Market Conduct Regulation under Twin Peaks

Presentation for:

Actuarial Society Short-term Convention

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Agenda

- The Twin Peaks model
- What is Conduct of Business?
- Core principles of Conduct supervision
- Embedding TCF
- Consumer Credit Insurance (CCI) review – an example of the new approach
- Other Conduct initiatives

Twin Peaks

MARKET CONDUCT	PRUDENTIAL	FINANCIAL STABILITY
Conduct of Business (TCF framework)	Banking	Financial Stability Oversight Committee
Market Integrity	Insurance	Financial Market Infrastructure
Consumer Education	Financial Conglomerates	Resolution Authority

MCA **SARB**

What is Conduct of Business?

Some features of Conduct of Business (CoB) regulation and supervision:

- It is concerned with the way financial institutions conduct their business and whether this conduct delivers fair customer outcomes.

- It considers product and service relationships (retail and wholesale) between financial services institutions and between financial services institutions and customers, to assess end customer outcomes.

- It monitors and seeks to mitigate **conduct risk** – the risk that an entity conducts its business in a way that does not deliver fair customer outcomes.

Core principles

Conduct regulation and supervision must be:

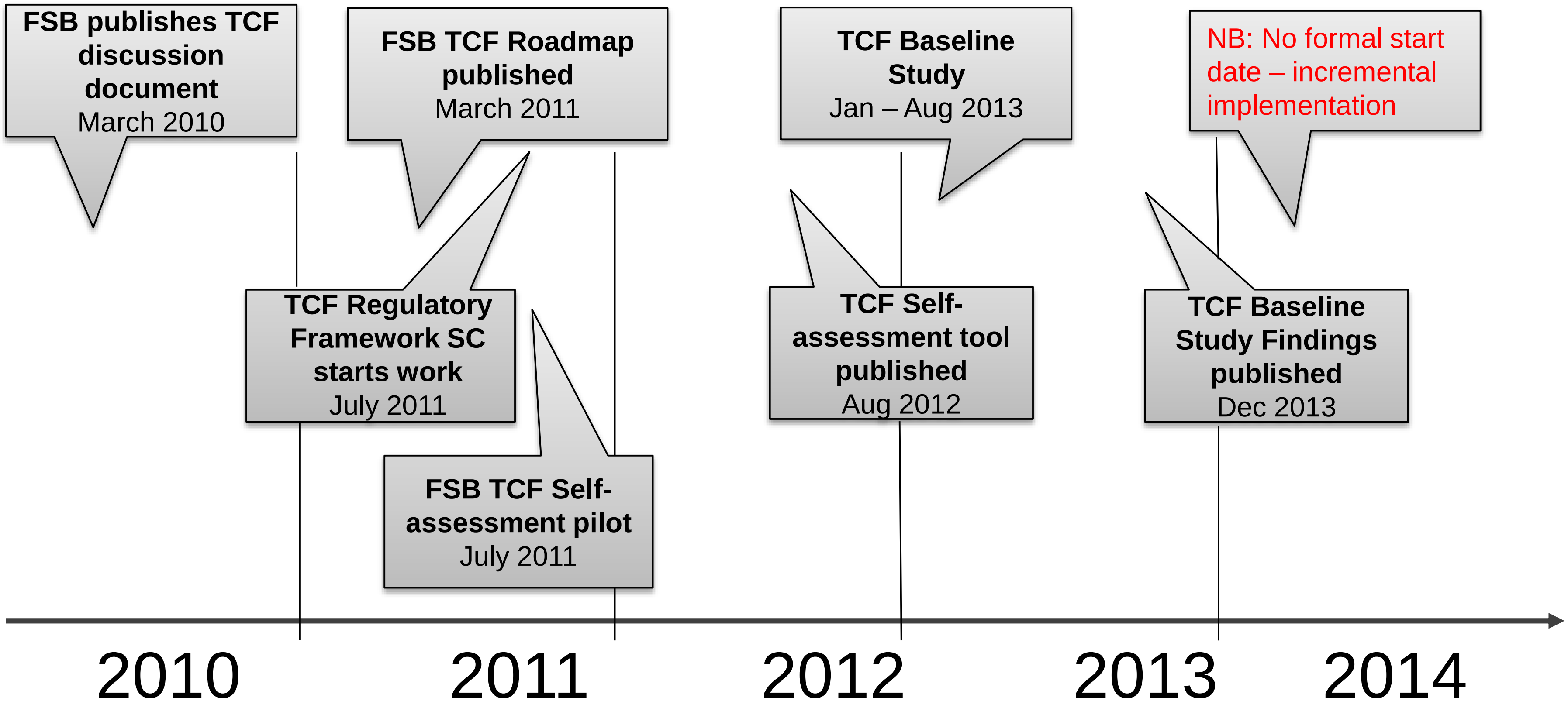
- Transparent
- Comprehensive and consistent – minimise arbitrage
- Intensive and intrusive – greater emphasis on business models and decision drivers
- Outcomes-based (especially TCF) – mix of enforceable principles and rules
- Risk-based and proportional – conduct risk perspective
- Pre-emptive and proactive
- A credible deterrent to misconduct
- Aligned with applicable international standards

Twin Peaks will create a tougher framework for consumer protection, with strengthened rule-making, monitoring and intervention powers.

TCF structural model

	Pillar 1: TCF Framework	Pillar 2: Implementing TCF	Pillar 3: Incentives & deterrence
Firms	Regulatory framework	Culture & governance	Disclosure & reporting
FSB	Supervisory framework	Proactive supervision	Enforcement mechanisms
Support • Consumer education and financial literacy objectives • Ultimate fairness through ombud schemes – model being revised • Regulatory co-ordination & information sharing – between conduct and prudential authorities, but also other regulators			

TCF journey so far: A consultative approach



The principles of TCF have been consistently communicated for four years. The FSB therefore expects regulated firms to already be applying these principles in the way they conduct business

Embedding TCF

- Introducing TCF principles into existing regulation
- Specific regulatory projects
- On-site testing of TCF commitment – focus is on effectiveness of implementation
- Reporting on TCF indicators – for e.g. new Insurance "conduct of business" reports
- Challenging TCF commitment when investigating concerns
- In time, TCF principles will be fully reflected in overarching legislation – but existing frameworks already allow for application of many aspects
- Reviewing existing regulatory frameworks to test whether they support fair outcomes – for e.g. **CCI**, RDR, retirement reform, etc.

Consumer Credit Insurance (CCI) Review

Where existing arrangements fail to consistently achieve fair outcomes, this requires structural interventions to change incentives and business models. The CCI review is an example of this approach.

- A joint National Treasury / FSB task team has reviewed the structure and market conduct practices of the CCI market.
- A technical report was published in early July. It shares the task team's findings and sets out a range of possible policy interventions for further consultation.
- Final proposals will be developed as a subsequent step, after considering inputs received on the report.

CCI: Current risks

Key issues identified in the report include:

- Lack of transparency in total cost of credit
- High premiums and low benefit realisation relative to other insurance pricing
- Poor comparability and questionable competition value of different product benefits
- Cover not meeting target market needs
- Captive consumers
- Conflicts of interest in highly interconnected value chains

CCI: Focus areas

The report invites feedback on three possible types of interventions:

- **Focus area 1:** Regulating CCI pricing – premiums, interest rates, and / or total cost of credit
- **Focus area 2:** Regulating market conduct (non-pricing) practices. A number of possible interventions around disclosure, distribution, competition, product standards, service, etc.
- **Focus area 3:** Protecting consumers through insurance cover for credit providers – provider “self insurance” as a possible alternative

Other conduct initiatives

Other TCF aligned conduct initiatives include:

- Enhanced fit and proper and governance standards (including conduct risk management) under new Twin Peaks licensing regime
- Greater focus on product development processes – supported by product standards where appropriate
- Greater responsibility for customer outcomes of chosen distribution models – including for “independent” channels
- Revised binder regulations
- Key Information Documents (KID’s) and other improved disclosure standards
- Claims handling review
- Complaints management and reporting

Thank You