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PLENARY 4
Effective Regulation

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EFFECTIVE REGULATION

The evolution of the South African structures which now regulate financial services has occurred in little more than the past decade. Prior to 1987 all financial services were supervised by a branch within the Ministry of Finance. At the time of South Africa's debt standstill in 1987 responsibility for the supervision of banks was transferred to the Central Bank. Following an inquiry into the collapse of an insurance company, the Financial Services Board was established in 1991 as an independent body to supervise the regulation of the remainder of the financial services industry.

As a new body comprising a mixture of staff with a variety of backgrounds including a proportion which came across from the Ministry of Finance the FSB has been seeking to develop its own organisational and functional approach. Being funded by levies the efficiency of the organisation was in the spotlight and by 1995 it was not considered to be operating as effectively as was desirable. This was confirmed by a survey carried out by a firm of management consultants.

The findings of the survey highlighted the importance for the regulator to have technical knowledge of the industries being supervised, the need for a client orientated approach and internal and cultural change. Of concern was the efficiency of certain departments and the lack of consistency in regulatory decisions especially where a discretion was granted to the regulator.

We can therefore identify with Professor Sparrow's 4-tiered approach to performance measures. This analysis would have helped us fully understand the nature and extent of the problems we were trying to solve.

The approach we adopted to respond to the findings was to develop an overarching strategic plan. This now defines the aims of the Board, i.e. its vision, mission and culture, the latter setting a lot of store on professionalism, considers the expectations of the stakeholders, sets out goals for the organisation and places emphasis on a relationship management programme, quality and the need to measure performance. The plan was drafted and workshopped extensively at both departmental and intra-departmental level. There was thus a high level of acceptance of it throughout the organisation. This helped to overcome a number of the problems identified by the management consultants particularly those relating to internal culture and structures, the organisation's approach to service delivery and the importance of maintaining sound relationships with the full spectrum of stakeholders.

I refer to the relationship management programme and certainly agree with Professor Sparrow that you cannot import a customer service approach from the private sector. The fact of the matter is, however, that a regulatory body should not live in splendid isolation unaware of the views of its stakeholders. By identifying those stakeholders, and, as is the case for most financial service regulators, they range from various Government departments, parliamentary committee members to organised industry professional bodies, labour unions and the financial institutions themselves, we are

now able to consciously interact with them all in accordance with planned programmes. The interaction has impacted on, and considerably improved, the business plans of the organisation as a whole which are now much more outcome based.

Professor Sparrow identifies functional expertise as the 1st model of professionalism for regulatory agencies. Our strategic plan required us to re-examine the structure having regard to the functions. It also requires us to harness information technology to the full. And, yes, we did indulge in some Business Process Re-engineering at the Pensions Department where turnover time in processing large volumes of routine applications was unacceptable. The volumes had grown and the department was not keeping pace. Reorganising into teams and then allocating all the pension fund administrators and individual funds to one of the specific teams so that each of the funds knows who they are dealing with has produced an efficient model for high volume routine processing. It has significantly facilitated the relationship management programme with beneficial results for both the regulator and the funds.

Professor Sparrow's 2nd model of professionalism is process management. We have embarked on a project which is helping us in this regard, that is undertaking the steps necessary to obtain an ISO 9001 certification. This will ensure a organisation-wide quality system which recognises the cross functional dimension of our work.

The obvious question is how applicable is an ISO 9001 rating to a regulatory body. The latest revision of the ISO 9001 model of a quality system is based on the principle of achieving organisational strategies and goals which focus on the stakeholder's requirements. It is most appropriate for the service industry. We are not, however, aware of any other financial service regulatory body that has embarked on a similar programme. Some of the benefits of the system are:

- ◆ It ensures policies and procedures are properly documented.
- ◆ It provides a means for documenting our experiences so as to provide a basis for evaluation and improvement.
- ◆ It provides a means for identifying and resolving problems and preventing their recurrence.
- ◆ It facilitates the management of the organisation by providing assurance that processes are properly carried out.

What differentiates the ISO 9001 operating management system ("OMS") from the other management tools that have made their appearance over time and about which Professor Sparrow rightly expresses concerns? The main advantage is that the OMS does not eliminate judgement in the decision making process; rather it provides opportunities to evaluate the documented judgement through review and continuous

improvement. The OMS requires the identification and correction of areas where the organisation fails to meet its obligation in terms of its regulatory and supervisory functions. Of importance is that it inculcates a quality assurance mentality in staff.

Thus the OMS helps us with Professor Sparrow's 3rd model of professionalism "Problem Solving" and "Compliance Management". It forces a consideration of the issues be raised as well as the cost benefits of what we are trying to do.

Alternatively therefore the obtaining of an ISO 9001 certification is in my view a means of evidencing the quality of the approach adopted by the regulatory agency. The process of obtaining the certification is constructive and has many benefits not found in other management tools.