

Goals for 2010 & beyond

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2010 PLA CONFERENCE - SPIER - WESTERN CAPE
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Speaker Mickey Lowther

Company Actuary Mickey Lowther

Topic The new draft Regulation 28 – Prudential
Investment Guidelines for Retirement Funds

ICA 2010 KEYNOTE SPEAKERS ASKED:

- WHY DIDN'T ACTUARIES PREVENT THE CRISIS?
- WHAT ARE YOU DOING TO PREVENT THE NEXT CRISIS?

REGULATION 28: WILL IT PREVENT THE NEXT CRISIS?

Agenda

- Investment 101: Matching assets & liabilities
- Regulator's oversight: Rules or principles?
 - Looking Back
 - Proposed changes
 - Industry reactions

MATCHING ASSETS & LIABILITIES

- Purpose of funds – Retirement, death and other benefits
- Purpose of investing – At least match liabilities
- Different funds → Different liabilities → Different investments
- DB vs DC → Difference includes guarantees
- Retail vs Employment-based → Difference includes member needs
- Should the regulator get involved?
- Leave it to the actuaries and their models?

RULES OR PRINCIPLES?

RULES

- Glass Seagall Act
- 2nd King Code of Governance
- Older Professional Codes
- Bankers remuneration

PRINCIPLES

- Repeal of Glass Seagall Act
- 3rd King Code of Governance
- Newer Professional Codes

“The limitations of a pure principles based regime have to be recognised ... a principles based approach does not work with individuals who have no principles.” *HectorSants, FSA CEO, 2009*

LOOKING BACK

- Funds had to hold 50% Prescribed Assets until 1982
 - Regulation 28 then filled the void
 - Principles-based draft considered but rejected
 - Served us well?

The current draft has urgent amendments only.

A holistic review is part of Pensions Reform.

PROPOSED CHANGES include ...

- Funds offering choice must comply at member-level
- Funds must look through structured investments to underlying assets
- Credit rating of assets introduced
- Islamic ‘equivalent’ liquid assets defined
- Derivatives and asset lending allowed for efficient portfolio management
- Property trusts classified as equity
- Linked insurance policies must comply
- Offshore limited to 20% plus another 5% into Africa

But PROPOSED CHANGES exclude ...

- Environmental / Social / Governance issues
- Regulation of hedge funds
- Exchange Traded Funds



SYSTEMS



COMPLIANCE



MATCHING



THE
LOT!



SURVIVAL

PENSION LAWYERS
ASSOCIATION

Goals for 2010 & beyond

Treasury Road Show

Treasury acknowledged

- inherited an imperfect rules-based system
- past relationships with industry not ideal
- industry is at the coal-face of these issues

They genuinely want to consult whether the draft gives effect to their intentions.

12000 funds must reduce to 500 before principles based regulation will work

Thank you
actuary@mweb.co.za