From Control to Capability:

Rethinking Compliance in South Africa's AI-Driven Financial Markets

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ABSTRACT

As financial markets navigate rapid technological change and heightened regulatory expectations, the compliance function in South Africa is undergoing a fundamental transformation. The FSCA's shift toward outcomes-focused supervision, the progression of the Conduct of Financial Institutions (COFI) Bill, and the accelerating integration of artificial intelligence across financial services are collectively redefining compliance - from a retrospective control function to a forward-looking strategic enabler. This article examines how compliance must evolve, both as a function and as a profession, exploring the emergence of the specialist compliance officer, the growing importance of behavioural intelligence, and the practical meaning of "compliance by design" in an increasingly complex environment.

The Compliance Function at an Inflection Point

For decades, compliance has operated as a downstream control - reviewing decisions after they are made, identifying gaps after risks materialise, and remediating issues after the fact. In today's environment, that model is no longer simply inefficient. It has become a risk in itself.

The convergence of regulatory reform and technological change is placing compliance under structural pressure. Across industry forums - including ICA and IFCA gatherings and the inaugural IFCA and CISA Joint Summit, which included a dedicated panel on skills and the future compliance professional - a consistent theme is emerging: compliance is increasingly being viewed not simply as a function, but as a leadership capability embedded in how organisations make decisions.

At the same time, regulatory signals from the FSCA and the trajectory of the COFI framework point in the same direction. The question is no longer whether compliance must evolve. It is whether firms are keeping pace with what that evolution demands.

> ***"Compliance is no longer the function that says 'no' - it is the function that ensures the business can say 'yes' responsibly."***

A Regulatory Environment That Demands More

South Africa's regulatory framework is evolving deliberately. Through the Twin Peaks model - established under the Financial Sector Regulation Act 9 of 2017 - and the ongoing progression of the COFI Bill, the FSCA is working toward a more holistic, customer-centred regulatory approach. The COFI Bill, when enacted, will consolidate the conduct framework across financial institutions and reinforce the FSCA's supervisory focus on outcomes, governance, and culture.

This represents a meaningful departure from the previous rules-based model. The FSCA has made clear in successive supervisory communications - including its *Strategic Plan and Annual Performance Plan* - that regulatory focus is shifting toward how firms operate in practice: how decisions are made, how customers are treated, and how conduct risk is identified and managed.

Regulators are no longer asking simply whether a firm is compliant. They are asking whether its decisions are producing fair and appropriate outcomes - and whether the firm can demonstrate that with credible evidence. This shift demands a compliance function capable of engaging with process, culture, and governance, not only rules interpretation.

Key Signals from the South African Regulatory Environment

- The COFI Bill reinforces a customer-centric, outcomes-focused regulatory approach
- Conduct risk and culture are increasingly areas of active supervisory focus
- The FSCA's Twin Peaks architecture separates prudential and market conduct supervision, elevating conduct as a standalone discipline
- Innovation is supported within clear governance and accountability frameworks
- Senior accountability - particularly at board and executive level - is an increasing area of regulatory attention

The Limits of the Reactive Model

The traditional compliance model - reactive, siloed, and rules-driven - is increasingly misaligned with the realities of modern financial services. A function that engages only after decisions are made, focuses primarily on rule interpretation, and operates separately from business and technology teams will struggle to remain effective in an outcomes-focused regulatory environment.

It is worth acknowledging the structural constraints that sustain this model. For many firms - particularly smaller FSPs - compliance resources are stretched, and the skills pipeline for specialist compliance professionals in South Africa remains underdeveloped. The transition to a more embedded, proactive compliance model is not without friction. Cost, capacity, and access to expertise are genuine barriers, not simply organisational inertia.

Nevertheless, the direction is clear. Industry discussions continue to reinforce that compliance is evolving toward a more integrated, value-adding role - contributing to decision-making rather than simply reviewing it. Firms that delay this transition do not avoid the risk. They defer it, with compounding cost.

AI and the Case for Compliance by Design

Artificial intelligence is already embedded across financial services in South Africa and globally: in credit scoring, fraud detection, algorithmic trading, and customer engagement. But AI does not fail loudly. It fails quietly - through bias, opacity, and unintended consequences that may not surface until significant harm has occurred.

Consider a practical scenario: an AI-driven credit model unintentionally excludes a segment of customers due to biased training data. The issue is not detected at deployment, because testing focused on model performance rather than fairness. Customer complaints surface months later. By then, compliance is reactive, remediation is costly, potential POPIA implications around data use require separate assessment, and reputational damage is already accumulating. This is precisely the gap that "compliance by design" seeks to close.

The principle is straightforward: compliance must be involved across the full lifecycle of AI systems - from development and testing through deployment and ongoing monitoring. Not after deployment. Not during audit. From the outset. In the South African context, this intersects with obligations under the Protection of Personal Information Act (POPIA), which imposes clear requirements on the responsible use of personal data in automated decision-making.

What 'Compliance by Design' Means in Practice
• Data is assessed for appropriate and lawful use before model development begins (including POPIA obligations)
• Models are tested for fairness and explainability, not only predictive performance
• Governance structures - including model risk committees and approval frameworks - are established before deployment
• Compliance is a named stakeholder in the model development process, not a post-deployment reviewer
• Monitoring is continuous, adaptive, and connected to conduct risk frameworks

The Evolving Profile of the Compliance Professional

Perhaps the most significant shift is not in regulation or technology, but in the profile of the compliance professional. The era of the generalist is giving way to a more specialised model - one that combines regulatory expertise, technological awareness, and strategic understanding of the business.

This shift was reflected at the IFCA and CISA Joint Summit, where discussion of skills and capacity in compliance highlighted the growing complexity of the role in a digital and AI-enabled environment. The implication is not that compliance professionals must become data scientists. It is that they must be sufficiently AI-literate to understand how models operate, where risks may arise, and how to challenge outputs and assumptions effectively.

This is an area where the South African compliance profession faces a structural challenge. The pipeline of professionals with both regulatory grounding and meaningful technological fluency is limited. Professional bodies, firms, and regulators all have a role to play in developing this capacity - and the urgency is increasing.

> ***"The future compliance officer will not be defined by what they know - but by the quality of the questions they are able to ask."***

Behavioural Intelligence: The Critical Differentiator

Technical capability will be necessary. It will not be sufficient. A consistent theme across industry discussions is the importance of culture, ethics, and human behaviour in shaping outcomes. Many compliance failures do not arise from a lack of rules - they arise from how people behave within systems, particularly under pressure.

What will increasingly differentiate effective compliance professionals is behavioural intelligence: the ability to understand how decisions are actually made in practice, to challenge assumptions constructively, to recognise where culture may be undermining controls, and to ask the questions that others overlook. This is not a soft skill in any diminished sense. It is a professional capability that requires deliberate development.

In a regulatory environment that is increasingly focused on culture and conduct - as evidenced by the FSCA's supervisory approach - the compliance function that can read and influence organisational behaviour will be more effective than one that relies solely on policy frameworks and checklists.

Culture: The Control That Cannot Be Outsourced

Culture remains one of the most discussed and least easily measured elements of compliance. But it is observable in practice: in how decisions are made under pressure, whether risks are escalated or quietly managed away, and how customers are treated when no one is watching.

No framework compensates for a weak culture. The FSCA has signalled increasing supervisory interest in culture and conduct as observable, assessable dimensions of firm behaviour - not simply as policy statements. For compliance functions, this means moving beyond documentation and toward active engagement with the behavioural dimensions of risk.

Critically, leadership plays a decisive role. As financial services become more complex - and as the gap between decision-makers and underlying systems widens - the risk of leadership blind spots grows. Boards and senior executives who cannot meaningfully engage with AI-driven processes, conduct risk, or regulatory accountability frameworks create governance vulnerabilities that no compliance function can fully compensate for. Compliance has an important role to play as a translator and strategic advisor in this space - surfacing what leadership needs to understand, not simply what it wants to hear.

What Firms Should Do Now

The direction of travel is clear. The challenge is execution, particularly given the resource and skills constraints that many South African firms face. A phased approach, prioritised by risk, is more realistic than wholesale transformation - but the starting point matters.

Firms operating in South Africa's financial markets should consider the following priorities. First, embedding compliance earlier in innovation and product development cycles, particularly where AI or automated decision-making is involved. Second, investing in skills development - both AI literacy for compliance teams and behavioural and conduct risk capability. Third, reviewing governance frameworks to ensure they are genuinely influencing decisions, not simply providing documentation. Fourth, assessing culture in practice rather than through policy review alone. And fifth, aligning compliance more closely with strategy, so that it contributes to how the business operates rather than functioning as a separate oversight layer.

None of this requires firms to abandon proportionality. A smaller FSP and a large bank will implement these principles differently. But the underlying shift - from retrospective control to proactive enablement - applies across the sector.

Conclusion: A Defining Moment for the Profession

South Africa's compliance profession stands at a genuine inflection point. The convergence of outcomes-focused regulation, the COFI framework, rapid AI adoption, and evolving supervisory expectations is not a passing trend - it is a structural shift in what effective compliance looks like.

The future compliance professional will need to be technically aware, behaviourally informed, strategically engaged, and continuously learning. These are not aspirational qualities. In the environment that is emerging, they are baseline requirements. Firms that recognise this early - and invest accordingly - will be better positioned to meet regulatory expectations, manage emerging risks, and build the kind of institutional trust that sustainable financial market participation requires.

Compliance is not a cost of doing business. In the environment that is taking shape, it is a condition for doing business well.

References and Notes

[1] Financial Sector Regulation Act 9 of 2017 (South Africa), establishing the Twin Peaks model of financial regulation.

[2] Financial Sector Conduct Authority, Strategic Plan 2020–2025 and Annual Performance Plans (available at fsca.co.za).

[3] Conduct of Financial Institutions (COFI) Bill (B23–2020), as tabled before the South African Parliament.

[4] Protection of Personal Information Act 4 of 2013 (POPIA), in force from 1 July 2021, with particular relevance to automated processing of personal information.

[5] International Compliance Association (ICA), inCONVERSATION LIVE series, featuring Tim Tyler and Andrea Bonime-Blanc (2024).

[6] Inaugural IFCA and CISA Joint Summit, panel on “Skills, Capacity and the Future Compliance Professional” (2024).

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