

Regulation in the time of COVID-19 and beyond: trends impacting retirement funds

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The retirement funds sector in South Africa has seen significant change in the past few years – with the focus largely on stronger regulation to protect the interests of members. There can be little doubt that the global COVID-19 pandemic, which has posed both a health and economic crisis globally, has also had an impact on the industry.

As a member of the International Organisation of Pension Supervisors, South Africa actively participates in global discussions and brings home relevant best practices.

It is important for financial services providers and regulators alike to keep abreast of trends, in order to adapt to rapid change and find improved and more innovative ways of working.

Key trends emerging from the impact of COVID-19 in the pensions fund industry and the changing regulatory landscape are:

- **Financial distress on the rise amongst South African employers and contributions declining during the height of the lockdown.** “A recent survey run by the FSCA in June 2020 shows that in nearly 40% (and 47% if non-employer related funds are excluded) of active retirement funds, the employer was in some form of financial distress because either the employer or employee, or both, had approached the fund to ask for a temporary suspension or reduction of retirement contributions,” says Olano Makhubela, Divisional Executive: Retirement Funds Supervision at the FSCA. “However, it’s important that this financial distress should not necessarily be interpreted as financial unsoundness at fund level, given the nature of retirement funds and that most are Defined Contribution funds.” [Defined contribution funds](#) involve employees contributing a selected percentage or portion of their salary each month – with the ultimate retirement benefit dependent on how much the employee and employer have paid into the fund; market returns and costs.
- **The sectors worst impacted were the manufacturing and services industries**, particularly smaller businesses who were participating in bargaining council funds or umbrella fund arrangements. “It is clear that the risk to the employer’s future impacts its employees, not only with regard to current income, but also with regard to future retirement savings and security. The overall economic impact will still be felt for a long time ,” says Giulia Tognon, Head: Actuarial Services at the FSCA.
- **Larger employers managed, for the most part, to stave off the effects of the pandemic** and managed to continue with the payment of (full) salaries and honouring of their commitments to providing retirement fund benefits.
- **This was helped by temporary short-term compromises made on the regulatory side**, allowing delayed submissions and considering urgent rule changes to allow suspension or reduced deductions and contributions. “These, however, should not create long-term shifts in the manner in which funds are supervised. So far, accessing retirement savings immediately has not been enabled, so this will protect the assets that people have already saved if the employee remains in

employment. This will make the recovery to previous long-term expected income levels easier, as the individuals do not have to start saving from scratch,” says Tognon.

- **The FSCA has prioritised conduct supervision and the protection of financial customers with the advent of Treating Customers Fairly (TCF).** The TCF principles are a major cornerstone of what we do, and are applicable to all industries, including the retirement funds industry. It is an outcomes-based regulatory and supervisory approach designed to ensure that regulated financial institutions deliver specific, clearly set out fairness outcomes for financial customers.
- **As a regulator, the FSCA is also becoming more pro-active, pre-emptive, intrusive and intensive (PPII).** “The PPII approach is a cultural shift to how we aim to enhance our role as a protector of financial customers. It is a daily routine which forces us to think and act differently and to move away from a more reactive approach,” says Makhubela.
 - However, the number of retirement funds poses a challenge to the PPII approach; there are currently approximately 1500 active funds and 3500 dormant funds. Supervising dormant funds puts a strain on already limited supervisory resources. “We are, therefore, finalising an approach that will enable us and the industry to safely deregister retirement funds that are non-active and genuinely have no members, assets or liabilities,” says Makhubela.
- **Sustainable Investing (SI) or Financing has become a topical issue globally and in South Africa.** SI includes green financing, climate impact financing and the integration of Environmental, Social and Governance (ESG) considerations into investment activities. “As asset owners, retirement funds can use their financial muscles to influence how companies and projects approach social, environmental and governance issues like gender-pay inequality, pollution, impact investing and diversity. As much as decent retirement benefits are important, there is little point retiring in a dysfunctional society or wasteland. COVID-19 demonstrated some of these challenges,” adds Makhubela.
- **There is also a growing (global and local) focus on alternative assets like private equity and infrastructure to diversify risk and return.** With proper due diligence, such long-term investments can naturally be suited for retirement funds and assist them in getting better returns. Ultimately, the decision to invest in any asset should rest with the fund and its trustees, as also prescribed in the Pension Funds Act.
- **A project to benchmark costs and fees in the retirement industry is also underway.** Fees, if left unchecked, can erode a significant amount of retirement savings by reducing returns. The global financial crisis of 2008, and now COVID-19, clearly demonstrate that high returns are a thing of the past. However, the question of fees must not be asked in isolation; it is important for funds to assess and understand the value they are getting from the fees they are charged because not everything that is “cheap” offers value.

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