



FSCA COMMUNICATION 12 OF 2020 (GENERAL)

IMPACT OF CORONAVIRUS (COVID-19): EXPECTATIONS ON REGULATED ENTITIES

1. Background

- 1.1 The Financial Sector Conduct Authority (FSCA) is aware of the impact of the COVID-19 on financial institutions and their customers. The uncertainty that this pandemic is creating exposes the sector to additional conduct risk, and the risk that financial institutions will not treat their customers fairly. The uncertainty and market volatility is likely also to shape customer behavior, and may lead to poor decision-making that leaves South Africans financially vulnerable.
- 1.2 The FSCA wishes to emphasise that regulated entities should bear in mind the current circumstances and assist their customers with even more empathy, flexibility and understanding during these difficult times. This may include considering relief and support options, especially for vulnerable customers. Entities must ensure that all customers are treated fairly during the entire product cycle, from advertising, to sales, to claims, to renewals and complaints. Profiteering off those that are vulnerable and suffering will not be tolerated.
- 1.3 The FSCA has also been communicating with regulated entities regarding the extension of regulatory submissions, adverts, communication to customers and some aspects of the business continuity plans they have in place, as far as they relate to the current COVID-19 crisis.
- 1.4 The below outlines the main expectations of the FSCA regarding the culture and main responsibilities of financial institutions during this crisis.

2. Business Continuity

It is expected that all entities have reviewed their own business continuity plans and assessed the impact of the COVID-19 on their operational ability. Plans need to be put in place to deal with the current situation and mitigate any risks or potential risks that have been identified due to the COVID-19 and which could possibly impact the operational ability

of the entity. This includes the ability to deliver services within the agreed and communicated service level agreements with customers.

Senior management should take responsibility for managing the impact of the COVID-19 on the business and regularly review whether the approach being followed adequately addresses all the identified risks and ensures fair treatment to all customers at all times. The managing of the risks should also be in line with the overall responsibility of the country to keep all individuals safe and create a safe working environment.

There should also be clear and continuous communication to all internal and external stakeholders and customers regarding the current business continuity plan, processes or procedures that might change and the way forward regarding the mitigation of the risks.

If any major risks have been identified as a result of the COVID-19, which could materially impact fair outcomes to customers, the entities should immediately communicate this risk, the impact thereof and mitigation plans to the Authority.

3. Insurance

3.1 Products

Any changes to current insurance products or the launch of new products directly related to the needs or risks identified in the market, due to the impact of the COVID-19, should continue to follow the prescribed process as stated in the Policyholder Protection Rules (Long-term Insurance Act and Short-term Insurance Act).

Emphasis should be placed on the suitability of the product and the vulnerability of the policyholders and potential policyholders.

The potential need for a product under the current circumstances should not outweigh the need to ensure sound and sustainable pricing structures of such a product.

3.2 Claims

The current situation might have an impact on various claims due to time delays for obtaining documents or parts, the ability of assessors to conduct necessary assessments, and third parties required to satisfy the claim (like appointed electricians not wanting to visit policyholder premises). Entities must endeavor to avoid delays in settling any claim, including those for funerals. Where delay is unavoidable, any time delays must be clearly and pro-actively communicated to customers. Reasons for the delays must be given and expectations must be managed. Entities are also expected to take additional measures to minimize the impact of delays and to be as flexible as possible regarding claim requirements given the circumstances.

Furthermore, with regard to insurance claims:

- Any exclusions that are impacted by the COVID-19 must be clearly communicated to all current and potential policyholders as soon as the impact has been identified by the insurer;
- If any new exclusions or requirements are introduced during the period of the COVID-19 crisis, they must be discussed with the Authority;
- The location of certain activities, such as the assessment of damages or the obtaining of blood samples must be re-considered and made as safe as possible for policyholders or potential policyholders;
- Any medical requirements must be re-assessed to ensure that no unnecessary stress is caused to the current Health Care System of the country;
- There should be no delay in any claims payments after a decision to settle the claim has been taken;
- No additional costs or fees should be added during this period as a result of additional work that might need to be done to investigate claims; and

3.4 Renewals and Lapses

Although the Authority understands that the industry needs to manage their risks and any additional exposure during this time, the FSCA wishes to highlight the following expectations:

- Communication regarding renewals should be clear and any changes to policies due to the impact of the COVID-19 should be highlighted to the policyholder;
- Any additional premium reviews as a result of the impact of the COVID-19 should be communicated to the Authority ahead of time with the impact of the premium review on policyholders;
- Additional measures should be considered to assist policyholders where possible not to lapse a policy due to the impact of the COVID-19 and possible alternative options should be communicated clearly and in advance to policyholders; and
- Additional measures should be considered to ensure that the communication regarding non-payments and possible lapses are communicated to the policyholders directly and clearly.

4. Banks

4.1 Operations

It is paramount that South Africans continue to trust the banking system, and that access to the payment and banking system is secure.

Where bank branches are closed, alternative banking venues and channels should be carefully communicated, giving customers clear guidance regarding closures and such

alternative venues and channels. The FSCA should be advised of the closures as well as mitigating customer protection measures.

Banks are requested to ensure ATM availability and to manage the queues where practical. Branches should similarly be managed in a way that protects the health and well-being of employees and customers. Customers should be further encouraged and aided to make more use of digital platforms.

The Banking Conduct Standard is not yet implemented and implementation will likely be delayed (see below). Banks are however encouraged to consider principles and good practices promoted through the Standard, and consider how such should be applied across their business over the lock-down period and beyond. These principles and practices should not be compromised.

4.2 Regulatory obligations

Developments related to COVID-19 are expected to impact parliamentary processes, resulting in delays of the effective date of the Conduct Standard for Banks. By implication, implementation of the Standard will therefore also likely be delayed. The FSCA will continue to advise industry on progress being made in this regard; more detailed communication and engagement will follow in due course to ensure a smooth transition with minimum disruption, once economic conditions have stabilised.

The Authority is also aware of the challenges that regulated entities might face in meeting the requested information deadline date on:

- Gap analysis on the World Bank's Retail Banking Diagnostic Review Report (2018).
- Pre-submission of inspection documents.
- Proposal on the Complaints Management Process.

Subject to COVID-19 developments, the FSCA hereby extends the submission dates for the above-mentioned requests to 31 May 2020.

4.3 Advisers and Intermediary Service Providers

Advice to customers at this time of uncertainty is so important and advisers have a key role to play in assisting customers in understanding the market and the impact of COVID-19 on insurance, investments and savings products. We therefore expect advisers to stay abreast of developments and with Product Suppliers so that they can provide customers with suitable advice.

Many Advisers are also the holders of outsource and binder delegations from product suppliers and are expected to comply with all requests from product suppliers which enable them to meet their oversight responsibilities set out below. Binder and outsource functions can support delivery of services to customers and we expect co-operation to be such that fair delivery to customers is maintained.

5. Retirement funds

5.1 Board members

The Board should keep abreast of risks that COVID-19 brings to the fund, and take necessary steps to mitigate such risks. The Board is also encouraged to clearly communicate COVID-19 developments and risk management strategies to fund members, to promote calm and minimise the risk of premature fund withdrawals.

5.2. Benefit administrators

Retirement fund benefit administrators must inform all relevant stakeholders such as funds and their members, as well as third parties of any changes to their processes, procedures and ensure that the necessary communication is sent in this regard.

6. Investment Providers

The asset managers and CIS managers must appropriately manage liquidity risks that COVID -19 brings to the portfolios while enabling investments that can benefit investors and the wider economy. The Authority would like to encourage CIS Managers to consult us regarding any concerns related to significant portfolio outflows which may result in negative outcomes for the remaining investors in the portfolio. CIS Managers must continue to apply risk management requirements and related obligations.

7. All financial institutions

7.1. Oversight, monitoring and control of third parties

Entities are reminded that the necessary due diligence, monitoring and control over all third parties should remain intact and alternative measures to ensure fair outcomes to customers should be considered during this difficult time. The frequency of reporting and the analyses of trends and concerns are of the utmost importance.

It is also expected that entities take additional measures to inform and educate intermediaries of any changes to processes, procedures and products and ensure that the necessary communication is sent in this regard. The intermediaries should be made aware of any changing circumstances which might impact the suitability of their advice.

7.2. Complaints

The Complaints Management process and turn-around-times on resolving complaints through any channels should not be compromised. Entities should however note that the accurate reporting of all complaints will be essential for all trend analysis and in the regular reviewing of mitigating measures that need to be taken by senior management when reviewing the business continuity plans and the effectiveness thereof. Therefore it is

expected that the frequency of reporting on complaints and the root cause analysis thereof would increase to address concerns and upcoming risks.

7.3. Cybersecurity

Financial institutions should explicitly consider cyber-risk exposures and potential for breaches that may be heightened over this lock-down period due to wide roll out of remote working capabilities. Ongoing, clear and up-to-date communication to customers is essential, to keep them informed of the latest types of cyber attacks and scams, to reduce the risk of them suffering financial losses or data breaches.

8. Contact

For more information regarding this Communication please send an e-mail to:

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| Investment Providers |
| Chwayita Mtebele: chwayita.mtebele@fsca.co.za |
| Banks |
| Sindiswa Makhubalo: Sindiswa.Makhubalo@fsca.co.za |
| Insurance |
| Makgompoti Raphasha: makgompoti.raphasha@fsca.co.za |
| Pension funds |
| Fikile Mosoma: Fikile.mosoma@fsca.co.za |
| Section 13B Administrators |
| Andy Raphahlela: andy.raphahlela@fsca.co.za |
| Friendly Societies |
| Louisa Basitere: louisa.basitere@fsca.co.za |