

FSCA

Emerging Retirement Sector Strategy

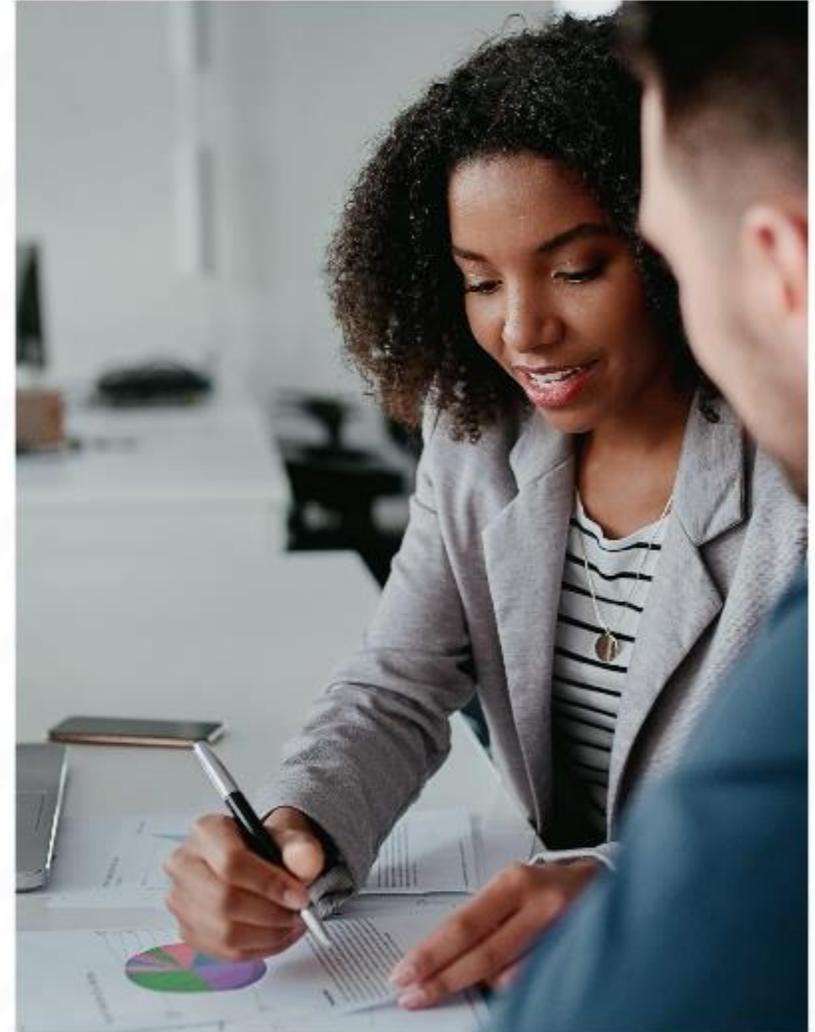
Unathi Kamlana
Commissioner

10 May 2022



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FSCA LEADERSHIP TEAM



FSCA STRATEGY

FSCA has been hard at work ensuring that it achieves its vision of fostering a fair, efficient, and resilient financial system that supports inclusive and sustainable economic growth in South Africa.

We recently published our revised Regulatory Strategy, which outlines our key priorities for the period – December 2021 to March 2025 - allowing the organisation to better fulfil its mandate.

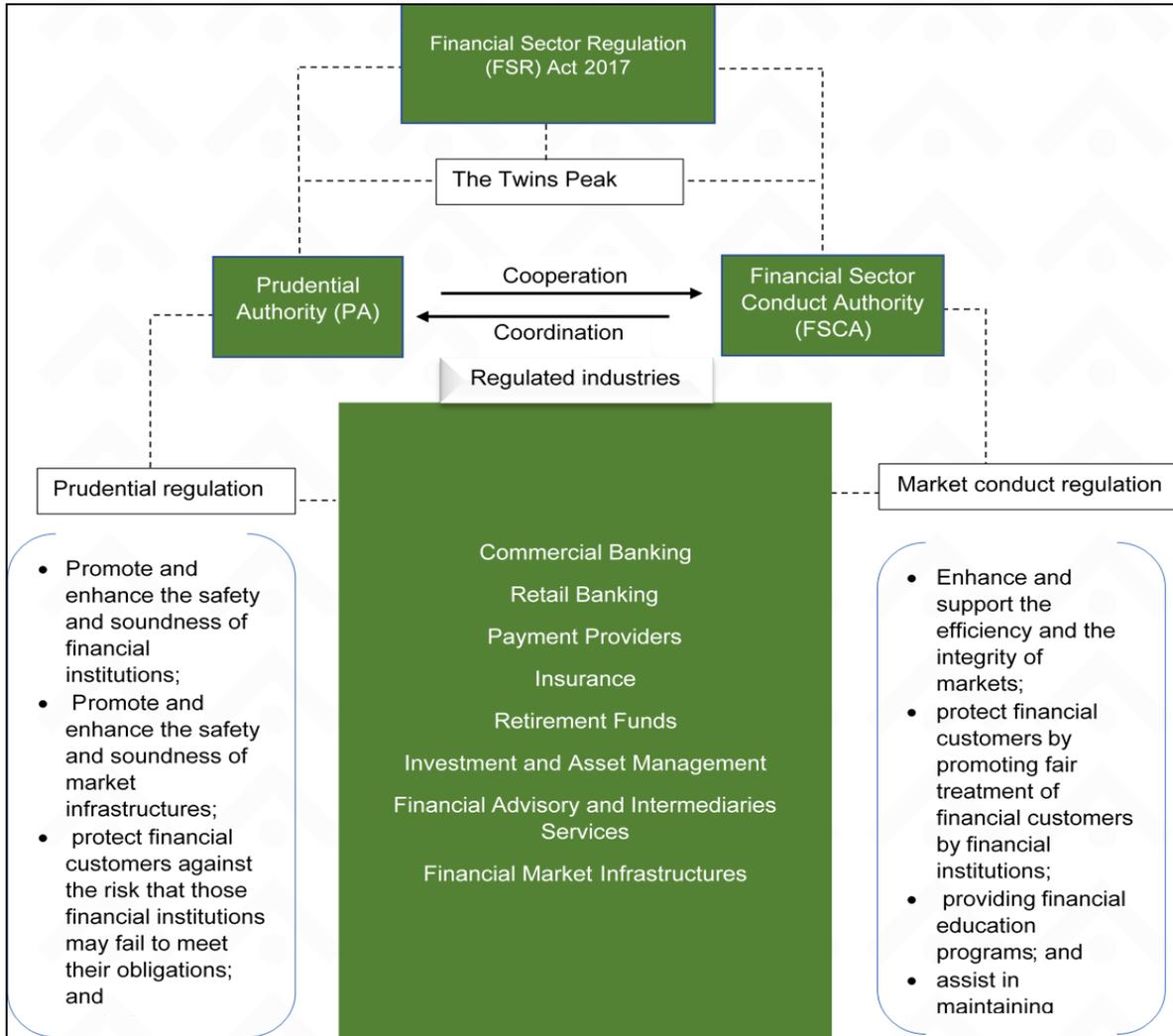
This new strategy is in line with the Financial Sector Regulation Act (FSR Act), which requires the FSCA to periodically publish a Regulatory Strategy that addresses regulatory and supervisory priorities.

Our 5 strategic priorities for the next few years are to:

- Improve industry practices to achieve fair outcomes for financial customers
- Act against misconduct to support confidence and integrity in the financial sector
- Promote the development of an innovative, inclusive and sustainable financial sector
- Empower households and small businesses to be financially resilient
- Accelerate the transformation of the FSCA into a socially responsible, efficient, and responsive conduct regulator



REGULATORY SCOPE OF THE FSCA



The FSRA provides for both prudential & conduct regulatory responsibilities of certain institutions to be fulfilled by the FSCA until March 2024.

- Includes prudential oversight over Retirement Funds and Collective Investment Schemes.
- It is envisaged that the prudential functions may be transferred from the FSCA to the PA at the end of the transitional period, but timing still unclear – likely to extend beyond 2024.

Against this backdrop and in line with the broader FSCA strategy, the FSCA is refining a strategy for the retirement funds sector.

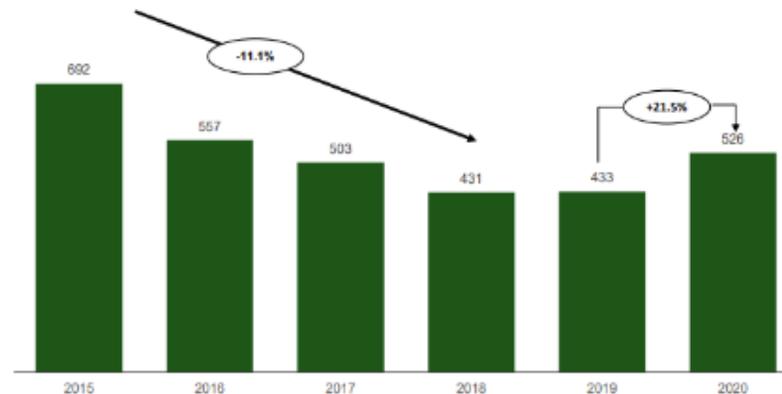
RETIREMENT FUNDS IN CONTEXT

The South African economy is under significant pressure as the global economy struggles to recover from the Covid-19 pandemic, and other socio-political developments.

Covid-19 negatively impacted employers and pension funds, with pension fund liquidations increasing in 2020. Financial distress also resulted in requests for contribution relief by small employers (mostly under umbrella funds) and pressure for access to pension contributions by members; 47% of fund respondents indicated contribution relief request from employer and/or employees in a 2020 survey.

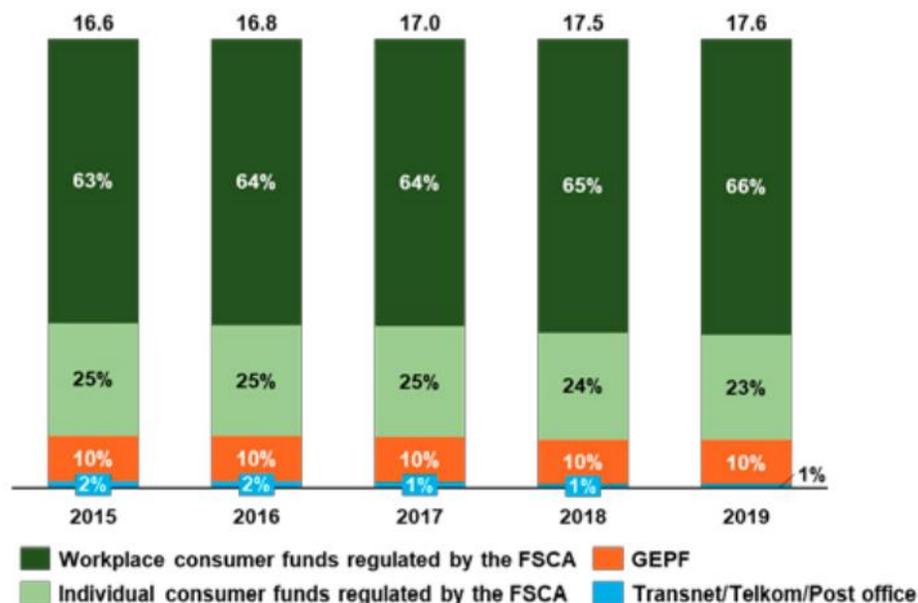
Indications are that arrear contributions have increased during the pandemic, but data is still being analysed to quantify the extent.

Number of regulated pension funds that filed for liquidation with the FSCA



POLICY CONTEXT: BALANCING COVERAGE, PRESERVATION AND ACCESS

Membership of registered pension funds in South Africa (m's)



- Membership of regulated pension funds grew at 2% pa from 2015, with 7 - 10 million of 15 million employed labour force having retirement savings products.
- Pension coverage limited by small, stagnant labour force with high unemployment (28.5%), esp. amongst youth (57.5%).

- Pension coverage in private sector only 50% and less (92% in public sector).
- LSM groups 1-4 (8-10 million people) earning ZAR1,300 - ZAR3,000 per month favour government pension support.
- Only 12% of the 3.6 million individuals in the retired age group received a form of income in 2020.
- More than 90% of retirees unable to maintain their standard of living prior to retirement (international recommendation is to aim for 75% income replacement ratio at retirement).
- Since 2017, the average value of benefits paid out increased slightly in real terms, averaging approximately ZAR39,000 per month.
- Size and number of retirement funds mean that many smaller pension funds are not sustainable, with high costs affecting future value of the funds.

POLICY APPROACH

Pandemic raised profile of need for emergency savings, pension preservation and some limited access.

Policy note on ***Encouraging South African households to save more for retirement*** proposes auto-enrolment for all employed and self-employed workers, consolidation of funds to reduce costs, and limiting pre-retirement pension withdrawals.



EMERGING RETIREMENT SECTOR STRATEGY

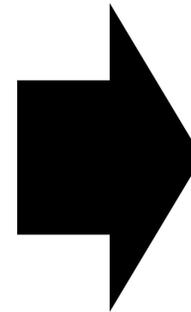
Aligning with the policy objectives of **preservation**, **coverage** and **enhanced value** through cost containment and consolidation and the broader FSCA strategy, the **objectives** of the FSCA retirement funds strategy are to respond to identified **harms and risks**:

Harms and Risks to be prevented

Sector may not deliver products and services that promote good value and expand coverage

All funds may not be well run and accountable to members

Members may not be sufficiently informed and may not make good decisions about their retirement savings



Regulatory Objectives

Support an innovative, inclusive and responsible retirement savings sector

Improve industry conduct, compliance and TCF practices through enhanced supervision, guidance and support, and decisive enforcement action

Enhance member understanding and decision-making

EMERGING RETIREMENT SECTOR STRATEGY

Regulatory Objectives	Support an innovative, inclusive and responsible retirement savings sector	Improve industry conduct, compliance and TCF practices through enhanced supervision, guidance and support, and decisive enforcement action	Enhance member understanding and decision-making
Regulatory Strategies	<ul style="list-style-type: none"> • Conduct research on innovative and micro-pension products and the impact of auto-enrollment and access to housing and guarantees • Provide sandbox access to test micro-pensions products • Monitor and publish information on transformation in the pension funds value chain, pension coverage and preservation, ESG and sustainable finance • Make available insights and data on industry trends and developments • Broader FSCA focus on unclaimed assets in financial sector (Unclaimed Assets Framework) 	<ul style="list-style-type: none"> • Strengthen governance of retirement funds through stricter enforcement of governance and accountability standards, improved trustee training and engagement • Early detection of emerging risks through enhanced monitoring and surveillance of employer distress, complaints and social media sentiments, and quicker analysis of financial information • Enhance oversight over investment strategies, higher risk investment instruments and transaction types • Strengthen multi-agency collaboration on combatting pension scams • Greater focus on member impacts, including fee transparency, benefit value and through the collection, analysis and publication of data • More pro-active engagement with industry on emerging risks and areas of concern 	<ul style="list-style-type: none"> • Assess member education and communication strategies in place and provide industry guidance to address areas of weakness • Promote high quality and accessible information and guidance for members • Monitor and assess the effectiveness of benefit counselling • Increase focus on member education campaigns by the FSCA

KEY PROJECTS AND PRIORITIES

- Building stronger market conduct supervision capacity and focus, with special attention on full TCF adoption and trustee accountability
- Implementation of conduct of business returns to enhance regulatory data
- Collaboration and data exchange with relevant regulators such as CIPC, PA and SARS
- Market enquiry into complaints handling by retirement funds and 13B Administrators
- Enhanced guidance to and engagement with industry
- Sustainable finance and investment roadmap
- Broader FSCA focus on unclaimed assets in financial sector (Unclaimed Assets Framework)



Thank you!

