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Range of living annuity outcomes supports hands-on financial advice through retirement

Back in his mid-20s, your writer ran into some financial difficulties, forcing him to liquidate a small portfolio of unit trusts to make ends meet. Almost three decades later, the regret he feels does not centre on the forced sale of these investments but rather on failing to reinstate a disciplined monthly savings regime. This experience sparked all manner of poor money-related decision making over the ensuing years.

An awesome nest-egg, not

It is tempting to take an arms-length approach to finance and savings. In this case, your writer abandoned discretionary savings in favour of retirement annuities, figuring that by throwing double-digit percentages of his annual gross salary at a couple of asset managers and insurers, he would ensure an awesome retirement nest egg. Wind the clock forward to age 50 and things look less certain. Enter regret, and that oft-repeated 'if only I had' refrain. A triplet of truth emerged over this time. First, you cannot dwell on your financial mistakes. Second, you need discretionary investments to supplement formal retirement savings if you hope to build enough capital for a semi-decent retirement. And third, you can never take your eye off the ball when it comes to the life-long game of savings and investment, especially for multi-decade retirement goals.

The trigger for today's financial reflections was a media release distributed by the Actuarial Society of South Africa (ASSA) under the sombre title: 'Living annuities require dynamic management to preserve your capital'. The point being illustrated is that even in the apparent security of a post-retirement living annuity structure, you need to take some responsibility for your financial outcomes. Andrew Davison, chairman of the ASSA's Investments Committee, held that when you buy a living annuity, you sign up for a difficult balancing act of spending your money just fast enough to enjoy a decent standard of living while ensuring that your capital expires before you do. He contended that you, with or without help from your financial planner, cannot achieve this balance by simply opting for low drawdown rates and hoping for the best.

You cannot set-and-forget your pension

"A living annuity is not a set-and-forget product; its management needs to be dynamic [given that] drawdown rates and investment strategies need tweaking over time [and] taking into account the age, gender, and circumstances of the pensioner and their spouse as well as the economic environment," Davison said. The very nature of the living annuity product contraindicates a 'sit on the side-lines' approach. As ASSA pointed out, these products allow you to choose the investment portfolios into which your retirement money is invested, and through that choice, have significant influence on important outcomes like capital preservation and annual income. At this point, your writer defers to the actuarial society's number-crunching mastery to expand the topic. Keen to offer tangible examples to illustrate the challenges in managing living annuities, Davison recreated the living annuity outcomes for 75 hypothetical pensioners. He used identical strategies over a range of market conditions to determine the impact of market returns and the fluctuations of those returns on living annuity outcomes. Similarities in the test included a 30-year retirement horizon and R1 million starting capital; variances arose from the timing of retirement, with the first retiring in January 1957 and another retiring every six months thereafter. Other important similarities across the 75-person test included the same income drawdown rate starting at 5.7% and increasing by inflation every year and comparable diversified investment strategies within each underlying investment portfolio. As a side note, since global asset class data only kicked in in 1990, Davison opted for 100% exposure to domestic South African asset classes prior to that date, split across SA Equities (50%); SA Bonds (30%) and SA Cash (20%). Post-1990, each asset class was further split into a local and offshore component with Equities (30% local, 20% offshore); Bonds (20% local, 10% offshore) and Cash (20% local only).

A mic drop moment for living annuity outcomes

The ensuing analysis used actual returns for each asset class and actual consumer price inflation (CPI) with annual fees of 1%. The caveat, important in the context, was that "returns and fees will vary considerably in real life depending on individual circumstances." Having set the scene, we can finally dive into the findings of this interesting exercise. According to ASSA, Davison determined that the impact of the fluctuating market conditions on underlying investment portfolios resulted in 32 out of the 75 living annuities running out of capital within the 30-year period. In the world of on-stage presentations, this revelation would be considered a mic drop moment. "This is a high failure rate; if the pensioners concerned happened to have lived a long time, there was a high probability that they were left destitute unless they had other sources of income," Davison said. His point nicely underpins the second revelation in your writer's earlier triplet of truths.

And it gets worse. The study showed that the capital in nine of the 75 living annuities had been depleted after just 20 years, with around half of the living annuities left with less than 50% of their original capital, in real terms, at that point. The earliest depleted case was recorded after only 13 years. Feeling concerned? You should be. If the above paragraph did not prompt an urgent call to your financial adviser or planner, then something might be seriously wrong with your savings and investing outlook. The media release shared one of those over-busy graphs that analysts so love, tracking time in retirement and capital for 75 individuals. The result? An explosion in a paint factory, with lines crisscrossing in every direction; a chaotic dance; or a technicolour fungus sprouting wildly in all directions. Amid this riot of colour, a thread of sanity prevails: the extreme range of outcomes is staggering given the consistent drawdown and investment approaches. **Full Report:** ***Range of living annuity outcomes supports hands-on financial advice through retirement (fanews.co.za)***

FA News | 28 June 2024

Financial advice trumps two-pots, every time

The anticipated 1 September 2024 introduction of the so-called two-pots retirement system changes the rules for South Africans saving towards retirement; but it does not alter the macroeconomic or social environments in which households save. Nor does it substitute for good, timely financial advice. These truths were on naked display during the ninth edition of Critical Conversations, a thought leadership series by Sanlam Investments. In its latest iteration, the asset manager assembled a panel of experts to tackle some of the fundamental questions arising from the looming two-pots implementation, including why South Africans struggle to save for their retirement. The experts offered up a range of obstacles to optimal savings outcomes including the cost of living, financial education and the glaring differences between formally and informally employed individuals, not to mention the pervasiveness of the country's unemployment statistics.

The 41% unemployment debacle

"We have a 41% unemployment rate, and most workers support up to seven relatives," said Matthew Parks, Parliamentary Coordinator for the Congress of South African Trade Unions. He also lamented the ongoing higher-than-inflation increases in the basket of goods and services that most households consume. Anne Cabot-Alletzhauser, Co-founder of the Responsible Finance Initiative at GIBS, said there were many factors that make it difficult to save, and many stakeholders that shared the blame for poor outcomes. "The politicians are complicit for opening up the floodgates to credit; the financial services industry is complicit in terms of how they treat debt; and yes, the consumer is involved," she said. It turns out that the psychological factors driving human behaviour are important too. According to adult development and leadership psychologist Dr Mavis Mazhura, you have to think about how emotional debt contributes to financial debt.

One of the biggest mistakes made by generations emerging from poverty is to equate money to self-worth. "People are using money as a coping mechanism to try and fill up the gap [that develops from shortcomings in] self-value and self-worth," Mazhura said. Could this be why the average South African household is diverting around 75% of monthly income to service debt? Panel host Lerato Mbele asked whether there was any link between households' sub-par financial management and the apparent mismanagement of the broader economy. The sentiment was that if the government could run a huge deficit and maintain a debt-to-GDP ratio of 75% or higher, then why not the populace? "I am not sure whether South Africa has a money problem or a money management problem because whether you are looking at the state or the citizen, there is heavy indebtedness in the country," Mbele posed. But the panellists were not too enthusiastic about the comparison, preferring to delineate the roles of consumer and state.

Economic explainer … from a trade unionist?

"The issue about foreign investment has to do with the fiscal responsibility of the government, not the fiscal responsibility of the citizen," countered Cabot-Alletzhauser. But it was left to the trade unionist on the panel to offer an economic explainer. According to Parks, much of the debt carried by the state had been incurred to stimulate the economy, though he conceded that 'corruption on a massive scale' had exacerbated matters.

“There is a consequence to workers and to consumers [due to corruption and loadshedding] because the economy is not growing, salaries are stagnant and jobs are not being created,” he said. The conversation steered towards addressing South Africa’s over-spending, under-saving paradigm. “If you are a country that does not have the fiscus to support a grant-based economy, then you have to create a vehicle that allows you to train your citizens to [play their part in] an asset-based, development economy,” Cabot-Alletzhauser said. The message was that the government did not have the financial means to pay for retirement in addition to meeting social protection requirements in areas like education, health, housing and security.

In this context, retirement is left to the individual; and the solution is to think differently about each paycheque from day one. The panellists challenged conventional retirement thinking. Firstly, they suggested that monthly income be utilised to generate the maximum impact given an individual’s lens of responsibility. Secondly, the employed had to think of ways to earn an income beyond retirement. And finally, households had to appreciate the difference between income and wealth generation. “Income generation takes care of the short term; but when you are making decisions about wealth accumulation over the period of your employment, the decisions change,” Parks said.

A ridiculous, irrelevant retirement funding model

Another panellist took a tougher stance, declaring that today’s retirement model was irrelevant in the world we live in. The question becomes how to design a retirement system that helps the poor to escape poverty while simultaneously encouraging wealth building? One solution could be to align taxation and retirement funding allocations with individuals’ lenses of responsibility. However, it does not matter how creative you get with retirement solutions if the economy is stuttering along. “We have to grow the economy; we have to reduce unemployment; and we have to improve wages because the social package is important. … it prevents society from imploding,” Parks said. It took some time for the discussion to wind its way to the two-pots retirement system, and when it did, the audience poll threw a proper spanner in the works. It turns out 45% of the audience felt two-pots would do nothing to address inadequate savings in South Africa, with 29% indicating they were not sure, and the balance saying it would definitely change outcomes.

This was an interesting result given the obvious behavioural change the new regulatory structure would enforce, most notably the ring-fencing of a full two-thirds of retirement funding contributions from 1 September. Under the new regime, savers will no longer be able to access 100% of their capital when changing jobs. The challenge, it seems, is getting individual savers to understand the system that government and other interested stakeholders have worked so hard putting in place. Cabot-Alletzhauser suggested that hands-on financial advice was a far better solution than financial literacy. “The component that is most in need of fixing in this country is financial advice; we have not spent enough time helping people to understand the consequence of taking one path versus another,” she said. In other words, more attention should be given to direct communication with individuals about the consequences and outcomes of their saving and spending decisions. **Full Report:** ***Financial advice trumps two-pots, every time (fanews.co.za)***

FA News | 1 July 2024

Implications of unpaid maintenance support on retirement investments

Nobody gets married planning to divorce one day. Yet, it is a reality of modern life. A divorce has a significant impact on the lives of the previously married couple, especially their finances. One aspect not receiving a lot of attention is the impact of maintenance payments. Maintenance payments are crucial for supporting dependants. However, what happens when these payments are neglected, leaving a significant debt? In a landmark case, M.O v R.O and Another (15617/2022) [2024] ZAWCHC 8 (5 January 2024), the South African court ruled that retirement benefits can be used to settle outstanding maintenance payments.
This article explores the implications of this decision and its impact on both parties involved.

Understanding maintenance obligations

Maintenance payments, often referred to as child support or spousal support, are court-ordered financial contributions made to a spouse or child after a separation or divorce. These payments aim to ensure the dependant's well-being and maintain a standard of living comparable to when they were part of the same household. Unfortunately, non-payment of maintenance is a prevalent issue. This can leave dependants in financial hardship and create significant stress.

The role of *Case: M.O v R.O and Another (15617/2022) [2024] ZAWCHC 8 (5 January 2024)*

Prior to this case, the legal landscape surrounding utilising retirement benefits for past-due maintenance lacked clarity. Section 26(4) of the Maintenance Act focused on attaching pension funds for arrear maintenance, payments that are already overdue. However, the court adopted a broader interpretation. The court acknowledged that while the wording in the act specifies arrears, the spirit of the law necessitates ensuring future maintenance for dependants. The court explained that the existence of the respondent's retirement annuity funds showed an ability to pay the arrear maintenance on the part of the respondent. While there are no set criteria to determine whether a maintenance defaulter is intentionally uncooperative, there are cases which provide guidance that an intentionally uncooperative defaulter is someone who persistently and wilfully fails to meet their maintenance obligation. This innovative approach allows courts to order the withholding of retirement benefits to cover both outstanding and future maintenance payments.

Implications for dependants

The M.O v R.O and Another case offers a crucial lifeline for dependants owed maintenance. It empowers them to recoup past-due payments and potentially secure a more stable financial future through mandated contributions from the obligated party's retirement funds. This decision fosters accountability and helps ensure dependants receive the financial support they are entitled to.

Impact on obligated parties

While the ruling prioritises the well-being of dependants, it raises concerns for those obligated to pay maintenance. Having retirement savings diverted towards past debts can significantly impact their financial security in their golden years. This highlights the importance of fulfilling maintenance obligations promptly to avoid jeopardising both their current financial stability and their future retirement income.

Considerations and cautions

It's important to note that courts will not automatically resort to attaching retirement benefits. This is typically considered a **last resort**. Judges will analyse various factors, including:

- **The severity of the arrears**: The amount of outstanding maintenance and the duration of non-payment play a significant role. Smaller or more recent arrears may be addressed through other means.
- **Alternative avenues exhausted**: Courts will assess whether attempts have been made to collect the debt through other avenues, such as wage garnishments or seizing assets.
- **Proportionality**: Judges will consider the impact on the obligated party's future financial well-being and ensure the amount withheld from their retirement benefits is reasonable.

Seeking legal guidance

If you are facing issues related to either receiving or paying maintenance, particularly concerning the potential involvement of retirement benefits, seeking legal guidance is crucial. A lawyer can help you understand your rights and responsibilities, represent you in court if necessary, and navigate the legal complexities surrounding maintenance enforcement.

Conclusion

The M.O v R.O and Another case sets a significant precedent in South Africa. By allowing courts to utilise retirement benefits for past-due maintenance, it prioritises the financial needs of dependants while also emphasising the importance of responsible financial conduct when it comes to fulfilling court-ordered obligations. This ruling underscore the interconnectedness of family law and financial planning. It serves as a reminder for both parties involved in maintenance agreements to approach their financial responsibilities with a sense of accountability and transparency to ensure a secure future for all parties involved.

Moneyweb | 1 July 2024

The Two-Pot System will change the future of how we all plan for retirement

Truth time: South Africa is sitting on a retirement time bomb, and it is about to go off in less than two months. With only 6% of the country's population on track to retire comfortably, are we really ready to start dipping into our retirement savings while preserving our futures? Now is the time to put education first before we put our golden years even more at risk than they already are. This stark retirement reality has shone a spotlight on the urgent need for effective retirement planning solutions in our nation. One such solution, the two-pot system, is set to rearrange how we approach retirement savings starting from September 1, 2024. But to embrace the inevitable, we first need to understand what we're in for.

Understanding the Two-Pot System

The two-pot system, despite its name, actually involves three distinct components. Those are the vested, savings, and retirement components. This structure will enable fund members to access a portion of their retirement savings before retirement without having to resign from their employer, a significant shift from the current system. From September 1, members will be able to manage their retirement savings in a more flexible and accessible manner. The vested component consists of the retirement savings accumulated until August 31, 2024, which remains subject to the old rules (i.e. only for when you retire). The savings component allows for partial withdrawals in case of emergencies, reflecting the government's understanding of the financial realities many South Africans face. The retirement component, on the other hand, is strictly preserved for retirement, ensuring long-term financial security.

The benefits of the Two-Pot System

We all need to accept that the two-pot system marks a significant change in retirement planning by making it more adaptable to the needs of South Africans. Yes, it is making a lot of people in the retirement fund sector very nervous, but it does provide a few essential benefits that too many South Africans desperately need, this includes:

- **Emergency access:** The ability to access savings in times of need without quitting your job is a game-changer. This feature provides a safety net, allowing individuals to handle financial emergencies without compromising their long-term retirement goals.
- **Disciplined savings:** By restricting access to the retirement component until retirement, the system ensures that individuals are preserving funds for their future. This compulsory savings aspect is crucial in a country where saving for retirement has not been a strong cultural practice.
- **Enhanced financial security:** With the vested component still growing through investment returns, and regular contributions being split between savings and retirement components, individuals can build a more secure financial future.

Preparing for the transition

As September rears its head, it becomes critical to understand the implications and benefits of the Two-Pot System. Education and clear communication are vital. Fund managers should reaffirm their commitment to providing members with the necessary tools and information to navigate this transition smoothly. But what does that mean exactly. Well, practically speaking, being ready for Two-Pot means we need to:

• **Stay informed:** Attend educational sessions and read all communications from your retirement fund provider. Understanding how the two-pot system works is crucial for making informed decisions.

• **Evaluate your financials:** Assess your current financial needs versus your long-term retirement goals. Use the savings component wisely and only in genuine emergencies.

• **Plan contributions:** Be aware of how your contributions will be allocated. From September, contributions will be divided between the savings and retirement components. Understanding this split will help you plan your finances better.

• **Seek advice:** Don't hesitate to consult with financial advisors or retirement benefit counsellors. Professional advice can help you navigate the complexities of the new system.

A call for disciplined financial planning

Whether you like it or not, the Two-Pot System requires a disciplined approach to financial planning. In 2023, Desiree Ellis, Banyana Banyana Head Coach won the #gsport18 Coach of the Year award. She faced countless challenges across various spheres of her life but attests that discipline and perseverance are key to reaching any goal. The same applies to retirement planning. By staying disciplined and making informed decisions, we can all make great strides on our journeys to financial success. So, yes, the Two-Pot System going live is a pivotal moment for our country. It offers a unique opportunity to transform our retirement planning culture, encouraging a balance between immediate financial needs and long-term security. But with great power comes great responsibility. We can only embrace this change with the commitment and understanding it requires. That way, our future selves will one day say: thank you, past me.

FA News | 1 July 2024

Think twice before tapping into your retirement savings under the two-pot system

From tax implications to long-term risks, here's what you need to know before withdrawing from your 'savings pot' under the new retirement rules, says Old Mutual

Previously, one of the only ways South Africans could cash out their pensions before retirement was when switching jobs. The much-awaited two-pot retirement system will change that by allowing people to access a portion of their pension savings before retirement — without resigning from their jobs. When this new system launches on September 1, all of a person's existing pension fund savings will be allocated to a "vested component" and the new rules will not apply to these savings. Future pension fund savings will then be divided into two "pots", with one-third allocated to a "savings pot" and two-thirds to a "retirement pot".

Here's how the new two-pot retirement system will work:

- As of September 2024, there will be a once off allocation (10% capped at R30,000) from the vested component to the savings pot as an opening balance.
- The funds in this savings pot are designed to be used as a lump sum at retirement. However, people will have the opportunity to access a portion of those funds for emergency purposes, once each tax year, before retirement.
- The retirement pot is where the savings that will only be available at retirement will be kept.

“The advantage of the two-pot system is that it may provide people with some relief to meet their unexpected financial needs or emergencies,” says John Manyike, head of financial education at Old Mutual. However, warns Manyike, the attraction of immediate financial relief must be balanced against the potential long-term risks. He urges people to exercise caution and seek financial advice before making any decisions regarding their pension funds. “Tapping into retirement savings prematurely may lead to individuals struggling to keep up with their current standards of living at retirement, with potentially negative repercussions on their overall financial wellbeing during retirement,” he says. Manyike adds that people need to understand the difference between emergency savings and retirement savings.

While the two-pot system aims to help towards alleviating unexpected financial pressures, it's crucial for individuals to understand that retirement savings are designed only for one purpose — retirement and nothing else. People therefore must ensure that they work on building their own emergency savings, and not rely on the two-pot system for this purpose. There’s also an issue of tax. While savings remain tax deductible and tax free while growing in a pension fund “savings pot”, it's crucial for people to understand the implications of withdrawing from these savings before retirement. “There are tax implications that will impact both the money withdrawn and the money left in the fund for retirement.

Just because the opportunity to access funds exists, people must be cautious because there are opportunity costs involved,” says Manyike. Under the two-pot system, withdrawals from the savings component before retirement will be taxed at marginal rates, like other forms of income. It's essential to note that only one withdrawal from the savings component is permitted per tax year, with a minimum withdrawal amount of R2,000. It's important for people to understand that just because they can withdraw money from their pension savings, they don't necessarily have to, says Manyike. Instead, he suggests that people consider preserving their pension savings for as long as possible and aim to preserve the funds for retirement. “Pension savings are designed to grow at compound rates, meaning that at retirement people will end up with a lot more pension savings if they opt for preservation rather than withdrawals,” says Manyike.

TimesLive | 1 July 2024

Germany proposes 5% infrastructure quota for occupational pension funds

The German government is proposing a reform to allow certain types of occupational pension funds to invest up to 5% of their assets in infrastructure. The draft legislation jointly presented by the Federal Ministry of Labour and Social Affairs (BAMS) and the Federal Ministry of Finance (BMF), could allow Pensionskassen to allocate to both infrastructure equity and debt. At the end of 2023, the financial regulator BaFin had 122 Pensionskassen under supervision with managed assets worth around €206bn in total. If approved, the law will allow investments in projects for the provision, expansion, operation or maintenance of infrastructure assets considered of public interest, according to the draft bill.

There is currently no specific allocation for infrastructure investments within Pensionskassen portfolios. Instead, infrastructure falls under a broader category of alternative investments within the existing 35% risk-capital quota. According to the bill, the risk capital investment quota would increase with the reform from 35% to 40% of the plan's assets, to give room to pension funds to potentially expand investments. As previously reported, the German alternative investment associations BAI, IDI – Initiative deutsche Infrastruktur – the occupational pension association Aba, and the Arbeitsgemeinschaft berufsständischer Versorgungseinrichtungen, the association representing the interests of first-pillar pension schemes Versorgungswerke, have pushed for the introduction of a separate quota for investments in infrastructure.

The proposed reform foresees a more flexible funding requirement for Pensionskassen. This would allow them to experience temporary periods of underfunding, facilitating an increase in their capital investments, according to the draft bill. The reform follows a similar initiative in the state of North Rhine-Westphalia where pension schemes have the option to apply for a separate allocation of up to 5% of their assets towards infrastructure investments, subject to approval by the Ministry of Finance's supervisory authority.

IPE Real Assets | 2 July 2024

Revolution in Retirement: How the 'two-pot' system brightens the future for South Africa's young workers

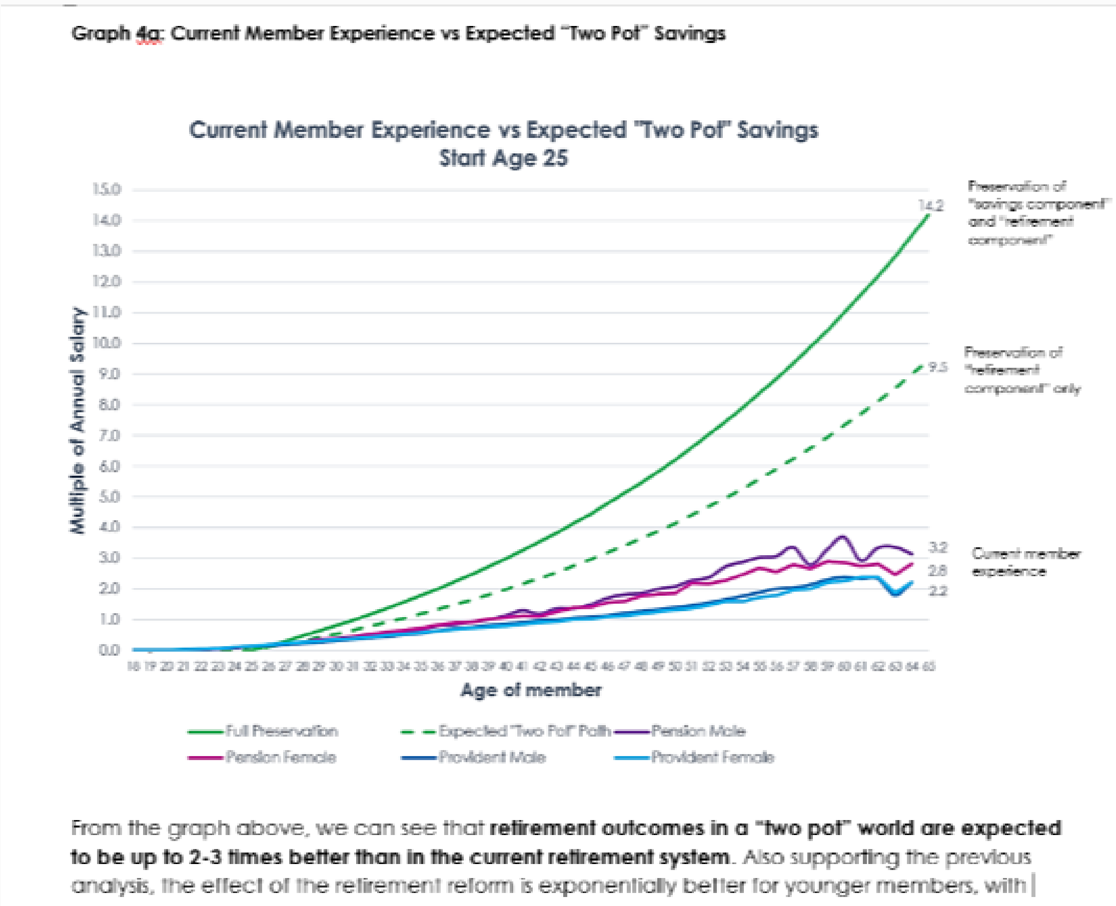
By addressing both the urgent need for financial liquidity and the essential goal of preserving retirement savings, the Two-Pot system is poised to guarantee a brighter future for employed South African youth. According to Old Mutual's analysis, the new system, launching on 1 September 2024, could enable workers starting at age 25 to amass retirement savings 2 to 3 times greater than those under the old system. “The ingenuity of the Two-Pot system lies in its ability to acknowledge the need for immediate financial access, reflecting our socio-economic reality, while still safeguarding long-term retirement goals,” says Keri-lee Edmond, the Analytics and Insights Manager from Old Mutual Corporate Consultants leading the quantitative investigation. “This marks a momentous shift in conventional thinking, and one which we believe will have a significantly positive effect on retirement outcomes in the future.” Her research indicates that the Two-Pot system could enable young South Africans entering the workforce to save up to 9.5 times their annual salary by retirement, even if they use the entire savings component for emergencies.

If no emergency withdrawals are made, savings could reach around 14.5 times the annual salary, ensuring greater financial security in retirement. Currently, typical members of provident or pension funds save only 2.7 times their annual salary, which undermines post-employment financial stability. Experts recommend saving 10-15 times one's annual salary to replace 70%-75% of working income in retirement, highlighting a significant shortfall in current savings practices. “The Two-Pot system promises significant progress towards financial security for all employees in occupational funds. However, employers play a key role in promoting financial education and creating innovative, less expensive forms of liquidity in a crisis. It is important to emphasise that withdrawals from the savings pot should be avoided,” says Edmond.

The problem the Two-Pot system will address. The Old Mutual On Track research 2023, which analysed half a million employees in umbrella funds, revealed that members of employer retirement funds have been withdrawing 100% of their retirement assets in cash when changing jobs. "This action represents the most significant destruction of value and has a negative multiplier effect," says Edmond. "The Two-Pot system aims to address this by preserving assets while allowing access to savings in difficult times. Compulsory preservation ensures more assets remain invested longer, benefiting from compound interest and resulting in higher retirement savings. “The legislation requires two-thirds of retirement savings to purchase an annuity, providing regular income in retirement and financial security for leisurely activities,” says Edmond. “Additionally, employees can withdraw from their savings component annually without leaving employment, addressing the current economic reality for many South Africans. “New employees should be encouraged to engage in financial planning and set aside additional emergency savings as they join the workforce, providing a cost-effective alternative to emergency withdrawals and helping to avoid debt.”

Good news for older workers too

“The simulations also show that for older members with at least 11 years of service until retirement, the new system is expected to provide outcomes at least equal to, if not better than, the current system,” says Edmond. “This new policy is a robust solution for today’s economic challenges and will have a positive impact on employees of all ages. The longer individuals spend in the Two-Pot system, the more positive that effect will be.” The retirement landscape is evolving, and South Africa is taking action to improve outcomes for all individuals, with employers playing a crucial role. "The Two-Pot system is anticipated to revolutionise retirement planning in our country, offering substantial improvements in savings, especially for younger workers. By effectively balancing immediate financial needs with long-term retirement goals, it promises a brighter and more secure future for all, and we look forward to witnessing the positive impact this will have on our society."



FA News | 26 June 2024

FSCA publishes its latest Regulatory Actions Report

The Financial Sector Conduct Authority (FSCA) has published its latest Regulatory Actions Report for the previous financial year. The report highlights the FSCA's enforcement efforts between 1 April 2023 and 31 March 2024 and outlines the Authority's future focus areas based on identified trends and risks. The report aims to increase the visibility of the FSCA's enforcement activities, deter misconduct and raise awareness of regulatory requirements in the financial sector. It sets clear expectations for good conduct within the sector and identifies emerging trends and risks.

The report details a number of enforcement interventions by the FSCA, including 156 debarments, 104 public warnings, 41 Enforceable Undertakings, suspension of 1061 licences, the withdrawal of 75 licences, and the imposition of penalties in excess of R943 million on 33 persons. The report also details the number of cases the FSCA has fully investigated and handed over to various law enforcement agencies, including highly publicised cases. One of the notable cases is the prosecution of Mr Craig Warriner, who received an effective 25-years sentence for fraud and unregistered financial services business, following successful collaboration with the prosecution authorities. The main concerning trends in the sector include copy trading and signals, construction guarantee policies being issued by unregistered entities, deepfake scams, impersonations of financial services providers, and exploitation via social media platforms.

The best gain is seen in the funeral parlour sector with the regularisation of the business of many funeral parlours and the decrease in investigations into unregistered over-the-counter product providers following enforcement actions in the previous year. Collaboration between the FSCA and the NPA has also led to significant successes. The FSCA also collaborated on 45 matters with international counterparts and became a signatory to the International Organisation of Securities Commission's (IOSCO) Enhanced Multilateral Memorandum of Understanding that aims to enhance the effectiveness of cross-border investigations and enforcement. Through this collaboration and cooperation with international counterparts as well as other regulatory authorities, the FSCA's enforcement function effectively executes its mandate.

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