

A large, stylized graphic of a fan or sunburst is positioned on the left side of the slide. It features a central circular hub with multiple segments radiating outwards, some of which are filled with a light blue color. The graphic is partially overlaid by a dark blue diagonal band that runs from the bottom left towards the top right.

SUPERVISING MARKET CONDUCT RISK: *USING DATA TO DELIVER FAIR OUTCOMES TO CUSTOMERS*

ACORD FORUM SOUTHERN AFRICA 2015

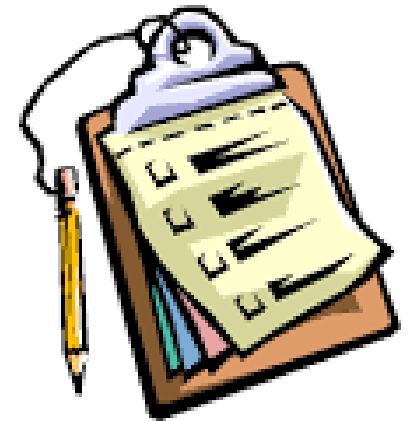
23 JULY 2015

Presenter: *Farzana Badat*
Head of Department: Insurance Compliance
(Market Conduct Supervision)



FOCUS AREAS

1. TWIN PEAKS RECAP
2. ACTIVITY BASED SUPERVISION
3. EXTRACTING VALUE FROM DATA
4. EXAMPLES OF SUPERVISORY FOCUS AREAS
5. CONCLUSION





RECAP: Twin Peaks

MARKET CONDUCT
(protection of financial customers)

Fair treatment of customers

Market efficiency & integrity

Consumer education

FSCA

Financial Sector Conduct Authority

PRUDENTIAL
(financial soundness of institutions)

Product providers (esp. banks and insurers)

Market infrastructures

Financial conglomerates

Prudential Authority
(within SARB)

FINANCIAL STABILITY
(protect and enhance system-wide stability)

Monitor & mitigate stability risks

Financial Stability Oversight Committee

Resolution authority

SARB





The future – From FSB to FSCA

- **Twin Peaks - Financial Sector Regulation Bill**
- **SARB - Prudential Regulator**
 - ✓ South African Reserve Bank
 - ✓ Macro-prudential supervision
 - ✓ Micro-prudential supervision of **banks and insurers, market infrastructure and financial conglomerates**
- **FSB → FSCA - Market Conduct Regulator**
 - ✓ Financial Sector Conduct Authority
 - ✓ Market conduct supervision of ALL financial services entities **including banks**





FSCA – Guiding Principles

- Regulation and Supervision must be:
 - ✓ transparent
 - ✓ comprehensive and consistent
 - ✓ **intensive and intrusive**
 - ✓ **outcomes based** (TCF, market integrity and other policy outcomes)
 - ✓ **risk based and proportional**
 - ✓ pre-emptive and proactive
 - ✓ a credible deterrent
 - ✓ aligned to applicable international standards



Cross-cutting activity-based focus

- ★ Culture and governance
- ★ Product value
- Unfair contract terms
- Misleading advertising/marketing
- Ineffective disclosure
- Conflicted advice
- ★ Poor claims handling
- ★ Poor complaints handling
- Empowered customers

Testing outcomes, rather than compliance 'tick-box'

Rebalancing of responsibilities:
Increased scrutiny of the way firms develop products;

Product provider oversight of chosen distribution channel

Fair outcomes can be achieved in different ways, through emphasising different TCF elements



Implications for industry

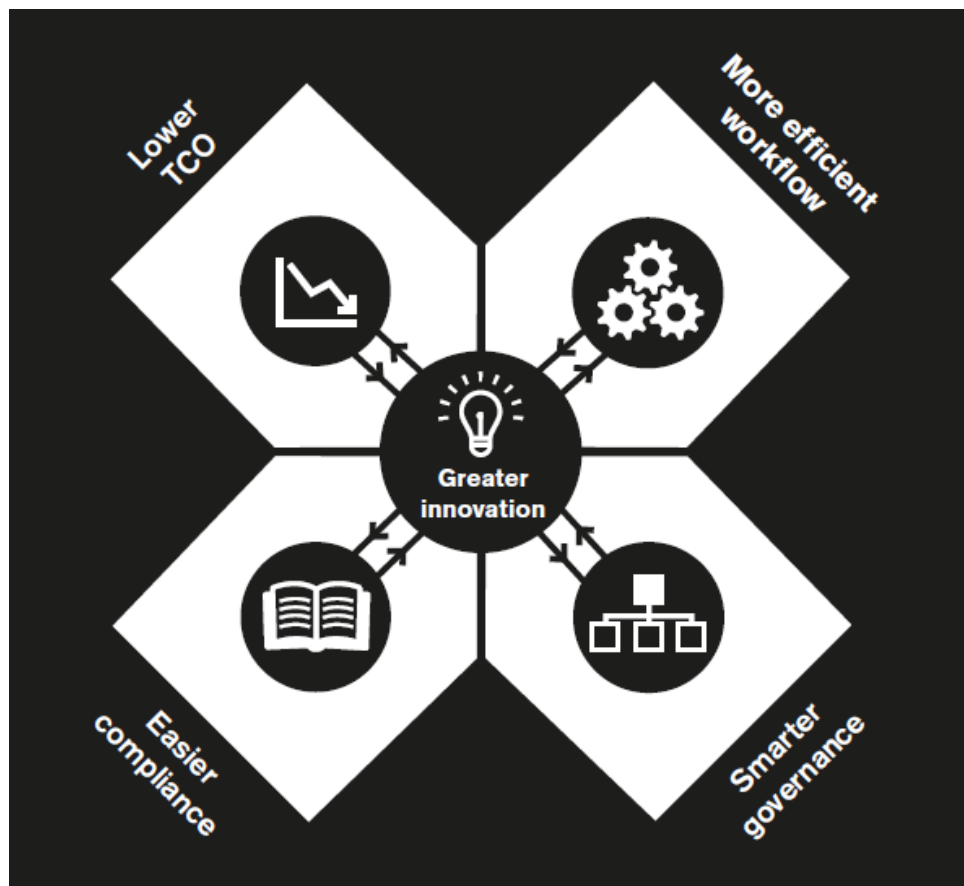
- Enhanced governance and oversight
- Reasonableness of fee structures
- Monitoring and reporting on:
 - ✓ Conduct risk indicators
 - ✓ Adequacy and quality of data
 - ✓ Continuous improvement in product design and general customer experience through analysis of data
 - ✓ Consequence management of non-compliance and/or practices relating to poor customer outcomes by outsourced partners





Extracting value from data

Data capitalization helps firms extract more value from data and technology to gain five critical competitive advantages:



1. Lower TCO
2. More efficient workflow
3. Easier regulatory compliance
4. Smarter governance
5. Greater innovation

Reference:

*Data Points: HOW FINANCIAL SERVICES FIRMS
USE TECHNOLOGY TO TURN DATA
INTO ACTIONABLE INSIGHT*

Bloomberg for Enterprise



Extracting value from data

Data capitalization helps firms extract more value from data and technology to gain five critical competitive advantages:

1. Lower total cost of ownership (TCO)
 - ✓ Get rid of old/redundant data sources, migrate legacy systems
 - ✓ Master data management framework, centralised data, consistent taxonomies – reduce cost of correcting mistakes, resolving data disputes, managing multiple sources



Reference:

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Extracting value from data

Data capitalization helps firms extract more value from data and technology to gain five critical competitive advantages:

2. More efficient workflow

- ✓ Focus on integrated enterprise data framework
- ✓ Move away from disparate systems and applications that were not designed to work/ interface with one another
- ✓ Streamlined and integrated workflows are more efficient in daily practice and easier to change over time – more agile and adaptable



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Extracting value from data

Data capitalization helps firms extract more value from data and technology to gain five critical competitive advantages:

3. Easier regulatory compliance

- ✓ Focus on “regulation-ready” data
- ✓ Regulatory reports usually require data aggregation/consolidation across various business areas
- ✓ Investing in more reliable, dependable, quality data makes regulatory reporting and **demonstrable** compliance much easier
- ✓ Helps to articulate risk more precisely – better risk information = lower capital requirements



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Extracting value from data

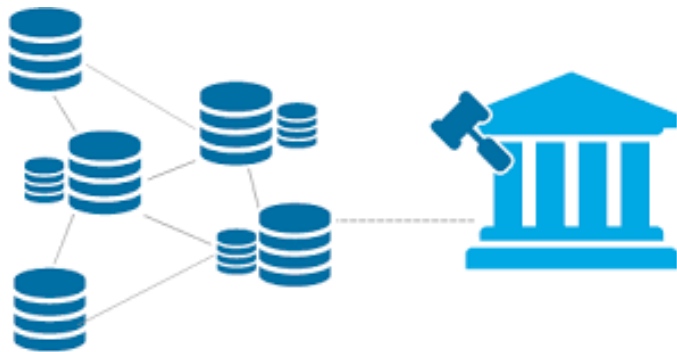
Data capitalization helps firms extract more value from data and technology to gain five critical competitive advantages:

4. Smarter governance

- ✓ Clarity and consistency about where data originates, what processes govern it, whether users are following these rules, and if so, what proof exists

*“Governance is like a supply chain. It’s garbage in, garbage out. But if you have reliable data organized in a sensible way that supports your business strategy, then **it’s much easier to demonstrate** the data lineage for virtually anything regulators ask for.”*

Devesh Shukla, Global Head of Bloomberg Reference Data Product Development



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Extracting value from data

Data capitalization helps firms extract more value from data and technology to gain five critical competitive advantages:

5. Greater innovation

- ✓ Across the front, middle and back office, the firm's best minds have consistent access to the right data, in the desired format and at the right moment, to generate new insights and drive optimal decision making
- ✓ Focus shifts away from data management to customer solutions and business improvement



Reference:

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Supervisory expectations

- Ongoing, proactive, demonstrable management of conduct risk indicators manifesting in:
 - ✓ Continuous improvement in product design, service delivery, customer experience
 - ✓ Fair pricing
 - ✓ Appropriate products
 - ✓ Clear and understandable disclosures
 - ✓ Improved claims handling practices
 - ✓ Reduction in persistent complaints
 - ✓ Meaningful management information and reporting
 - ✓ Enhanced governance and oversight of distribution channel
 - ✓ Customer centric decision making





Specific supervisory focus areas

- Binders/Outsourcing**
- Claims handling practices**
- Quarterly Conduct of Business Returns (CBRs)**
- Complaints management
- Premium reviews/pricing
- Legacy policies
- Moving of books of business
- Individual conduct risk profiles



*** More detail on following slides*



Binders/ Outsourcing

- Governance and oversight
- Remuneration
- Data exchange
 - ✓ Frequency
 - ✓ Quality
 - ✓ Integrity
 - ✓ Security
 - ✓ Usability
- STRIDE Readiness
- Industry Data Specification – Mandatory fields
- Insurers of concern - data “audits”





Claims Thematic Review

- 14 insurers identified (LT & ST)
- Focus areas:
 - ✓ Structure and resourcing
 - ✓ Governance and oversight
 - ✓ Claims submission process
 - ✓ Assessment of claims
 - ✓ Management of fraud risk
 - ✓ Settlement of claims
 - ✓ Repudiation processes
 - ✓ Link to complaints management
 - ✓ Overall TCF embedment



"I'm afraid, unless you can show proof you're employed by God, I'll have to deny this claim."



Quarterly CBRs

- Second draft being finalised for comment and testing
- Aligned to SAM reporting classes
- Focus areas:
 - ✓ Quantitative sales and premium information
 - ✓ Details of benefits, including VAPs
 - ✓ Not Taken Up, Policy Paid Up, Replacement, Surrender and Lapse Rates
 - ✓ Details of remuneration – Commission, Binder, Outsourcing and Other Fees
 - ✓ Detailed claims information
 - ✓ Detailed complaints information
 - ✓ Marketing spend
 - ✓ Data required per distribution channel





CONCLUSION

“Information is the oil of the 21st century, and analytics is the combustion engine.”

Peter Sondergaard, Gartner

“Without big data analytics, companies are blind and deaf, wandering out onto the web like deer on a freeway”



Geoffrey Moore, Organisational Theorist

“Your most unhappy customers are your greatest source of learning.”

Bill Gates, Microsoft

“Customers don’t expect you to be perfect. They expect you to fix things when they go wrong.”

Donald Porter, British Airways



THANK YOU