

REGULATORY PUZZLE

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South African issues

CONSOLIDATION

TCF

**UNCLAIMED
BENEFITS**

**FINANCIAL
SOUNDNESS**

**AFTERMATH OF
SURPLUS
LEGISLATION**

**RETIREMENT
REFORM**

TWIN PEAKS

**INVESTMENT
GUIDELINES**

Structure of authorities

Prudential Authority (PA)

- Enhanced oversight of micro-prudential regulation for banks, insurers, financial markets, special focus on conglomerates

Financial Sector Conduct Authority (FSCA)

- Regulatory laws that are complete, harmonised, integrated, proportionate – all financial services including banking
- Increased focus on outcomes, especially TCF, focus on contract terms and costs
- Targeted interventions to market failures – retirement reform, insurance protection, FAIS, etc.

Financial Services Tribunal and Enforcement

- Regulators will have clear internal policies and procedures for enforcement, enhanced transparency and accountability, strong appeal mechanism

Financial Stability (FSOC)

- Inter-agency co-ordination of financial stability issues

Objectives



The objective of the Financial Sector Conduct Authority (FSCA) is to protect financial customers by:

- ✚ ensuring that financial institutions treat financial customers fairly;
- ✚ enhancing the efficiency and integrity of the financial system; and
- ✚ providing financial customers and potential financial customers with financial education programs, and otherwise promoting financial literacy and financial capability.

Mandate of the FSCA

Culture and governance

Product value

Unfair contract terms

Misleading advertising/marketing

Ineffective disclosure

Conflicted advice

Poor claims handling

Poor complaints handling

Empowered customers

Technology and Data

Testing outcomes, rather than compliance 'tick-box'

**Rebalancing of responsibilities:
Increased scrutiny of the way firms develop products;
Product provider oversight of chosen distribution channel**

Fair outcomes can be achieved in different ways, through emphasising different TCF elements

Regulatory shift

Forward-looking

- FSCA / firms to identify future conduct risks
- Market and consumer research

Pre-emptive and proactive

- Not just responding to complaints
- On-site visits, thematic reviews, off-site reporting, mystery shopping
- Addressing risks at source (culture, governance, structural interventions)

Outcomes focused

- Firms to demonstrate delivery of TCF outcomes
- On-site / off-site testing of TCF commitment
- Testing TCF in complaints handling

Risk-based and proportionate

- Tiered regulatory framework based on risks to customer outcomes

Comprehensive and consistent

- Expanding scope of conduct supervision
- Cross-cutting activity-based focus areas
- Consolidated legislative framework

Intensive and intrusive

- Build up a centralised “conduct profile” of entities & groups
- Visible enforcement

Treating Customers Fairly

- ❑ Members and beneficiaries are confident that they belong to a retirement fund where the **fair treatment** of members and beneficiaries is central to the retirement fund's culture
- ❑ Retirement fund benefits are designed to **meet the needs** of the fund's members and beneficiaries. Where applicable, retirement funds are marketed in a manner appropriate to the members and beneficiaries concerned.
- ❑ Members and beneficiaries receive **clear and appropriate information** regarding the retirement fund, retirement benefits provided for and the operations of the fund before joining (where applicable), on joining, and regularly during their membership of the fund
- ❑ Where boards and/or members of retirement funds receive advice, the **advice is suitable** and takes account of their respective circumstances.
- ❑ Retirement funds provide products and benefits that meet the needs and **reasonable expectations of their members and are in line with what members have been led to expect**. The service provided to members by the fund, or by service providers on its behalf, is of an acceptable standard and in line with what members have been led to expect.
- ❑ Retirement funds and members do not face **unreasonable barriers to change** product, switch provider, submit a claim or make a complaint

Retirement fund landscape



Occupational funds and personal pensions important



Defined benefit (10%) and defined contribution (90%)



Pension funds (2 478), provident funds (2 538), retirement annuities (25), beneficiary funds (82)



Stand-alone funds (4 396) and umbrella funds (727)



Consolidation: 5 123 funds, down from about 13 500
(3 500 active)

Key retirement reforms policy proposals



The primary aim of the proposals is to **encourage household savings** and ensure that individuals are not vulnerable to poverty while working and in retirement



Key policy proposals

- ✚ **Encourage preservation and portability**, especially during job changes
- ✚ **Enhance governance** of funds
- ✚ **Encourage annuitising** at retirement
- ✚ **Simplify the taxation** of retirement contributions
- ✚ **Encouraging non-retirement saving** through tax free saving plans
- ✚ **Encourage good value retirement products and services** by reviewing costs



The above retirement reform proposals were initiated by the policy document: *A Safer Financial Sector to Serve South Africa Better*, released and endorsed by Cabinet in 2011

Implementation: retirement reforms proposals



Tax free savings account



Default investment portfolios



Default preservation and portability



Default annuity policy

Unclaimed benefits

 Aggregate value of R34 billion (US\$ 2,3bn)*

 4.5 million unclaimed benefit members*

 Total assets = R2 131 billion (US\$ 144bn)* (UB = 2%)

 Total assets = R3 677 billion (US\$ 249bn)

* Excluding GEPPF/Transnet/Telkom/Post Office/Foreign
(1 billion = 1 000 000 000)

Growth in unclaimed Benefits



Unclaimed benefits amount and beneficiaries increases year on year.

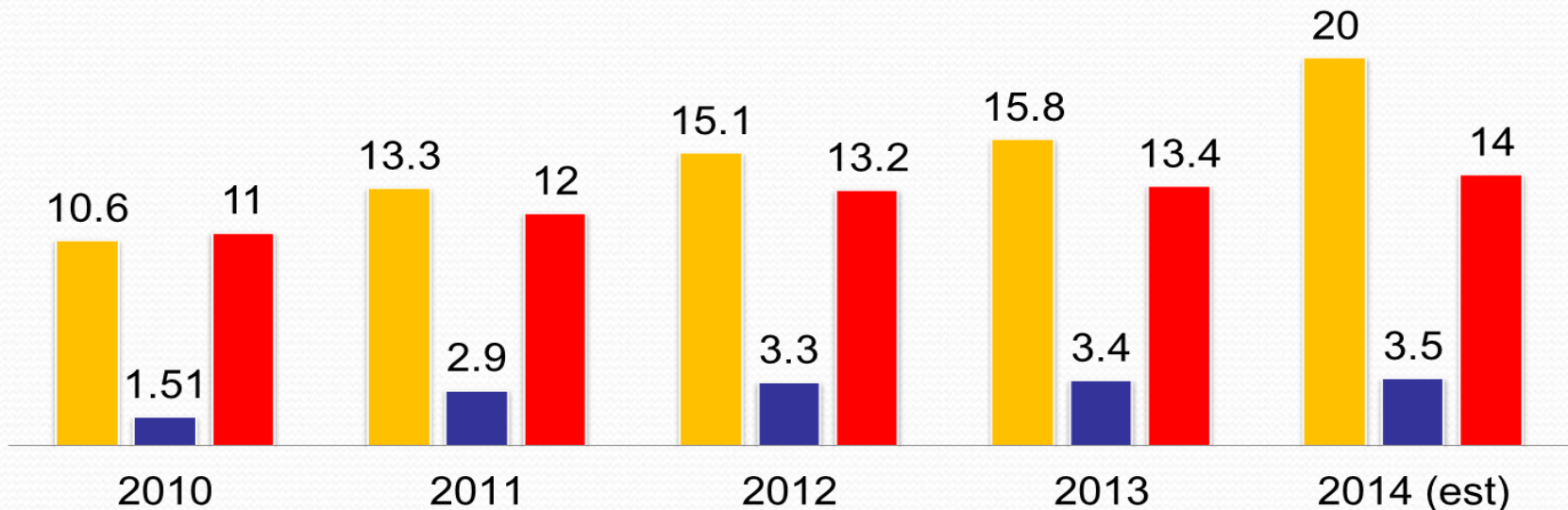


BUT fund membership also increases.



There are always 'new' unclaimed benefits that arise in funds every year.

■ Unclaimed Benefits (R-billion) ■ Beneficiaries (Million) ■ Overall Fund Membership (Million)



Unclaimed benefits



November 2007: Circular PF 126 issued saying fund rules may not provide that benefits unclaimed for a period will “revert back to the fund”



Various reasons why members are not claiming



Solutions

- ✚ Changes in means of identification (record keeping)
- ✚ Rules that provide for compulsory preservation or waiting periods
- ✚ Centralised database and search engine
- ✚ Public awareness campaigns
- ✚ Increased regulatory requirements

Financial Soundness



FSLGAA, 2013

- ✚ Registrar may prescribe basis for determining surplus
- ✚ May prescribe criteria for financial soundness



Concerns

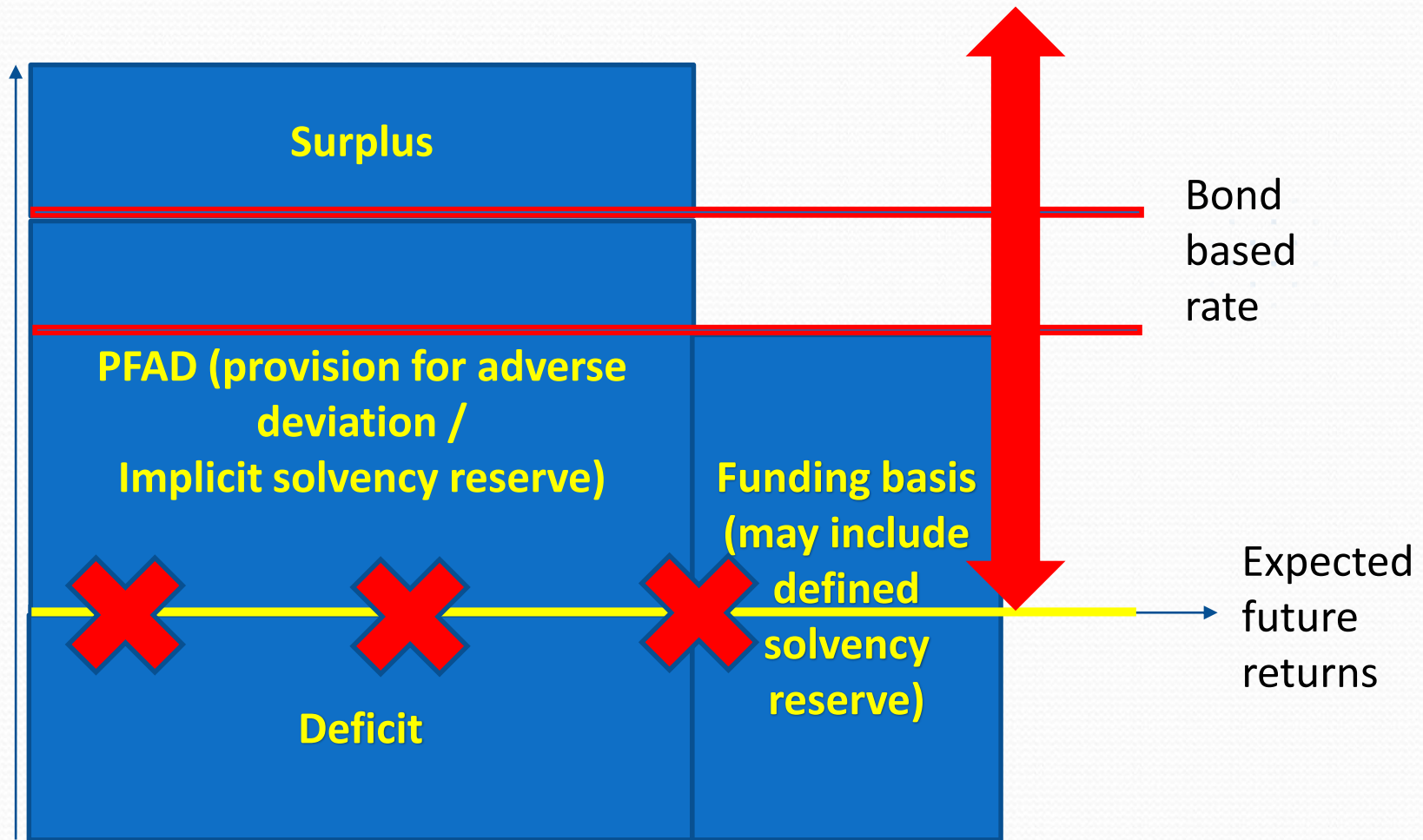
- ✚ Funds use weak best estimate basis with no reserves → little protection for members
- ✚ Pensioners potentially not treated fairly
- ✚ RBE of members not met



Options

- ✚ Prescribe stronger basis
- ✚ Require that solvency reserves be funded
- ✚ Require annual valuations if funding level < 115%
- ✚ Require sensitivity tests
- ✚ Corridor approach

Notice on Financial Soundness



THANK YOU



QUESTIONS