and measures aimed at the insurer meeting procurement, enterprise and supplier development targets, as envisaged in the Financial Sector Code.

The second phase - promoting transformation under a new legislative framework, will build on the efforts undertaken in Phase 1, rather than replace them, which in many instances will be ongoing. In addition to the work undertaken in Phase 1, once the COFI Act is implemented, the FSCA will be empowered to set direct requirements on financial institutions relating to transformation and supervise compliance with these.

One of the objectives under phase 2 is setting regulatory and supervisory actions to promote transformation. This means that the Transformation plans of financial institutions should demonstrate how the entity will ultimately meet the targets set out in the FS Code. Given the levels of transformation of the financial sector currently, it is envisaged that all financial institutions with an annual revenue of over R10 million should reflect a B-BBEE Level 4 score or have in place a transformation plan that demonstrates how they will reach this level within five years.

Where entities are already at B-BBEE Level 4 or above, the FSCA will engage will financial institutions on an individual basis to determine their achievement of the various elements of the scorecard. This can be done in conjunction with the FSTC and B-BBEE Commission, to identify particular areas where the industry may be able to improve. For example, it may be identified that the financial industry is doing poorly in relation to the management control element of the FS Code; the FSCA can engage with financial institutions to ascertain whether improvements can be made in relation to the management control performance. In line with its risk-based approach to supervision, these engagements with the sector will prioritise higher impact financial institutions.

Where transformation plans are deemed to be inadequate, the FSCA can engage with financial institutions to consider how plans can be improved. Supervisory actions can be considered in instances where financial institutions do not meet the targets identified in their transformation plans. When considering taking action for such failures, the FSCA must balance proposed actions with its mandate, namely the fair treatment of customers, the efficiency and integrity of financial markets and financial stability (in support of the SARB). Actions that can be considered where financial institutions fail to meet the targets identified in their transformation plans could include:

- meeting with the board of the institution and engaging on the importance of transformation as a national imperative;
- requesting a remedial plan to address the shortcomings, which can take the form of an enforceable undertaking;
- issuing a directive for non-compliance with an enforceable undertaking; and
- issuing an administrative penalty for non-compliance with COFI Act transformation requirements, an enforceable undertaking or directive. It is important to note that the FSCA mandate would be limited to enforcing financial sector laws only, and not the B-BBEE Act or the FS Code, which are the responsibility of the B-BBEE Commission and FSTC respectively.

In line with the FSCA's proportionate approach to regulation, the action taken will depend on the nature and severity of the transgression.

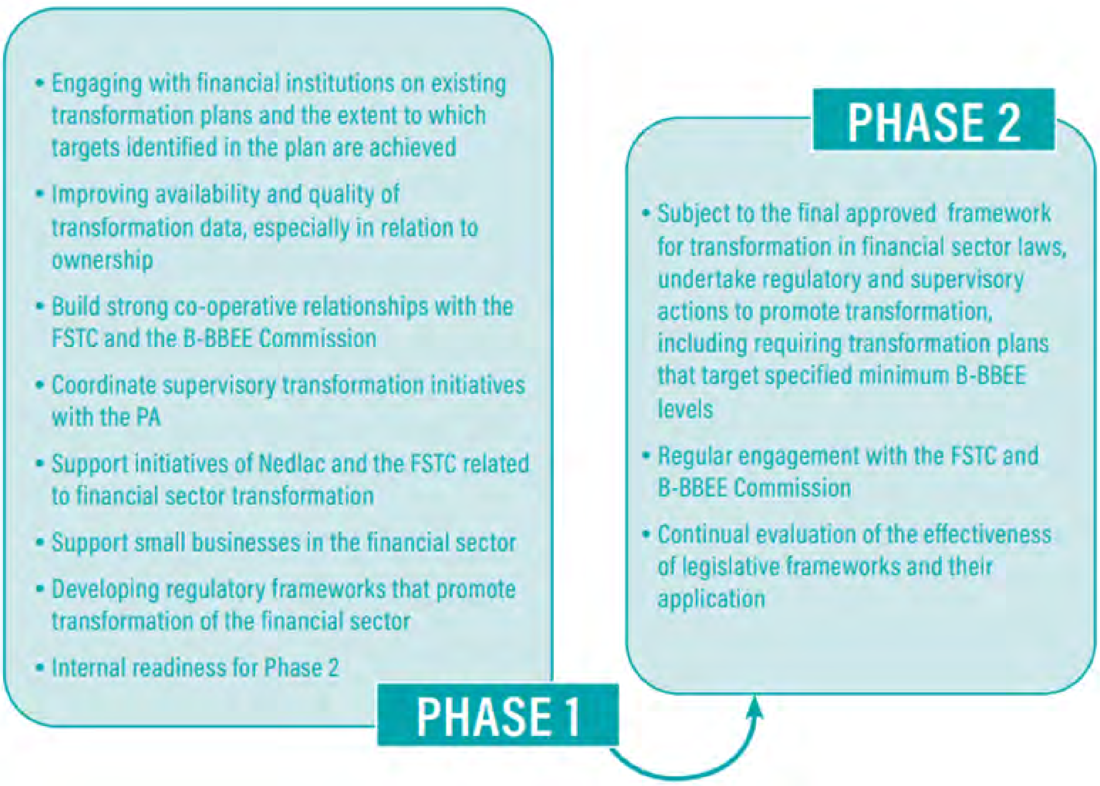

Figure 1: The FSCA's phased approach to financial sector transformation

Although the document is still out for comment, it points to a strengthening of the overall framework for transformation in the financial sector, as it will allow the FSCA to carry out supervisory and enforcement measures against financial institutions that don't uphold commitments to transformation.

Interested stakeholders can send their comments to fsca.policy@fsca.co.za by no later than 29 April 2022.

Secure your digital payments and avoid being a victim of cyber fraud

“Your life will never be the same again!” We have all heard this at one point or another, particularly when referring to the rate of technological innovation in the financial services sector. The FSCA has witnessed a fundamental shift in the way financial institutions facilitate, manage and conclude business transactions. This is partly as a result of the accelerated advancements made with mobile applications, online banking and cloud storage. This rapid acceleration has put emphasis on securing digital payments as a means of preventing cyber fraud.

We cannot deny the numerous benefits brought about by continuous developments in digital payments, like the convenience and ease of transacting and the security the digital platforms provide when compared to cash. These benefits are even greater for businesses and the economy at large. The most significant of these being that geographical location is no longer a limiting factor for business growth. Developed and modernised payment systems, have also made it easier to promote transparency and accountability, reduce transaction costs and decrease the size of the grey or informal economy.

These rapid technological advancements in the digital payment space however, present a caveat - which is the ever-present risk of cyber fraud the more sophisticated and complex they get. So, ensuring that digital payments are secure, while preventing fraud at the same time, remains a top priority within the financial services industry. The FSCA encourages customers using online services to exercise extreme caution and vigilance, ensuring that they safeguard their login details and personal information against hackers, as failure to do so can prove to be costly should sensitive information or data be compromised.

To avoid falling victim to the fraudulent scams, customers should take the following steps to safeguard their online payments:

Avoid the repeated use of passwords

There is always the temptation to use one password across different mediums as it is easy to remember, much like using the name of your spouse, partner, child, favourite aunt, mother-in-law or your pet's name. This should be avoided as anyone can figure it out. Similarly, another mistake would be the use of security questions in line with the password reset tools. "What is the name of your cat?" I can just imagine the hacker falling to the ground with laughter at that question. Hackers can use your social media profiles to figure out your passwords and answer the security questions.

Strong passwords are highly encouraged. Use at least eight characters with a mixture of upper, lowercase letters, numeric and special characters. Remember to change the password regularly.

The passwords are yours and yours alone

Another temptation is to share passwords. Never share your passwords or PINs with anyone. Do not reveal to someone by phone, text, email or over the internet - even when you are told it is someone from an institution you bank with. Your bank will never ask you to share these details with anyone. Provide minimal personal and confidential information, particularly when overly invasive and unnecessary details are requested from you. Remember that financial risks are usually covered by banks or other financial institutions, however protection from identity theft is often left up to the customer. Also, do not store sensitive information in a folder on your phone or write it in your diary or notebook. If you change your mobile number, inform your bank to ensure you continue to be the sole recipient of SMS notifications.

Turn on two-factor authentication

With hacking attacks on the rise, make use of SMS-based two-factor authentication. Turn it on! It guards against account takeovers that can lead to payment fraud. Though the original password may be leaked or stolen, in a case of two-factor authentication only the user receives the one-time password (OTP) via SMS that is needed to log in to a digital banking platform. This measure protects accounts from unauthorised access.

One-time passwords (OTP) matter

OTP systems provide a mechanism for logging on to a network or service using a unique password that can only be used once, as the name suggests. It is a security feature customers all need to adhere to and take advantage of. Our security matters when one-two-three-step authentication is implemented. Customers need to live with it for their security.

Use biometric authentication when possible

By choosing this secure method of authentication, customers are opting to make use of features unique only to them. Any measure that provides extra safety should be taken. Jay Marshall once wrote, "If the authentication method is based solely on convenience, then it's likely convenient to thieves too". Using biometrics also helps in reducing the likelihood of stolen phones being accessed.

Check your bank statements often

Do not fail at the basics. Check! Check! Check some more! If you do not know why there is a R99.01 transaction on your bank statement, it does not require pondering… dispute it immediately. By getting into the habit of frequently checking your bank statements you will quickly spot any irregularities or unauthorised transactions. Start with little actions like reviewing your bank statement after making a purchase online. And here is an open secret… it will cost you nothing!

Free WiFi is good, however…

Always be alert when using public WiFi and the Bluetooth function in public places as your digital credentials or financial information can be compromised. At all times keep your devices updated with the latest security software, antivirus, web browser and operating system to have the best defense against online threats such as viruses and malware. Remember to turn on automatic updates so you can receive the latest updates as they become available and if you only use your home WiFi then ensure that you password protect it.

Look out for the padlock

This is a tiny symbol of a locked padlock which appears on the URL bar of the webpage. It signifies that the website uses secure technology for shopping online. At the checkout screen, verify that the web address begins with https. In the words of Rebecca Edwards, “Online shopping is a modern blessing, but the risk of financial data being stolen can make it feel more like a curse. Avoid that sinking feeling after clicking ***complete transaction***”.

A recent Global Banking Fraud Survey revealed that the changing global banking landscape that sees physical branch networks shrinking, there are volumes of digital payments increasing and payments are being processed in seconds. This has led to fraudsters creatively finding new ways to steal from banks and their customers. Banks globally are seeing an increasing trend in scams where fraudsters are manipulating and coercing customers into making payments to them, bypassing bank controls and becoming more sophisticated, which is seen in how quickly they are able to change and adapt their approaches.

Through collaboration the FSCA, fellow regulators, financial institutions as well as customers can play a big role in preventing and detecting fraudulent activities and reducing losses brought about by scams. Banks and payment providers in particular are key, as they need to be agile in their response to new threats and embrace new approaches and technologies to predict and prevent fraud. The education of customers about fraud and scams is also essential and should be the focus of financial institutions.

The FSCA grants Sovereign Africa Ratings (Pty) Ltd a credit rating agency licence

The FSCA recently approved the licence application of Sovereign Africa Ratings (Pty) Ltd (SAR) to operate as a credit rating agency from 8 March 2022. The approval is in terms of Section 5 of the Credit Rating Services Act, 2012 (CRS Act). Sovereign Africa Ratings (Pty) Ltd is based in Centurion, South Africa, and is authorised to issue sovereign ratings only.

Sovereign credit ratings mean a credit rating where:

(a) The entity rated is a state or a provincial or local authority of the state; or

(b) the issuer of the debt or financial obligation, debt security; or other financial instrument is a state, or a provincial or a local authority of the state; or

(c) a special purpose vehicle of a state or a provincial or a local authority of a state.

The CRS Act and the subordinate legislation seeks to ensure that credit ratings issued in South Africa meet minimum standards of quality, transparency and independence by providing that only companies licensed by the Authority as credit rating agencies may lawfully issue credit ratings which may be used for regulatory purposes.

Licensed credit rating agencies are subject to on-going supervision and monitoring by the Authority to ensure they continually meet the conditions for licensing, the CRS Act and subordinate legislation. The supervision is carried out by the Credit Ratings department which assists in protecting investors and maintaining fair, orderly, and efficient capital/financial markets through the oversight of CRAs operating in South Africa. In support of this mandate, the department applies both on and off-site supervisory measures and follows an interactive approach in the supervision of CRAs. The department issues CRA licenses, monitors the activities and conducts supervisory onsite inspections of licensed CRAs to assess and promote compliance with statutory requirements.

The Authority will impose sanctions and/or penalties where it finds that a credit rating agency has failed to meet its obligations under the CRS Act and subordinate legislation. SAR's licence certificate is available on the FSCA's website.

What is a credit rating?

In terms of the CRS Act, a "**credit rating**" means an opinion regarding the creditworthiness of an entity, a security or a financial instrument or an issuer of a security using an established and defined ranking system of rating categories, excluding any recommendation to purchase, sell or hold any security or financial instrument. "Credit rating services" is defined to mean data and information analysis, evaluation, approval, issuing or review, for the purposes of credit ratings.

What is a credit rating agency?

A **credit rating agency (CRA)** is a legal person whose occupation includes the issuing of credit ratings. A credit rating agency assesses the creditworthiness of an entity or debt securities like bonds, notes, and other debt instruments such as asset-backed securities.

Launch of the financial literacy facilitator course

In 2019, the FSCA started the development of an accredited Financial Literacy Facilitator Course in partnership with the Resonance Institute of Learning Pty Ltd, an accredited training service provider. This was followed by a pilot in December 2020 and a roll-out to 32 candidates in July/August of 2021. The course is customised in that it is built on (SAQA ID: US 117871). "Facilitate learning using a variety of given methodologies" NQF level 5 and holds 10 credits, but uses the FSCA's MyMoney Learning Series as its content source.

The programme was developed in response to the FSCA's consumer education mandate to provide financial education and promote financial literacy. To fulfil this mandate, the Consumer Education Department (CED) of the FSCA offers financial education programmes to consumers. These programmes are aimed at improving consumer understanding of financial products and concepts by means of information, instruction, and awareness to develop the skills and confidence of consumers to use financial products and services. To facilitate such programmes, the FSCA requires experienced consumer financial education (CFE) facilitators to reach more consumers nationwide.

Prior to the development of the accredited FSCA Financial Literacy Facilitator Course, the CED conducted a two-day train-the-trainer programme with potential trainers. Arising from this, the need for an accredited version of the training programme was identified which would carry the flexibility to be adapted and offered by multiple accredited training providers across South Africa. The training companies would be allowed to co-brand the training material and certificate of competence together with the FSCA's logo. Furthermore, the adaptability of this unique course content would extend to the trained facilitators being able to customise it (within reason) for different audiences in terms of literacy levels, life experiences and context.

The training programme would include the full suite of material including:

- Facilitator guide
- Learner guide
- Learner workbook
- Presentation pack

The FSCA's Financial Literacy Facilitator Course will provide learners with a thorough understanding of their role and responsibilities as a facilitator, prepare them to facilitate on the basic consumer material and will assess them on their facilitation skills.

The Authority has established a database of trained trainers across all nine provinces, who can assist in facilitating projects provincially that fall under the mandate of the FSCA, as well as provide consumer education facilitation to organisations who can access their skills through an envisaged database of Consumer Financial Educators (CFE's). While achieving the objectives of the FSCA, this programme also supports the achievement of the National Development Plan (NDP) goals of the country, in that it increases the employability of the delegates that will be participating in this skills development programme.

The initial phase of training included two pilot sessions held with the FSCA staff, stakeholders, and observers, some of whom specialise in facilitation or facilitator training. Following the successful pilot and incorporation of minor refinements to the material, 32 learners were selected to participate in the roll out of the training programme of which 25 achieved competence in the programme.

About the facilitators

The facilitators are currently active members of their communities and are involved in various upliftment programmes. The majority speak multiple South African languages and are representative of all 9 provinces.

To find out more about the programme or to access the pilot and roll out reports click here https://www.fscamymoney.co.za/Pages/Projects/FSCA%e2%80%99s-AccreditedFinancial-Literacy-Facilitator-Course-.aspx

FSCA

Financial Sector
Conduct Authority

Contact Us

Physical address: 41 Matroosberg Rd, Ashlea Gardens, Pretoria, 0002

Postal Address: P.O. Box 35655

Menlo Park

0102

Contact Centre: 0800 20 37 22

Information Centre: library@fsca.co.za

Enquiries: enquiries@fsca.co.za

Complaints: complaints@fsca.co.za

For our Customers: www.fscamymoney.co.za

Our Website: www.fsca.co.za