Media release

ADVISERS CRUCIAL IN ENSURING RETIREMENT REFORMS PROTECT CONSUMERS

Johannesburg, 25 September 2014: South Africa's financial advisers will play a crucial role in ensuring that the consumer protections proposed in National Treasury's retirement reforms materialise. This was one of the findings of a panel discussion on the impact of retirement reform on advisers, held at the Independent Investment Intelligence (i3) Summit hosted by Sanlam Investments and Glacier by Sanlam in Johannesburg, on 18 September.

The panel was moderated by Anton Gildenhuys, Chief Executive of Sanlam Personal Finance Actuarial, who said that while industry would like government to reach its retirement reform objectives with as little regulatory intervention as possible, there were certain structural inefficiencies that could not be solved by product innovation and advice alone.

Mandatory preservation is one example… David Gluckman, Head of Research and future positioning at Sanlam Employee Benefits pointed out that while it was easy to blame financial advisers for poor retirement outcomes, the reality was that upwards of 71% of retirement fund members took their money in cash when exiting the pension fund. “The problem is not with the advisers, but with the current system that makes withdrawal the easiest thing to do,” he said.

The regulator's primary concern is with the protection of consumers, improved access to financial services and the long term sustainability of the industry. “To achieve these objectives industry stakeholders must strive to build trust, be transparent and speak a language that consumers understand,” said Caroline da Silva, Deputy Executive Officer – FAIS at the Financial Services Board.

Da Silva, who was joined on the panel by Anne Cabot Alletzhauser, Head of the Alexander Forbes Research Institute and Gluckman, highlighted both economic and structural factors that impacted on efficiencies in the retirement funding industry.

“National Treasury has had to balance high unemployment and low labour participation on the one hand, with the lack of preservation, voluntary participation and poor market conduct issues on the other,” she said. On the market conduct front consumers have been struggling with complex products and the lack of transparency on commission and fees among other issues.

Treasury has thus far taken a slow and steady approach to the difficult task of restructuring South Africa’s retirement savings environment to achieve better outcomes for consumers. Gluckman said that this slow incremental approach was evidenced by Treasury publishing seven papers over 18 months, which clearly signalled government’s intentions and provided a sensible roadmap for industry to follow.

“Treasury has made it crystal clear where the problems lie and product suppliers know what to do to address their concerns,” said Cabot Alletzhauser. “We should not be waiting for the reforms to be signed into law but rather begin tailoring our solutions to address these issues now.”

While the panel agreed that industry could take certain steps to improve retirement outcomes, there are many areas that need further debate. “It makes sense to change the defaults that apply upon a member’s exit from a scheme to preserve the accumulated capital,” said Gluckman. “But implementing default annuity requirements upon retirement is unlikely to work.”

Gildenhuys agreed: “Instead of herding retirees into an often inappropriate default annuity upon retirement we should establish a safety net that is built around the financial adviser and the provision of valuable financial advice.”

The regulators have acknowledged the role that financial advisers will play in ensuring suitable retirement outcomes for consumers, which is why one of the objectives of the on-going Retail Distribution Review (RDR) is to ensure a sustainable model for financial advice.

“RDR is about creating a level playing field in the investment and retirement space and will result in a shift from product / supplier incentives to an activity based type of remuneration,” concluded Da Silva. The likely result will be an ‘advice fee only’ model in the investment space.

Johan van der Merwe, CEO of Sanlam Investments, which hosted the i3 Summit with Glacier by Sanlam, said that product suppliers were ready to assist advisers in navigating the tough regulatory environment and ensuring sustainable financial advice practices as well as the fair treatment of consumers as they prepare for retirement.

"As a leading financial services institution, Sanlam has a responsibility to empower South Africans to live their best possible lives. We hold the savings and investments of the nation in our hands and are committed to working with all stakeholders in order to enable people to retire with dignity," Van der Merwe added.

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