FSCA

Financial Sector
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“Leadership in times of crises and the need to develop and maintain these skills for a well-functioning industry”

Read below the full keynote address by FSCA Commissioner, Unathi Kamlana delivered at the Institute of Retirement Funds Africa (IRFA) Conference 2021 on 8 November 2021:

Good morning, ladies and gentlemen.

It’s great to be here and I want to thank the Institute of Retirement Funds Africa for inviting me. It’s my very first IRFA Conference – as FSCA Commissioner, I am looking forward to the deliberations.

Since assuming office as the Commissioner of the FSCA in June, I must say that regulating retirement funds is easily amongst the most interesting and exciting parts of my job. It also is a very challenging and important aspect of the mandate of the FSCA given the nature of retirement funding arrangements in South Africa and the unique financial customer and pension fund member specific issues arising from the sector.

I have been asked to speak under the theme *Leadership in times of crises and the need to develop and maintain these skills for a well-functioning industry*. What I thought I would do in structuring my thoughts was to cover the following sub-themes:

Firstly, the current Covid-19 pandemic and the plethora of challenges for leaders in that context; then talk to other important issues for the industry where we need to be deepening focus and building out expertise like sustainable investing; the area of governance per se; and two strategic themes – which I think are important to address if we are to achieve a well-functioning industry; and that is arrear contributions and transformation and then I’ll conclude.

Covid-19

To start with the Covid-19 context, I'm sure I speak for all of us that two years ago we didn't think we would live through such a pandemic with its resultant lockdowns and disruption to the very core of humanity's established way of life. The anxiety of contracting the virus, the physical and mental effects, the loss of loved ones, the need to continue to live with all the burden, such detrimental effects of this virus on society will stay with us for over a lifetime. Therein lies the importance of and opportunity for leadership, beginning with encouraging families and then colleagues to take safety precautions, to get vaccinated, adjusting to the *new normal* – even as we continue to engage on defining the *new normal* and asking the critical questions about the future of work and specifically the role of "the office" in this new way of living and working.

Our working lives have changed in significant ways and remote working has presented huge advantages, especially in terms of flexibility in working arrangements, reduced commuting, positively affecting thinking about our carbon footprint, which all of us should seriously given the imperative of sustainability and preserving the environment. All of this in the context of serious challenges in terms of burnout, the *"always on"* phenomenon and general mental health issues – that we need to tackle.

Given that this is a conference which focuses on retirement funds, let me talk about how we have seen Covid-19 impacting the industry within the broader macro-financial context of the effects of the pandemic.

We ran a survey in 2020 which indicated that nearly 47% of retirement funds experienced financial distress due to Covid-19. These funds were approached by either the employer and/or the employees asking for some kind of contribution relief. Smaller funds especially, experienced the biggest brunt of the pandemic, with the greatest number of requests for relief coming from the manufacturing and services industries. Reflecting the disproportionate economic impact on various sectors of the economy emanating from the early approaches adopted for the management of the pandemic.

We have equally seen an increase in liquidation cases in 2020, indicating the stress placed on employers by the pandemic.

Covid has also raised deep questions about structural considerations around retirement systems and arrangements here and elsewhere and these include:

- Whether countries should allow early access to retirement savings to assist those in financial need?
- Whether we should compel some form of emergency savings?
- Questions like will employers continue to provide retirement funds as a condition of employment, noting that South Africa does not even legislatively compel participation in a retirement fund?

The major backdrop for us of course is that we are a nation with a poor household savings culture in addition to some structural shortcomings in terms of our system of retirement savings which I will come to shortly.

For example, South Africa was ranked 31st out of 43 countries in the 2021 Mercer 13th Annual CFA Institute Global Pension Index Report. This ranking gives South Africa a "C" grade using the adequacy, sustainability, and integrity criteria. The UK and Australia were rated a "B" and the Netherlands an "A". The report classifies the South African retirement system as one with *"good features, but also major risks and/or shortcomings"*. A "C" in grading terms, means a relatively average or mediocre outcome.

We should definitely aim higher, and it is not difficult to identify the areas of improvement in our system, which are ***preservation, coverage, and governance***. In this context, you would be aware of the work that the National Treasury has been doing with regard to the Two-Bucket System. The feedback we have received and seen across the spectrum has been overwhelmingly supportive of the proposed Two-Bucket system.

As the FSCA, we also remain supportive of this important work done by the National Treasury, and we are of the view that it will yield improved outcomes for retirement savings in South Africa and assist in achieving a replacement ratio of at least 75% - given that only 6% of working South Africans are expected to retire comfortably, that is, with a 75% income replacement ratio.

We therefore welcome this policy leadership from the National Treasury.

Governance - The G in ESG

Now to turn to the vexing issue of governance – the "G" in ESG. There is really no point in compelling South Africans to save for retirement and to preserve their savings if we are not able to build trust and confidence in the retirement savings sector by ensuring the highest levels of competence and integrity across the value chain of activities and responsibilities. Including trustees, administrators, asset managers and lawyers.

The calibre of leadership in these various spaces is absolutely important, everything turns on it. We need leaders who always put the interests of members first and treat them fairly. Who take care of the basic but important tasks of accurately calculating members' benefits, keep correct and updated records of members, ***make a genuine attempt to trace members and to charge for their services fairly***.

Members of retirement funds deserve no less and we owe it to them and their families to ensure that they have decent savings to enter retirement with. It's kind of the whole point! We should have this as a foundational preoccupation when we elect trustees and appoint service providers in order to ensure that we are entrusting the right people with these lifetime savings!

Ladies and gentlemen, it is impossible for the Regulator to be everywhere, due to limited resources and the work burden of overseeing 1400 active funds, therefore it is ultimately up to us (read "you") to reposition the sector to be one of customer / member centricity, trust and fair conduct.

The law imposes a duty on the Trustees and the Principal Officers to alert the Regulator when there are problems in the fund or possible misdemeanours through various channels including through whistleblowing mechanisms, which protect the identity of the whistle-blowers. We encourage the use of these channels in order to uphold a high standard of ethical leadership in the sector.

Sustainable finance

It would be remiss of me to not talk about this important topic, sustainable finance, which is quite relevant in terms of investment approaches in this space. There are many terms used in this regard; sustainable finance; impact investing, ESG and responsible investing. All are very related and similar in what they try to convey.

I like the International Organisation of Pension Supervisors ("IOPS") guidelines on ESG, and I would like to quote them; "*ESG-related factors may have a direct, and potentially substantial, financial impact on the savings and well-being of pension fund members, particularly in the longer term.*"

This risk factoring relates to all asset classes. Put differently, sustainable, responsible or impact investing, at its basic form, means considering ESG factors as part of your risk management process. It is good to note that the FSCA and the industry have done well in ticking all the right boxes of the IOPS guidelines on ESG, which are a global standard.

At their basic level all these concepts mean is that we should consider all the relevant risk factors that could possibly have a negative (or positive) impact on financial returns.
ESG factoring does not mean that you ignore or relegate financial return to a secondary priority. It does not mean neglecting your fiduciary duty to members. It does not mean charitable investments.

It just means ***Capital with a Conscience***.

Recently, we saw world leaders convening to discuss strategy and agreements in tackling the global climate challenge under the COP26 banner in Glasgow. Given the reality that climate conditions have become more extreme, volatile, and unpredictable, with record high temperatures, draughts, flooding, etc. being experienced all over the world. South Africa is equally affected as we have the highest carbon footprint amongst our G20 peers. Without the environment, without the planet, we have no place to live and enjoy the privilege of being alive. The very same retirement that we are saving towards, could become meaningless. Who wants to retire in a wasteland?

And so, one of the good things about the Covid-19 pandemic is that during the hard lockdowns, pollution in some of the major cities in the world was visibly reduced.
Taking all advantages and disadvantages into consideration, the Leadership of our companies and organisations should learn quickly from these experiences and decide on what the new work-life balance and arrangements should look like.

It seems most unlikely that we will have the previous default of everyone being required to be in the office, but instead, the new default could very possibly be a hybrid arrangement enabling a combination of work from the office and remote working.
Leadership, therefore, have an opportunity to make history and shape the future and will have to demonstrate agility in leading change and making the adjustment as required by the times.

Technology will be a major enabler for this new working order, and so will investing in green infrastructure even as we encourage investment in infrastructure in general as part of how we should be thinking about the economic recovery. You'll be aware of the proposed revisions to Regulation 28 to reference infrastructure separately as an asset class, which is not to mandate this type of investment but to provide a way for the regulatory framework to respond to and enable investments for balanced and sustainable economic growth given the transformative multiplier effects of infrastructure investment.

Arrear Contributions

As I have indicated earlier, Covid has had a major negative impact on many retirement funds. As the FSCA, we have tried to assist by reminding funds of rules which enable them, upon agreement between employees and employers, to reduce or suspend contributions during major shocks like the one we have just experienced.

It is equally important to remind employers of the obligation they have to honour their commitments to contribute and pay-over deductions into their respective retirement funds in the absence of an agreement between employees and employers to the contrary.
Failure to do so, is a criminal offence in terms of the PFA which can result in the management of a company being held personally liable.

The onus really rests on the fund to monitor and ensure that non-payment of contributions is brought to the attention of the employer immediately as evidenced by the contribution schedules or bank statements of the fund.

We are currently finalising a conduct standard that will assist both funds and the Regulator in protecting workers and members more effectively. However, even with the implementation of this standard, the onus will still rest on the fund to take the lead and pursue such arrear contributions with delinquent employers. On our part, we will ensure compliance with the new standard as the Regulator and take appropriate regulatory action independently and without fear, favour or prejudice as required by the FSR Act.

Transformation

Lastly, a word about our on-going journey of transforming the South African economy into an inclusive and vibrant one which reflects the society within which it operates. We come from a history of segregation, inequality, inequity and unfairness, which, to a certain extent, still lingers on in our society today. As such, we should continue with the implementation of strategies to both transform the industry and also ensure that trustees as leaders of retirement funds are active owners and call out lack of diversity and inclusiveness in boards and the workforce of companies they invest in. Research shows that entities with diverse boards and leadership, including in terms of gender diversity and balance, tend to ultimately make better informed decisions which lead to success.

Transformation and inclusion are important, and they also provide the contours to help frame approaches to dealing with unfairness across the value chain of economic activities. As such we should all stay the course and not relent in the face of doubt or fatigue and we should not pay lip service to it.

We should also not just do it because of the need to tick the legislative box. Leadership is required to position transformation as a strategic imperative and a hearts and minds issue. I am, therefore, optimistic about the retirement funds industry having its own dedicated transformation scorecard very soon, with achievable and practical objectives and timelines. As the FSCA, we stand ready to assist the Financial Sector Transformation Council and all the partners in achieving this imperative.

To conclude - I hope that what I have touched on although relatively wide in scope will nevertheless stimulate debate throughout the conference and even afterwards and help to shape the future success and sustainability of this important industry which touches the lives of so many in our society and determines the fortunes of generations. As for our part as the FSCA and its new leadership we are committed to working with you to navigate the challenges of the Covd19 period, to provide ethical leadership and a clear strategy towards the attainment of the objectives I have outlined above including – sustainability, good governance, and transformation. And ultimately to make inroads in terms of the broader policy objectives of preservation and coverage. To repeat myself, all of this turns on leadership. I wish you well for the remainder of your deliberations.

Enkosi!