EXPECT A WAVE OF NEW **REGULATION IN 2018**

ZULFA **ABDURAHMAN |** HEAD OF GOVERNANCE

ABOUT **THE AUTHOR**

Zulfa is responsible for the business's governance function, which covers legal, risk and compliance. She is also a member of Old Mutual Investment Group's executive management structure.

This year's National Budget Speech proposed a number of changes on the financial regulatory and governance fronts that will impact both our business and our customers.

STRENGTHENING OUR REGULATORY SYSTEM

The Finance Minister confirmed that the new "Twin Peaks" authorities, the Prudential Authority and the Financial Sector Conduct Authority, will be established on or soon after 1 April 2018. Aimed at supervising the participants of the financial sector, these authorities pave the way for a more intrusive regulatory regime. The two bodies will work closely with the South African Reserve Bank, the Financial Intelligence Centre and the National Credit Regulator – jointly taking several steps to detect, disrupt and deter illicit financial flows. This will require financial services providers to increasingly play a more active part in fighting financial crime.

Later in the year, the Financial Markets Review Committee will publish its draft report (in respect of wholesale market conduct), and the recommendations will be considered in future legislative reform. Regulatory changes will also include the introduction of Fintech regulation.

The bottom line is that, while designed to better protect consumers and prevent crime, financial services providers can expect more regulation and hence see an increase in the cost of compliance.

KEY TAKEOUTS

- REGULATORY SCRUTINY WILL INTENSIFY IN 2018 AND BEYOND
- NEW REGULATION IS SET TO INCREASE
- SOUTH AFRICAN INSTITUTIONAL INVESTORS CAN INVEST MORE OFFSHORE

RETIREMENT REFORMS

The retirement reform programme will continue in 2018. Broadly speaking, this programme aims to implement policies that encourage employees to save more and get employers to provide appropriate savings plans to staff.

As a start, Government has directed the Financial Services Board (FSB) to proceed with measures to improve the governance of retirement funds – requiring all retirement funds to submit audited financial statements annually and include a minimum number of independent trustees.

Other steps include progressing the annuitisation of provident funds, strengthening of enforcement measures, lowering costs and consolidating pension funds.

INCREASED COMPETITION

Financial sector regulators will introduce a simplified licence regime for financial institutions in the start-up phase, which will allow them to provide financial services and products to consumers within an appropriate regulatory framework. As an example, firms may offer unregulated digital financial services in a test environment under close supervision.

Similarly, financial sector transformation remains high on the agenda, paving the way for new entrants and increased competition.

IMPROVING GOVERNANCE

Much has been written about improving the governance of state-owned enterprises (SOEs) and I won't repeat it here. Suffice to say that this is likely to spill over to corporates – initially by ensuring mandatory audit firm rotation and ensuring the independence of audit committees.

INCREASED OFFSHORE EXPOSURE

A welcomed change is the foreign allocation limits for institutional investors being increased by five percentage points across all categories – life insurers, collective investment schemes and investment managers' limits rise from 35% to 40%, and retirement funds from 25% to 30%. The allocation to African exposure will similarly rise from 5% to 10%.

While these developments are, in most cases, necessary and welcomed, changes to legislation and regulatory processes are costly – both in terms of systems changes and the additional resources required to effectively execute and manage new processes.