



Financial Sector
Conduct Authority

FSCA Presentation to Portfolio Committee on Trade, Industry and Competition; Standing Committee on Finance

**Engagement on access to development finance in
support of industrialisation and economic
transformation**

4 February 2024



AGENDA

- Mandate of the Financial Sector Conduct Authority (FSCA)
- Who we currently supervise
- Insights on the banking sector
- Market conduct evolution
- Shifts observed in the banking sector
- Current supervisory focus areas
- FSCA approach to transformation
- COFI Bill and its implications for the FSCA

Financial Sector Conduct Authority

- Established by the Financial Sector Regulation Act (Act 9 of 2017), the FSCA is responsible for **market conduct** regulation and supervision of **all financial institutions** in South Africa.
- Our mandate is to enhance and support the **efficiency and integrity** of financial markets; to **protect financial customers** by promoting their fair treatment by financial institutions; and to provide financial customers with **financial education** and promote financial literacy.
- The FSCA also **assists** in maintaining financial stability.

Who we currently supervise

Banks 32	Insurers (Life and non-life) 148	Insurers providing funeral policies 44	Microinsurers 15	Retirement fund benefit administrators 114
Retirement funds 4 868	Cooperative banks 4	Cooperative financial institutions 23	Friendly societies 197	Financial services providers (FSPs) 11 890
Central securities depositories 2	Licensed exchanges 5	Associated clearing houses 2	Over the Counter Derivative Providers (ODPs) 38	Credit rating agencies 4
Collective investment schemes (CIS) in participation bonds 2	CIS in property 3	CIS in hedge funds 12	CIS in securities 46	Foreign CIS 162

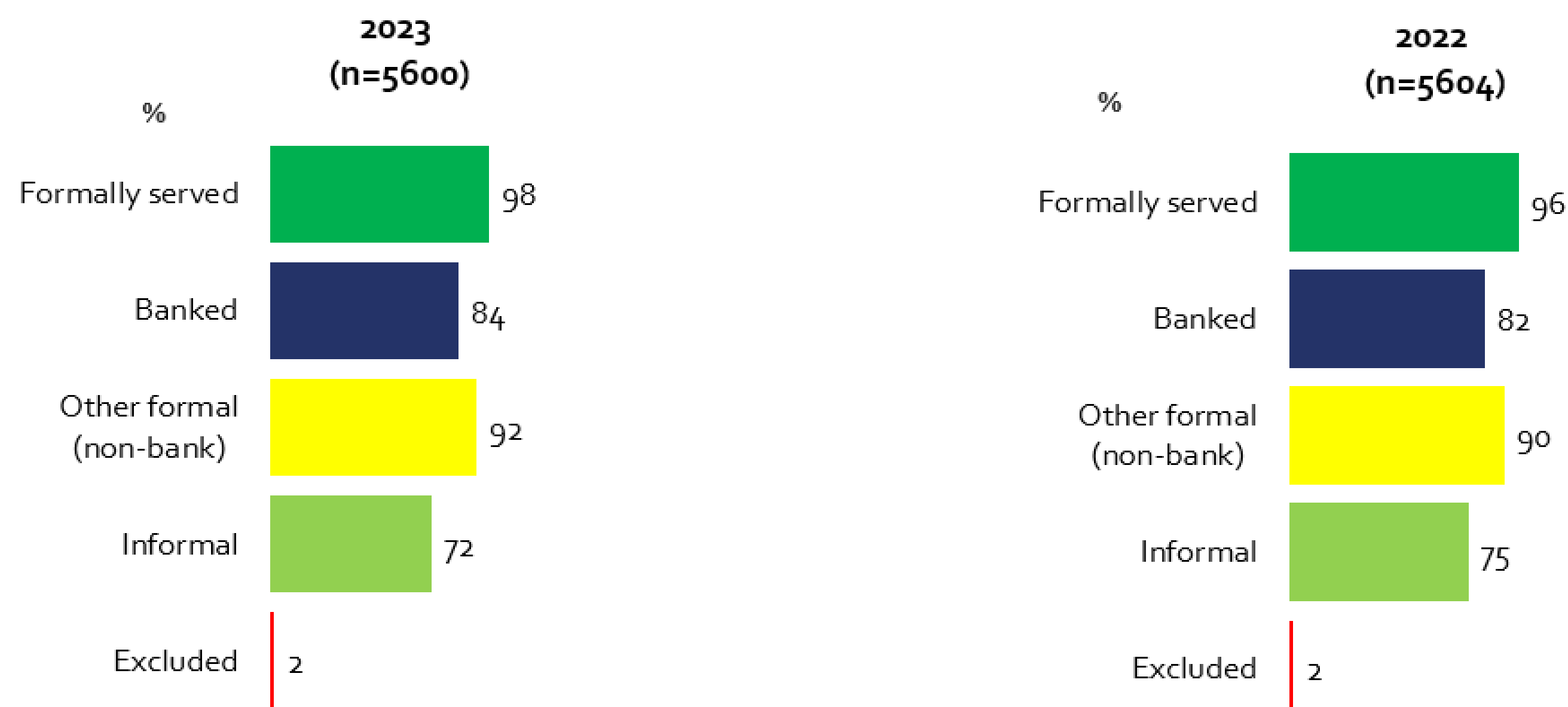


17 611 ~ ENTITIES

Note that the FSCA does not currently regulate credit providers but has an MOU with the NCR

South African banking sector – individuals

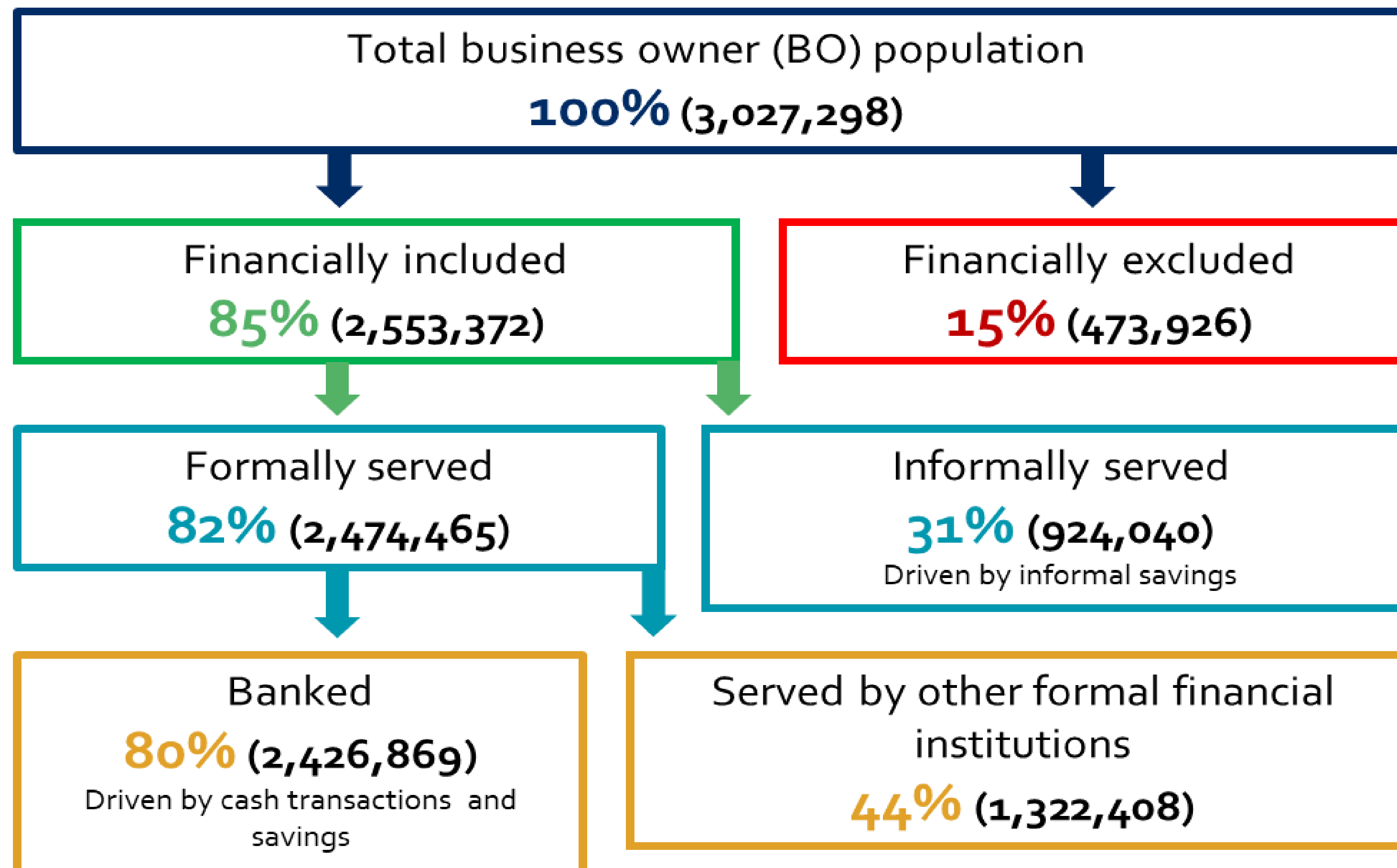
Financial inclusion overview – year on year



	2023 (n=5600)
No. of banked adults in SA	37 386 910
No. of previously banked adults in SA	1 855 980
No. of never banked adults in SA	5 442 809
No. of unbanked adults in SA	7 298 789

Source: FinScope SA 2023 Consumer Survey

South African banking sector - MSMEs



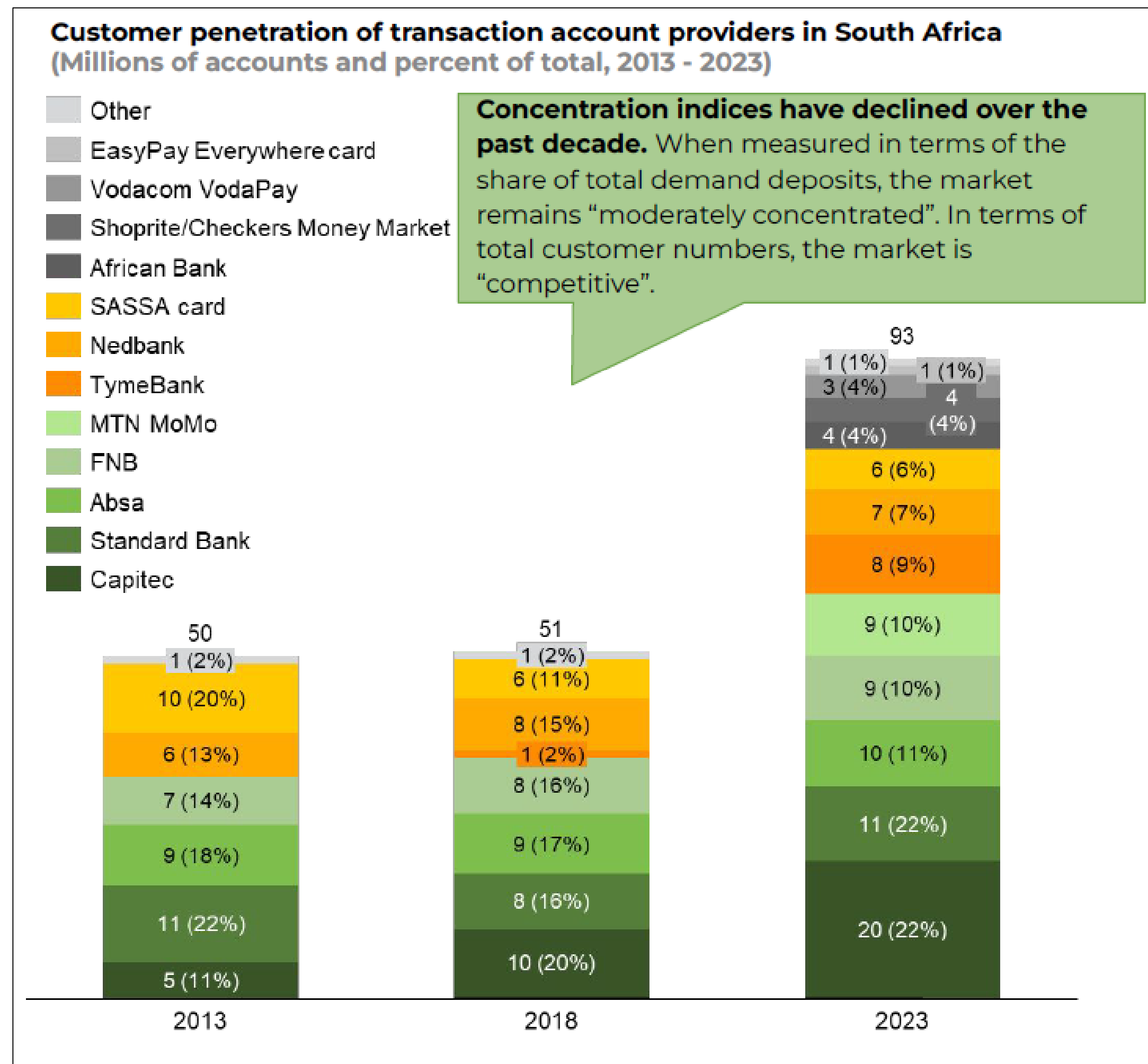
Category	Employees
Micro-enterprise	0 to 10
Small enterprise	11 to 50
Medium enterprise	51 to 250

Concentration in the retail banking sector

- There has been a **decrease in market concentration** when measured by both concentration ratios and the Herfindahl-Hirschman index Index (HHI).
- Decline present when considering concentration in terms of both the share of total demand deposits and customer numbers, primarily be attributed to the **reallocation of market share** from the traditional “big four” banks toward Capitec Bank since its entry in 2001.
- **Non-bank entrants** such as Vodacom and Shoprite/Checkers have a large footprint in terms of registered customers, but a smaller market share in terms of deposits due to the composition of their customer base - primarily low-income individuals who tend to maintain lower deposit balances.
- Despite shifts, the traditional “**big four**” **banks** still maintain **substantial market shares** within a market that has grown significantly in terms of the total value of demand deposits and customer numbers over the past twenty years.

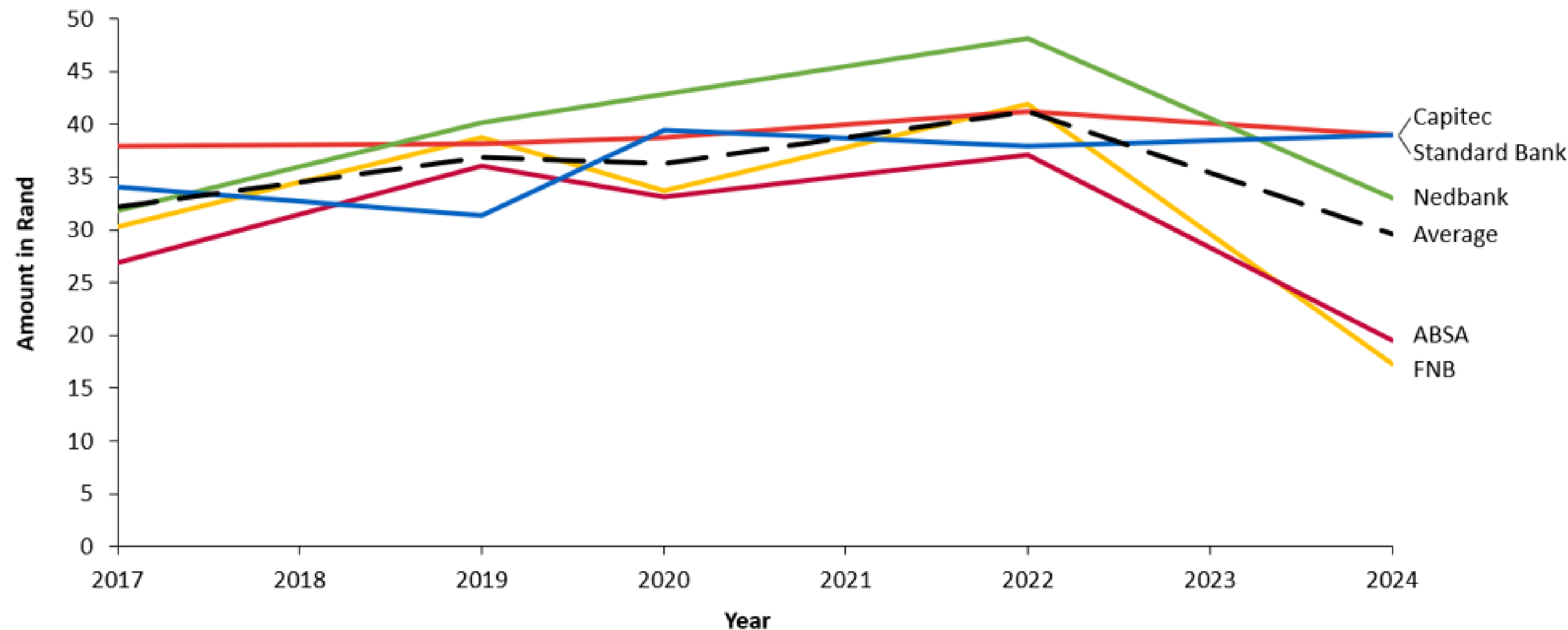
Distribution of customers across transaction account providers

Data from unpublished FSCA research report



Bank account costs for individuals

*Data from
unpublished FSCA
research report*

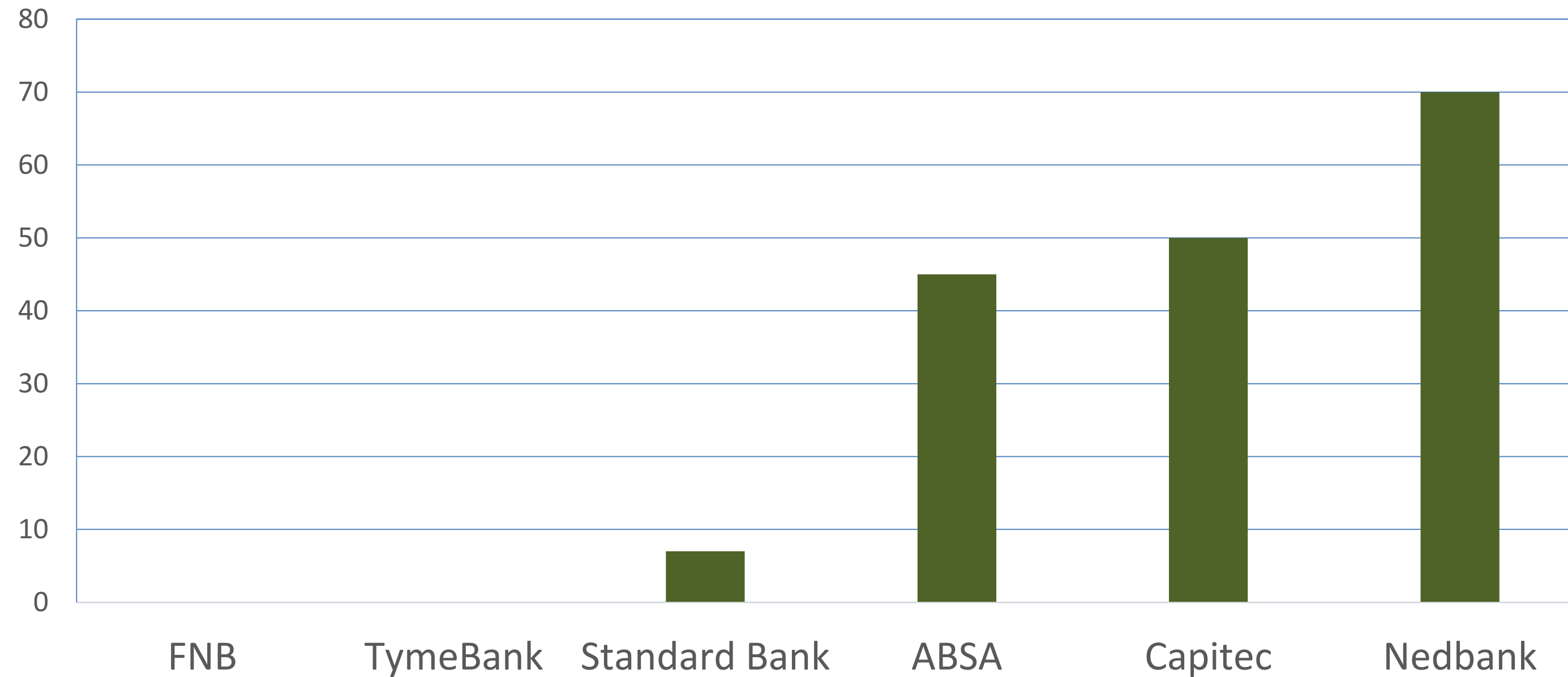


Note: pricing has not been adjusted for inflation in the graph

- Bank Charges Report prepared by the Solidarity Research Institute (Solidarity).
- Since 2022, there has been a decline in banking fees for entry-level accounts, following five years of gradual growth since 2017.
- The average price of Solidarity's 12-transaction basket rose from R32 to R41 between 2017 and 2022, declining to **R29** by 2024

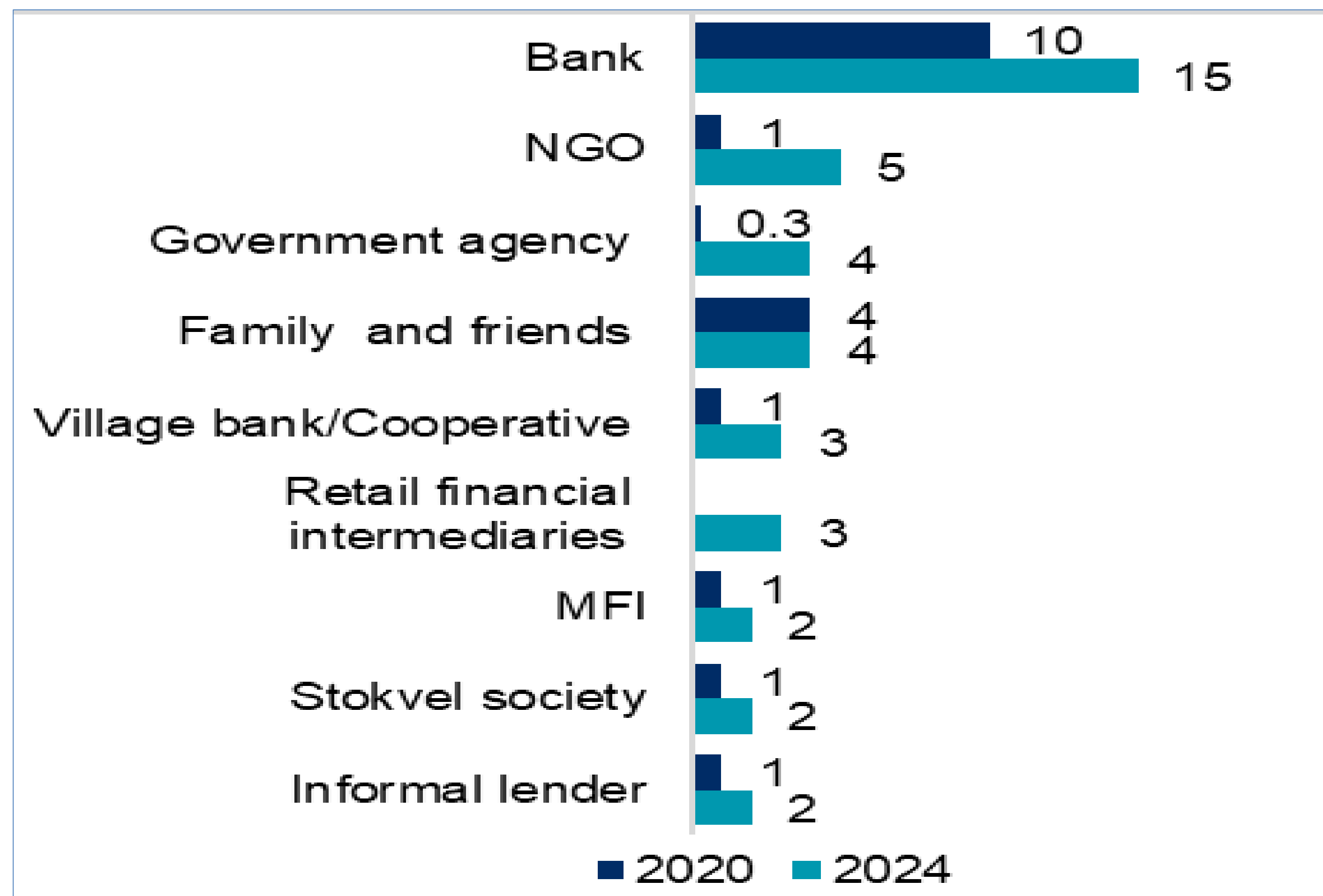
*Data from
unpublished FSCA
research report*

Bank account costs for MSMEs



- On average the banks charge a monthly fee of R29.
- FNB, Tyme and Standard offer the lowest fees (R0, R0 and R7 respectively)
- ABSA, Capitec and Nedbank (R45, R50 and R70 respectively).

MSME access to credit and sources

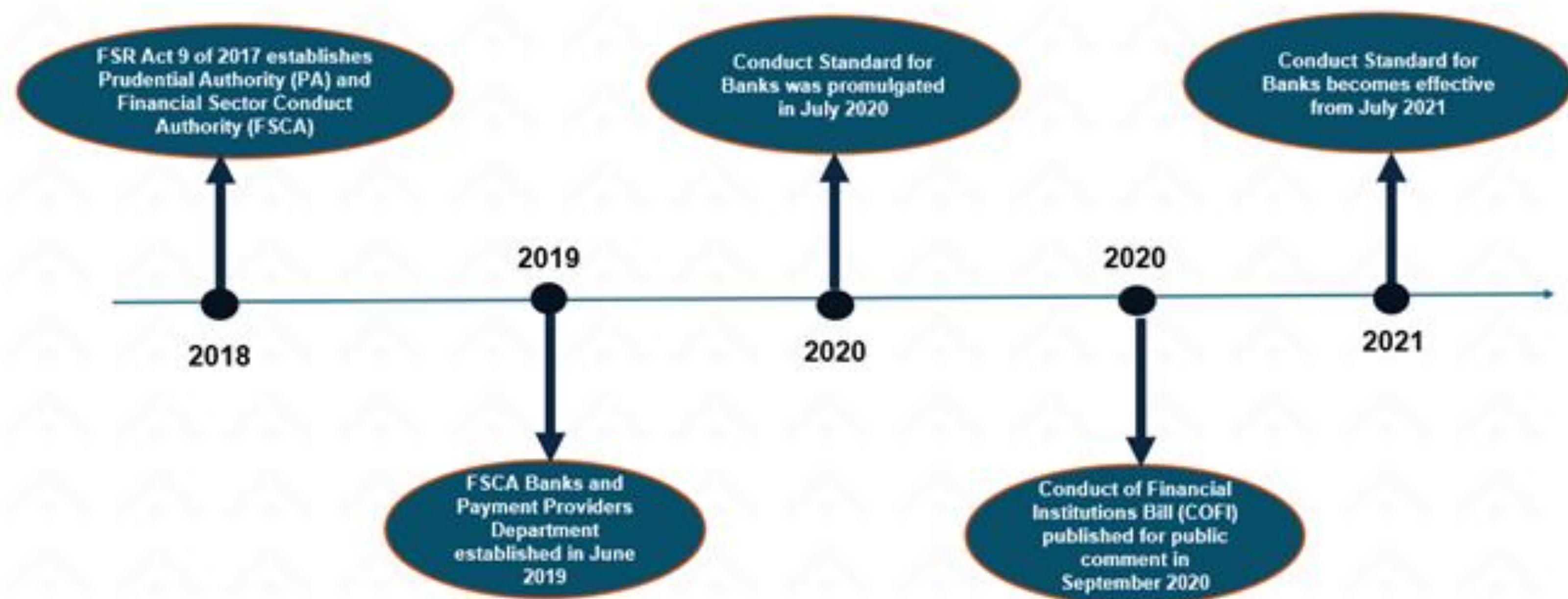


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Customer insights

- Most low-income individuals (57%) and MSEs (53%) report using their accounts on **monthly basis only**.
- The most prominent use cases for low-income individuals and MSEs are centered around **cash usage** (withdrawing and depositing cash).
- Nearly half (47%) of surveyed micro and small businesses **only accept cash** payments.
- Businesses who do not accept digital payments cited **high costs**, including transaction fees and POS device costs.
- Other barriers included concerns about the **reliability** of digital payment systems during power outages or network issues.
- 89% of MSMEs **satisfied with their account providers**, among the 11% who expressed dissatisfaction - 48% highlighted desire for lower transaction fees, and 34% sought better access to credit facilities.

Market conduct evolution



- **Engagements with Board of Directors and Senior Leadership** on customer culture and setting the tone from the top
- **Awareness programs** with bank employees as well as robust awareness for vulnerable customers on banking in different provinces
- **Thematic reviews**, supervisory engagements, on-site and off-site inspections on various consumer protection risks
- **Mystery shopping** exercises and social media scanning in an effort to drive the understanding of customer needs and enhancement of customer value
- **Focused inspections** on topical areas such as complaints management and fairness in bank/customer relationship
- **Ad hoc projects** on issues of customer culture, succession planning and transformation within banks

Shifts observed in the banking sector

- A shift has been observed in banks' strategy being more customer value driven.
- Customer culture discussions more visible at Board level.
- Review and enhancements of business models to meet evolving customer demands and preferences.
- Intentional focus on fair customer outcomes through establishment of dedicated Market Conduct teams.
- Review of internal incentives schemes related to sales to mitigate conflict of interest.
- Improvements in overall customer engagement and consumer education and awareness.

Current focus areas

- **Appropriateness and transparency of fees charged** - Given the current economic landscape and access challenges in SA high fees and charges remain a concern.
- **Complaints management** – A recent review highlights a need for a more deliberate focus by the banks to continuously improve their process and engagement models with consumers.
- **Accelerated digitalisation** – Banks have made deliberate efforts to enhance digital platforms to improve efficiencies and enable customers to access banking services at their convenience. However same has brought about challenges which include system downtime and increased cybersecurity threats for customers.
- **Digital fraud risk** – Impact on consumers remains a huge concern and continues to increase sharply. Data leakages exacerbated by data breaches also biggest contributor to this challenge. More work needs to be done to educate and empower customers.
- **Consumer protection** – Inconsistencies in customer service levels, sales practices and misselling, account closures, potentially misleading advertisements.

The FSCA approach to promoting transformation

THE LEGAL FRAMEWORK

Current framework	Legislative frameworks	Institutional mechanisms for monitoring and overseeing legal frameworks
	B-BBEE Act	B-BBEE Commission supervises adherence to the Act [economy-wide]
	Financial Sector Code	FSTC sets targets & monitors adherence to the FS Code [sector-wide]
	Insurance Act*: provisions of the Insurance Act relating to transformation will be repealed and replaced by stricter provisions in the COFI Bill	
Future framework	FSR Act + COFI Act	FSCA will supervise transformation requirements at an institutional level

THE FSCA'S TWO-PHASE APPROACH

- Engaging with financial institutions on existing transformation plans and the extent to which targets identified in the plan are achieved
- Improving availability and quality of transformation data, especially in relation to ownership
- Build strong co-operative relationships with the FSTC and the B-BBEE Commission
- Coordinate supervisory transformation initiatives with the PA
- Support initiatives of Nedlac and the FSTC related to financial sector transformation
- Support small businesses in the financial sector
- Developing regulatory frameworks that promote transformation of the financial sector
- Internal readiness for Phase 2

Phase 1

Phase 2

- Subject to the final approved framework for transformation in financial sector laws, undertake regulatory and supervisory actions to promote transformation
- Regular engagement with the FSTC and B-BBEE Commission
- Continual evaluation of the effectiveness of legislative frameworks and their application



COFI Bill and implications for the FSCA

- Harmonised market conduct framework; reduced gaps/arbitrage opportunities.
- Principles-based regulation.
- Better supports risk and outcomes-based approaches.
- Specific responsibilities and powers in relation to transformation.

END.
THANK YOU.

