TUESDAY, 7 JULY 2020

irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

TABLE OF CONTENT

LOCAL NEWS

- Is the annuity debate shifting back to life, from living?
- How to manage your living annuity in uncertain times
- Members have shortfall of over 8 times their annual salary at retirement
- Amend Pension Funds Act to allow for 'cheaper access' to development finance, says ANC
- POPI Act - implications for various business areas
- Activist Hedge Funds Undermining Corporate Social Responsibility, Research Finds

INTERNATIONAL NEWS

- Japan's pension fund suffers worst loss since 2008
- Pension funds dissolutions risk future for many

OUT OF INTEREST NEWS

- Unpacking the FSCA's mandate as a conduct regulator

Is the annuity debate shifting back to life, from living?

It would serve South Africa's financial advisers and financial planners well to walk some miles in their client's shoes. In so doing they gain a clearer understanding of the difficulty that Jane and Joe Average face when navigating and understanding the complex retirement savings and pension funding world. One of the biggest challenges facing retirement savers in the defined contribution 'space' is which financial product to purchase to provide them with a monthly income in retirement. At first glance the choice is between a life annuity or living annuity; but there are many options to consider.

A return to annuity basics

A living annuity, also called an investment-linked living annuity, allows annuitants some flexibility in how they invest their capital and how much income to draw, within regulated limits. Living annuitants are exposed to the vagaries of market performance. "If the markets perform poorly or you draw too much, your total investment amount can decrease and your income along with it; you can only draw a pension for as long as there is money remaining in the investment," says Tajudin Parkar, Head of Group Income Solutions at Old Mutual. It is estimated that living annuities account for 90% of the capital invested in domestic annuities.

A life annuity, also called a guaranteed annuity, is a promise by an insurer to pay you a monthly income or pension for life. The annuitant has some influence over the product in that he or she can stipulate annual increases and elect certain guarantee periods upfront. So, for example, he or she can choose between a level annuity that offers no increase in annual income; a fixed escalation annuity that offers a pre-agreed annual increase, say 5%; or an inflation-linked annuity, where the increase matches the prevailing rate of inflation each year. The income and annual increases are priced into the guaranteed annuity upon entering the contract.

Reintroducing the with-profit annuity

There is another type of life annuity that is making somewhat of a comeback at the moment, namely the with-profit annuity. Poobalan Govender, Manager: Income Solutions at Momentum Corporate describes a with-profit annuity as a type of life annuity that pays a guaranteed minimum income for life. "The guarantee consists of an initial income with future increases being linked to the investment returns made in an underlying portfolio," he says.

Old Mutual offers a similar definition: "A with-profit annuity provides you with a regular income that will increase annually at a rate decided by the insurer, which rate is based on various factors". Commentators single out Just SA, Liberty, Momentum, Old Mutual, and Sanlam as the main life insurers in the with-profit segment, before adding that it is difficult to determine what percentage of the total life annuity market these

products account for. The annual increase in a with-profit annuity is based on a post-retirement interest rate (PRI) that is selected by the client at the start of the contract. A with-profit annuity pays an income until the annuitant's death or, if so stipulated, will continue paying to the annuitant's spouse or for a fixed, agreed post-death period. The PRI is selected at the start of the with-profit annuity contract and determines the size of the initial pension and the level of future pension increases. Generally speaking, the higher the PRI, the higher the initial pension; but the lower the future expected increases. And vice versa.

"Each PRI rate represents the minimum return that the underlying investments must earn before increases can be paid," says Govender. Assuming a PRI of 2%, an investment return available for increases of 7,5%; and ongoing product costs of 1%, we can calculate the increase as follows: [(1+6,5%)/(1+2%)-1], or 4,41%. The life insurer 'protects' with-profit annuitants from market volatility by applying a smoothing formula to the return available for increases. This formula is based on historic investment returns, scaling factors, and participation rates.

Hybrid or blended solutions seem attractive

Momentum Corporate observes that with-profit annuities are popular among retirement funds or employers that purchase annuities on a bulk or group basis. They are also the preferred instrument in so-called hybrid annuities. A word of caution is indicated. It is not uncommon for commentators to describe with-profit annuities as a hybrid annuity, because of their investment underpin; but in this sense the word hybrid is used to describe a blended annuity solution.

A blended annuity is marketed as a best-of-both-worlds solution and comprises a life annuity portfolio being included alongside the underlying market investments, all housed inside a living annuity. Annuitants can change the percentage allocation to the life annuity portfolio over time. The main difference between a traditional guaranteed annuity and a with-profit annuity is that the life insurer declares the annual increase in income, if any.

"Your monthly income will increase at an annual rate decided by the life insurer that provides the with-profit annuity," notes Parkar. "This increase is based on factors such as investment returns". A with-profit annuity targets a particular level of increase relative to inflation; but does not guarantee this increase in any year. It does, however, promise that increases cannot be taken away once granted. So, the highest historic annual income becomes the new level of guaranteed income. Another important differentiator of the with-profit annuity is in the underlying investment strategy.

"The insurer uses a strategy almost entirely in bonds to meet the guarantees in its guaranteed annuities," says Parkar. "A with-profit annuity strategy still contains a sizeable proportion in bonds; but also includes exposure to growth assets like equities and property". This creates the potential for a higher total income over the 15 to 25 year investment horizon.

Trusted financial advice

"The attractiveness of the various types of life annuities can vary over time and depends on the prevailing market conditions," says Govender. He notes that financial advisers will consider the investor's risk profile, long term financial goals, and market conditions when determining which pension solution is most suitable.

As evidenced in the opening paragraphs, 90% of funds go to living annuities; but the trend could be shifting back in favour of life annuities. Momentum Corporate suggests that with-profit annuities are growing in popularity. "In general, because a with-profit annuity provides fewer guarantees than the traditional or CPI-linked annuities, this type of annuity tends to be more cost effective and on average, offers a better long term outcome," concludes Govender.

FA News | 6 July 2020

How to manage your living annuity in uncertain times

The primary goal of a living annuity is to provide a reasonable level of income that keeps up with inflation and lasts for the rest of the annuitant's life. A common secondary goal is to leave a capital legacy for beneficiaries. There are four long-term rules to facilitate achieving the primary goal.

Rule 1: Plan for a reasonable number of years in retirement

While it is true that not everyone will enjoy a long retirement, there is a very real possibility that your retirement could last almost as long as your working life. According to the Actuarial Society of South Africa's South African Annuitant Standard Mortality Tables 1996-2000, if you want to be at least 90% sure that you are planning for enough years in retirement, you need to plan for approximately 40 years at age 55, 30 at age 65, 20 at age 75 and 10 to 15 at age 85. Therefore, regardless of your age, your living annuity remains a long-term investment for a long time.

Rule 2: Invest for above inflation (i.e. real) returns

So how do you need to invest to maximise your chances of achieving the required real returns and sustaining your income over time? Our research looking all the way back to 1900, reveals that growth assets, particularly equities, have been required to generate the necessary levels of real returns and to sustain real incomes.

For example, with a 4% starting drawdown rate and needing income for 30 years, having 0% in local equities would have had approximately a 30% probability of success, while a 50% or 60% exposure to local equities would have had approximately an 80% and 90% probability of success, respectively. Our conclusion is that as a living annuitant, you should have a minimum of 50% exposure to growth assets, such as equities, and exposures of 60% to 70% would have led to even higher probabilities of long-term success.

Rule 3: Manage volatility (but not at the expense of real returns)

Our research reveals that being able to reduce volatility without (significantly) reducing real returns, or being able to increase real returns without (significantly) increasing volatility, increases the probability of success in a living annuity. How do you achieve the right balance? Offshore diversification can help. According to the analysis of our long-term dataset, investing 30% offshore would have allowed lower volatility while maintaining the same or higher levels of real returns, equaling or bettering the likelihood of success.

Another way to manage volatility is through quality active management. Over the 20 years from 2000 to 2019, the Allan Gray Balanced Fund has generated higher real returns than its benchmark and a passive investment of 60% equities and 40% bonds, with 30% offshore across the investment. It has also managed to generate these higher real returns at roughly equal (relative to the passive investment) and lower (relative to the benchmark) levels of volatility.

Rule 4: Draw a reasonable level of income

With 30 years of income required, starting drawdowns in the region of 4% to 4.5% and below have had probabilities of success of 90% and above. Beyond this range of drawdowns, the probabilities of success start to decrease.

What about the current context?

After returning just more than 10% over 2019, South African equities fell 34% from top to bottom as a result of COVID-19. While the market has somewhat recovered, it was still down 12% at the end of May 2020. Our historical analysis reveals that there have been six other occasions where South African equities have been in an equally bad or worse position and a number of other points where real returns have been low or negative over a five-year period. The same has also been true for global equities. Let's examine more closely whether the "Rule Book" holds under these circumstances by considering the questions below:

1. Should you have lower growth asset exposure?

History shows us that reducing growth asset exposure at difficult points has not been in annuitants' best interests over the longer term. For almost all 30-year periods, including those starting at equally or more difficult points than we are experiencing now, reducing growth asset exposure would have led to lower income over the next 30 years.

2. Should you use a combination of unit trusts and draw from cash?

Our analysis shows that the probability of being able to sustain different levels of income for different lengths of time hasn't depended on the number of unit trusts that are combined, how capital is allocated and rebalanced between those unit trusts, or which unit trust income is drawn from; rather it has had to do with the underlying exposure to growth assets of a given strategy over time. That said, if using a combination of unit trusts and drawing from cash allows you to maintain an appropriate or higher level of growth asset exposure through improved behaviour at difficult points, then there is benefit to this type of strategy.

3. Should you adjust your income?

Given the current circumstances, you may be considering reducing your drawdown to preserve capital, or you may need to increase your drawdown to meet your expenses. Electing a lower or higher income has a direct impact on the probability of being able to sustain your income over the remainder of your retirement, assuming a consistent investment strategy.

If you have no choice but to increase your income as a consequence of COVID-19, keep in mind the potential longer-term implications. To compensate, consider taking below-inflation increases moving forward or gradually reducing your income to a more reasonable level. These considerations are even more important in light of recent temporary changes announced by National Treasury to help annuitants through the COVID-19 crisis.

4. Should you consider transferring some risk?

If you cannot draw a reasonable level of income, you take on increased longevity risk (the risk of outliving your investment) and investment risk (the risk of unfavourable investment returns), and therefore increased risk of failure in a living annuity investment. In this case, it's worth considering transferring some or all of the risk to an insurer by purchasing a guaranteed annuity.

A guaranteed annuity offers you a guaranteed income for life, regardless of how long your retirement is, and it typically offers a higher level of income than what may be considered sustainable in a living annuity. These benefits come at the cost of reduced flexibility and lower or no capital legacy on death.

IOL | 6 July 2020

Members have shortfall of over 8 times their annual salary at retirement

South Africans need to contribute 17% of their income for 40 years to retire comfortably on 75% of their final pensionable salary – a 75% replacement ratio – according to the 2019 Alexander Forbes Member Watch.

Simply put, they need over 12 times their annual pensionable salary to achieve a replacement ratio of 75% at retirement, but at age 65 the actual average fund credit is only 3.7. This means that, on average, most members have a shortfall at retirement of over 8 times their annual pensionable salary. With over a million members, the Alexander Forbes Member WatchTM is the biggest membership and employer groupings data sample of all retirement fund surveys available in South Africa. It outlines and analyses trends in member behaviour.

Only 6 in every 100 members can retire on more than 75% of their pensionable salary

According to Member Watch, only 6% of the total retirement fund membership can expect a replacement ratio above 75% of their pensionable salary. "A comfortable retirement is possible if employees contribute sufficiently from a young age and do not cash in when changing jobs," said Vickie Lange, head of best practice at Alexander Forbes.

Don't cash in retirement savings between jobs

Low preservation rates are one of the biggest reasons for replacement ratios being lower than the target. "Regulations have been put in place to assist with low preservation rates. Default preservation rules allow retirement savings to be made 'paid up' in the fund when a member leaves their employer and doesn't make a payment election so that their retirement savings are kept invested." The number of members preserving has changed insignificantly from 8.7% in 2018 to 8.8% in 2019. The proportion of assets preserved has also changed insignificantly from 48.8% in 2018 to 48.4% in 2019.

How to double replacement ratios

The 2019 Member Watch also demonstrated that increasing one's retirement age from 55 to 65 can almost double a replacement ratio due to the compounding effect on interest. Preservation rates increase with age. "This may be due to members being more aware and focused on their retirement savings and understanding the importance of preserving their benefits." Preservation rates have decreased on average by 0.36% for members between the ages of 18 and 30 years when compared to the previous analysis, while members who are 65 years and older have increased by 1.82%.

Half retired on less than 20% of their final pensionable salary

Approximately 49.7% of retirees in the analysis achieved a replacement ratio of less than 20%. This is slightly lower than the findings of the 2018 analysis, where 51.7% achieved a replacement ratio of less than 20%. There is a significant increase of 2.8% of retirees, who achieved a replacement ratio above 80% as compared to the 2018 analysis.

Why are the outcomes so low?

Low replacement ratios may be due to:

- low contribution rates to retirement funds
- members cashing in their retirement savings between jobs
- the increased cost of buying a pension at retirement because people live longer – longevity – and real yields are reducing
- the impact of the recession on retirement savings

Note that this analysis was based on 2019 retirement fund data before the Covid-19 implications. "The results highlight how important it is for members to have access to communication, retirement benefit counselling and advice to make informed decisions over their lifetime to improve their long-term financial

well-being. This has become even more important following the implications of Covid-19 on retirement fund members," concludes Lange.

FA News | 6 July 2020

Amend Pension Funds Act to allow for 'cheaper access' to development finance, says ANC

The ruling party wants regulation 28 of the act amended to impose prescribed assets
The ANC wants the Pension Funds Act changed to enable "cheaper access" to finance for development. After a national executive committee (NEC) meeting at the weekend, secretary-general Ace Magashule said on Wednesday the party wanted regulation 28 of the act, which governs the way pension funds invest in various classes of assets, amended. The regulation limits the extent to which retirement funds may invest in particular assets or, in particular, asset classes to protect the members' retirement provision from the effects of poorly diversified investment portfolios.

Finance minister Tito Mboweni has supported the idea of pension funds being allowed to invest in infrastructure directly. One idea being floated is the creation of project infrastructure bonds. As the cost of government debt has risen and the debt burden spiralled over the past five years, some in the ANC and Cosatu have suggested introducing the idea of prescribed assets. If regulation 28 was amended to impose prescribed assets, this would set a minimum floor for the proportion of investments to be held in government stock.

Government stocks are listed on the JSE and the pension fund industry is significantly invested in them. Of the R1.1-trillion under management (excluding the Government Employees Pension Fund), pension funds hold R202bn in government stock and another R28bn in state-owned enterprises and municipalities. Magashule said sustainable financing of economic recovery would require close co-ordination of fiscal and monetary policy to ensure ongoing access to capital markets, reduce the cost of borrowing, and strengthening the role of development finance institutions.

Regulators should also be vigilant to ensure increased competition in the banking sector, he said. "While working to restore fiscal stability, SA needs to deploy macroeconomic policy instruments compatible with economic reconstruction. Reconstruction programmes must be sufficiently financed and financially sustainable," Magashule said. He said National Treasury, the SA Reserve Bank, development finance institutions and private financial institutions all had a role to play. "The mobilisation of funds for increased investment in infrastructure and key productive sectors, will inevitably require a combination of public and private resources."

Business Day | 1 July 2020

POPI Act - implications for various business areas

The long-awaited Protection of Personal Information Act 4 of 2013 comes into force on Wednesday 1 July 2020, and companies will have a period of one year to get their ducks in a row or risk substantial fines and even imprisonment.

From employee data, to direct marketing, e-commerce and the implications for the real estate industry – the impacts of the Act are far reaching. While it is incredibly detailed, the Act also still requires a vast amount of clarity in many areas.

Experts from commercial law firm, Cliffe Dekker Hofmeyr have compiled a detailed handbook from various practice areas explaining how the Act impacts businesses in various ways.

Highlights include:

- **What is personal information?** 4 key areas of personal information collection that businesses need to be aware of (page 3)
  - Market research via direct marketing
  - Online data collection
  - Employment agreements
  - Service level agreements

- **POPI and its increased liability for employers**

As an employer, you may be held liable for the actions of your employees, regardless of whether you intended the outcome or not. What can you do to avoid this?

- **Grey areas** – What is meant by "further processing" and the defense of "legitimate interest"? And what does this mean for your business?
- **Five legal tips for direct marketing**
  When last did you get a call or auto-voice SMS trying to sell you something you don't need? Internationally, direct marketing related personal information data breaches are attracting heavy fines by regulators, British
  Airways, Facebook and Yahoo already having attracted fines in the region of US$500,000. POPI now regulates direct marketing strictly and companies better ensure that they are compliant - whether it's direct marketing by post, telephone, email or SMS.
- **Has the role of the Information Officer changed? CEOs take heed**
  Previously, the role of the Information Officer was governed by the provisions of the Promotion of Access to Information Act 2 of 2000 (PAIA).Under PAIA, the Information Officer was the individual tasked with ensuring
  compliance with its provisions – and this responsibility is automatically assigned to the head of an organisation (be it the chief executive officer or otherwise). Under POPI, this responsibilities for this person expand.

What about the real estate industry? Lease agreements, sales of property, FICA compliance affidavits, bond approvals, mortgage bonds, notarial bonds, ante nuptial contracts and deeds of transfer. The real estate sector is personal information heavy. Here is what role players need to know.

- **POPI FAQs**
  - o **Data breach** – now what? Understand the POPI requirements for companies should a data breach occur
  - o **My business operates in other jurisdictions such as the European Union.** If the business complies with legislation such as the European Union's General Data Protection Regulation (GDPR), does this automatically mean that it will be POPI compliant?
  - o **What constitutes a POPI policy**?

Click **here** to download the full guide.

FA News | 2 July 2020

Activist Hedge Funds Undermining Corporate Social Responsibility, Research Finds

Activist hedge funds are almost twice as likely to target socially responsible companies as others, according to new study by Professors Mark DesJardine (Pennsylvania State University), Emilio Marti (Erasmus University Rotterdam), and Rodolphe Durand (HEC Paris). Findings add to mounting evidence that activist funds play a problematic role for corporate social responsibility, which they interpret as a signal that companies do not maximise short-term shareholder value.

Hedge fund activism could be playing a serious role in undermining corporate social responsibility. This is the core discovery in a new study by Mark DesJardine, Professor of Strategy and Sustainability at Pennsylvania State University's Smeal College of Business, Emilio Marti, professor of business-society management at the Rotterdam School of Management, Erasmus University, and Rodolphe Durand, Professor of Strategy at HEC Paris and academic director of the school's Society & Organizations Center.

Drawing on data covering US-based activist hedge fund campaigns between 2000 and 2016, the study finds that activist hedge funds are significantly more likely to target companies with strong performance in corporate social responsibility (CSR). For these companies, the likelihood of being targeted nearly doubles—from 3% to 5%—when CSR scores increase by two standard deviations above the industry average. What's more, the findings suggest that those companies that place greater emphasis on CSR in industries not inclined toward these issues are even more likely to be targeted.

To establish why this is the case, the authors interviewed a range of hedge fund managers. The authors conclude that activist hedge funds see CSR activities as a signal of wasteful spending that distracts companies from maximising shareholder value in the short term. Companies perceived to be wasting resources are ideal targets for activists whose business model is to generate significant profit by reorienting such companies towards maximizing short-term shareholder value. Interestingly, companies that communicate clearly their operational and financial strategies are less targeted even if their CSR is strong.

The study suggests that activist hedge funds play a problematic role for CSR. While prior research has shown that being targeted by an activist hedge fund leads companies to curtail their CSR activities, the new study shows that CSR also makes companies more likely to become targeted by an activist hedge fund in the first place.

This insight is particularly relevant because activist hedge funds have gained traction in recent years. According to data from Activist Insight, 839 companies were targeted by at least one activist hedge fund in 2019. According to the bank J.P. Morgan (2015), “No recent development has influenced firms’ strategic and financial decision-making as profoundly as the surge in shareholder activism by hedge funds following the global financial crisis.”

The new study has practical implications for policy-makers, publicly-traded companies and investors who care about sustainability.

• For policy-makers: the study suggests that protecting companies from hedge funds attacks may support companies’ CSR efforts. In the Netherlands, for instance, policy makers are currently discussing whether companies should have the right to initiate a “cooling-off” period that would allow them to rethink their strategy and buy them time when they become targeted by an activist hedge fund. In France, policy-makers are looking at whether the mandatory reporting threshold for activists should be lowered from 5% to 3%.
• For publicly-traded companies: Executives contemplating investments in CSR need to be aware that standing out from their industry attracts activists especially when the value creation strategy is unclear. For this reason, executives should clearly communicate their CSR strategy to existing shareholders to ensure they have their backing when allocating capital to CSR activities.
• For investors: Many individuals and organizations are invested in activist hedge funds today through pension funds and endowments, which have been a major driver of growth for activist hedge funds since 2009. Investors looking to prioritise sustainability would do well to ensure their capital is not supporting institutional investors that undermine CSR.

FA News | 2 July 2020

INTERNATIONAL NEWS

Japan's pension fund suffers worst loss since 2008

Amid pandemic, $77b is most the fund had shed since financial markets plunged after Lehman Brothers collapsed

Japan's huge public pension fund, the world's biggest, said Friday it had suffered its largest annual loss since the global financial crisis, as markets tumbled amid the coronavirus pandemic.The Government Pension Investment Fund (GPIF) said it recorded losses amounting to 8.28 trillion yen ($77 billion) for the fiscal year that ended in March. "Stocks plunged in Japan and overseas due to risk-off investor sentiment," the GPIF said in its annual investment report. Its losses on the equity markets and domestic bond market were slightly compensated by 115.3 billion yen in gains from foreign bonds.

It was the most the fund had shed since its eye-watering 9.3-trillion-yen loss in the year that ended March 2009, as world financial markets plunged after Lehman Brothers collapsed in September 2008. Japan's 160-trillion-yen pension fund has nearly doubled the share of equities in its bond-heavy portfolio to generate higher returns. The conservative fund had long kept the majority of its cash in super-safe and Japanese government bonds, generating anaemic returns. The move into riskier asset classes was aimed at financing the needs of Japan's soaring number of retirees who depend on payouts from the fund.

This year, the GPIF has decided to raise the allocation of foreign bonds in its portfolio to 25% from 15%, according to the Nikkei business daily. The fund aims to invest more in foreign bonds that carry higher yields while gains from Japanese government bonds stagnate amid negative interest rates.

ASIA TIMES | 4 July 2020

Pension funds dissolutions risk future for many

A pension fund is only as good as it lasts. Over the last few years there has been an increase in the number of private pension funds seeking dissolution.

Sadly, most members of these dying pension funds tend to be unconcerned about their closure as long as their contributions are fully reimbursed. "At least I got my money while I am still alive. I can re-invest it myself and secure my own future," said Elias Nhini, whose company effectively dissolved its pension fund last year. But a pension fund is not a bank; all things being equal, it should be underpinned by the "socially conscious" tenet of securing a member's future in their retirement. Only rarely do individuals use these reimbursed funds to secure their future. Zimbabwe has a pensioner

coverage ratio of about 10 percent of the population above the age of 65, which means that about 10 out of 100 persons who are above retirement age are receiving a pension. That is largely due to the role played by the national pension scheme administered by National Social Security Authority (NSSA), whose membership is compulsory for all those in formal employment. Last year alone, official figures from the country's insurance and pensions sector regulator — the Insurance and Pensions Commission (IPEC) — show that a total of 26 occupational pension funds were undergoing dissolution.

IPEC reported that of the 26 cases, four dissolutions were finalised during the year. There is no doubt that a difficult economic climate was one of the major contributors to some of these private pension funds seeking dissolution. Notwithstanding other key macro-economic challenges, 2019 was typified by increased inflationary pressures and rapid depreciation of the Zimbabwe dollar. Consequently, pension funds, like most other entities, struggled to cope, and the sector's contribution arrears rose to $621,7 million as at the close of 2019.

Employer contributions were largely considered to be sub-optimal during the period. IPEC director of pensions Cuthbert Mujoma says there has been steady decline in the number of pension funds over the past two decades. "At its peak around mid-90s, there were about 2 300 pension funds. Right now we are speaking of 959 pension funds as of March 2020. "It is a reflection of viability challenges being faced by the sponsoring employers," he said. "As you may appreciate, our industry follows the fortune of the economy. In terms of the possible impact, one of the key impact is that of consolidation of the industry in terms of the number of funds as well as membership." ***Full Report:https://www.sundaymail.co.zw/pension-funds-dissolutions-risk-future-for-many***

The Sunday Mail | 5 July 2020

OUT OF INTEREST

Unpacking the FSCA's mandate as a conduct regulator

South Africa is known globally for having an efficiently run, well-regulated and stable financial services industry. And the enterprise tasked with regulating this robust sector, the Financial Services Board (FSB), was largely successful – which begs the question: why change this regulator to the Financial Sector Conduct Authority (FSCA) in 2018?

The answer is simple. Despite the FSB's successes, there was a clear need for South Africa to have a regulator dedicated to supervising how financial firms conduct their business and interact with their customers (the FSCA), and another one focusing on the financial soundness of financial entities (the Prudential Authority). Changing the regulatory landscape in this way makes financial services safer, reduces potential threats to financial stability and ensures the sector is working in the interest of all South Africans. This change is called the Twin Peaks model of financial regulation.

The FSCA, has recently launched its Perimeter Report to help clarify what activities it regulates. The core mandate of the FSCA is to:

- promote fair customer outcomes;
- provide financial education;
- enhance the efficiency and integrity of financial markets; and,
- assist in maintaining financial stability in South Africa.

We also have oversight of financial products and services not previously overseen by the FSB – including banking, life and non-life insurers, collective investment schemes (CIS), services related to credit, retirement funds, investment managers, financial advisers, credit rating agencies and the buying and selling of foreign exchange. Due to the expanded responsibilities, we needed an approach that evolved to reflect this change, one that is grounded in proactiveness, is pre-emptive, risk-based and outcomes-focused, rather than the traditional compliance-driven model we saw during the FSB's tenure.

A critical part of this new model is financial inclusion and the transformation of the financial sector. Our end goal is to remove the barriers that exclude people from participating in the financial sector and get them to make use of the services that will help improve their lives. We take this responsibility seriously and, as such, are working to develop best practice for monitoring and evaluating the impact of consumer education initiatives in the sector.

This is why we are driving better coordinated industry initiatives to maximise the impact of the sector's spend on financial education, and ensure that this leads to long-term changes in the behaviour of South Africans when it comes to money – a relationship that we know many struggle with, leading to a low savings

rate and growing debt levels in the country. Our consumer education initiatives include Taking Regulation to the People, an initiative that makes the regulator more accessible to both financial customers and regulated entities.

We've also partnered with the Department of Public Works to provide financial literacy to participants of the Expanded Public Works Programme (EPWP), and we're coordinating and implementing national financial education projects such as Money Smart Week and the Financial Literacy Schools Speech Competition. The increased emphasis on initiatives to aid financial education and our overall change in focus meant a significant change in how the FSCA is structured, resourced and skilled, as well as how regulatory and supervisory frameworks are designed.

FA News | 2 July 2020

Switchboard : 011 450 1670 / 081 445 8722
Fax : 011 450 1579
Email : reception@irfa.org.za
Website: www.irf.org.za

2nd Floor Leppan House
No 1 Skeen Boulevard
Bedfordview 2008

Disclaimer: The IRFA aims to protect, promote and advance the interests of our members. Our mission is to scan the most important daily news and distribute them to our members for concise reading.

The information contained in this newsletter does not constitute an offer or solicitation to sell any security or fund to or by anyone in any jurisdictions, nor should it be regarded as a contractual document. The information contained herein has been gathered by the Institute of Retirement Funds Africa from sources deemed reliable as of the date of publication, but no warranty of accuracy or completeness is given. The Institute of Retirement Funds Africa is not responsible for and provides no guarantee with respect to any information provided therein or through the use of any hypertext link. All information in this newsletter is for educational and information purposes and does not constitute investment, legal, tax, accounting or any other advice.