



2025/03/18

MIND YOUR P'S AND Q'S: WHERE KYC AND TCF CONVERGE

The customer focus model has shifted with the convergence of Know Your Customer (KYC) principles and Treating Customers Fairly (TCF) outcomes. This represents a significant evolution in the South African financial services regulatory landscape. While KYC, rooted in the Financial Intelligence Centre Act (FICA), has traditionally been viewed as a mechanism for combating financial crime, it is now a critical enabler of the customer-centric outcomes demanded by TCF.

Core KYC principles under FICA are being reshaped to align with the TCF framework, particularly with the impending Conduct of Financial Institutions (CoFI) Bill.

1. The Foundation: KYC Principles and Mechanisms under FICA

The regulatory mandate for KYC is primarily driven by the Financial Intelligence Centre Act 38 of 2001 (FICA). The Act requires accountable institutions (a broad category including banks, attorneys, estate agents, and insurers) to perform a KYC exercise before establishing a business relationship with a client. This is not an administrative task, it is a crucial frontline defence against money laundering, terrorist financing, and other prohibited actions.

The core KYC principles and mechanisms are structured around a risk-based approach to Customer Due Diligence (CDD).



KYC Principle	Core Mechanism	Key Requirements
Customer Identification & Verification	Collect and verify identity documents (ID, passport), proof of address, and contact numbers.	Verify identity and authority if a client acts on behalf of another person; document all verification methods used.
Beneficial Ownership Identification	Identify the natural person(s) who ultimately owns or controls the client.	Look through legal entities to establish and verify the identity of the ultimate beneficial owner (UBO).
Risk-Based Due Diligence (CDD & EDD)	Assess the client's risk profile based on factors like occupation, transaction patterns, and geographic location.	Apply simplified measures for low-risk clients; apply enhanced due diligence (EDD) for high-risk clients, such as Politically Exposed Persons (PEPs).
Ongoing Monitoring & Record Keeping	Continuously screen customers against sanction lists and monitor transactions for suspicious activity.	Retain all KYC records and transaction data for a minimum of five years after the business relationship ends.

Penalties for non-compliance are severe, including fines of up to R100 million or imprisonment for up to 15 years for serious offences, highlighting the mandatory nature of these mechanisms.

2. The Objective: TCF Outcomes

While FICA focuses on the integrity of the financial system, the TCF framework, driven by the Financial Sector Conduct Authority (FSCA), focuses on the quality of outcomes delivered to the customer. The TCF framework is built on six core principles, which are being



formalised into law through the Conduct of Financial Institutions (CoFI) Bill. The goal is to ensure that financial institutions embed customer fairness into their culture and operations, leading to outcomes such as:

- **Confidence and Trust:** Customers feel that they are dealing with institutions that have their best interests at heart.
- **Appropriate Products and Advice:** Customers are provided with suitable products and services that meet their needs.
- **Clear Communication and Transparency:** Information is communicated in plain language, enabling customers to make informed decisions.
- **Fit-for-Purpose Systems and Processes:** The machinery of the financial services provider, including its compliance systems, is designed to serve the customer fairly.

3. The Intersection: KYC as an Enabler of TCF Outcomes

Within the TCF paradigm, effective KYC is no longer just about identifying criminal risk but is fundamental to understanding the customer. This understanding is a prerequisite for treating them fairly. KYC and TCF are intrinsically linked, both requiring a deep understanding of the client and a robust compliance framework.

How KYC mechanisms, applied through a TCF lens, drive better customer outcomes:

- **From Identification to Understanding:** Standard KYC collects basic data. TCF aligned KYC uses this data to build a comprehensive customer profile. E.g. verifying a customer's employment and income (a KYC requirement) allows a financial adviser to assess the affordability and appropriateness of a product (a TCF outcome).
- **Risk Assessment Informs Fair Treatment:** The risk-based approach under KYC can be used to ensure vulnerable customers receive extra care. The new Code of Banking Practice explicitly defines vulnerable customers, and banks are expected to use their knowledge of the customer (gained through KYC) to treat them fairly.



A customer's life circumstances can change, moving them into a state of vulnerability. The company's duty is to identify this shift through its interactions and adjust its treatment accordingly.

A customer's vulnerability may not be static or immediately obvious. It can arise from a sudden life event or a gradual change. Companies must create mechanisms to detect these shifts, moving beyond the initial KYC snapshot.

- **Proactive Disclosure and Engagement:** The South African Code of Banking Practice establishes a partnership between the bank and the customer in identifying vulnerability. While the customer is encouraged to share information about their circumstances, the bank has an active duty to engage and identify hidden vulnerabilities. This means training frontline staff to listen for cues such as a mention of a recent retrenchment, illness, or divorce, that might signal a change in a customer's ability to make sound financial decisions or continue a product on the same terms.
- **Defining Vulnerability Broadly:** Vulnerability is not just about financial literacy. It can be circumstantial (e.g. bereavement, job loss), health related (e.g. severe or chronic illness), or related to personal capabilities (e.g. low literacy, digital exclusion). A company's risk assessment framework must be sophisticated enough to flag these diverse factors when they are disclosed or observed.

Once a customer is identified as potentially vulnerable, the company's processes must pivot to ensure fair treatment. This is where the abstract principle of TCF becomes a concrete mandate.

- **Data Drives Transparency and Suitability:** The detailed data collected for KYC is the foundation for meeting TCF's transparency and suitability requirements. For instance, knowing the customer's source of funds and investment objectives (KYC) enables the provider to offer the right products to the right markets, rather than those driven by commission incentives.
- **Ongoing Monitoring Supports Continuous Fairness:** KYC is not a once-off event. The obligation to periodically review and update customer information is a key mechanism for



ensuring TCF outcomes continue. As a customer's circumstances change (e.g. a new job, retrenchment), ongoing KYC updates ensure the provider's understanding remains current, allowing them to continue offering suitable service.

- **Data Driven Processes** keep a customer's profile current. A customer's circumstances evolve through predictable life stages (e.g. career progression, retirement) and unexpected events.
- **Customer Due Diligence (CDD)** is mandated by FICA, which is not a once off event but requires institutions to monitor business relationships over time. This is the foundation for continuous fairness.

The data gathered from ongoing monitoring is useless unless it triggers action that keeps TCF outcomes on track. In essence, navigating changing customer circumstances requires a company to build a "living relationship" with its customers. The data from KYC and ongoing monitoring provides the intelligence, while the TCF principles provide the compassionate and practical guide for how to respond.

4. The Future: CoFI and the Formalisation of TCF

Under CoFI, the link between KYC and TCF will become more formal and measurable. Institutions will be required to report specific data indicators to the FSCA to prove how well they are adhering to TCF principles. This means the data captured during the KYC process will directly feed into regulatory reports that measure customer fairness, such as:

- **Service Turnaround Times:** Is the KYC process itself efficient and non-discriminatory?
- **Complaints Handling:** Are complaints being addressed fairly and timeously for all customer segments?
- **Product Suitability:** Is the advice given aligned with the customer's profile established during KYC?

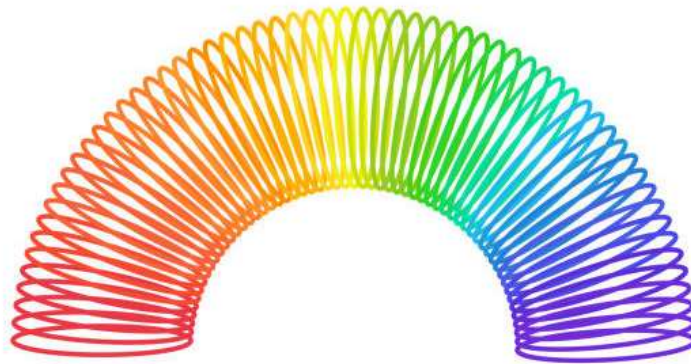
Systems must be adapted to capture this data, ensuring that technology supports the dual goals of compliance (KYC) and customer centricity (TCF).



Conclusion

KYC provides the essential data and mechanisms by identifying the customer, their risk profile, and their financial behaviour. TCF provides the ethical and operational framework for how that data must be used to ensure the customer is communicated with clearly, sold appropriate products, and treated fairly throughout their journey. With the enactment of the CoFI Bill, this integration will become a formal regulatory requirement, making robust technology-enabled KYC processes the core of a fair and transparent financial services industry.

Cyclopedic Consulting helps you bridge the gap between KYC data and TCF outcomes, ensuring every customer interaction is both legally sound and genuinely fair.



KYC

TCF

By [Adv. Sannah Poee](#) 2026/03/18