IRFA 30TH ANNIVERSARY

Celebrating 30 years of shaping policy

The retirement fund body is looking back on its achievements

The Institute of Retirement Funds Africa (IRFA) is celebrating three decades of working together with retirement industry stakeholders to achieve consistent improvement for the beneficiaries of South African pension and provident funds.

"The biggest contribution that we've made is in the area of interpreting and assisting many of the regulatory bodies in formulating processes and policies that are positive for the development of the retirement sector," says Wayne Hiller van Rensburg, president and chairperson of IRFA.

"The IRFA has been very successful in interacting at a professional level with regulators and policy makers, which results in information being aggregated, interpreted and translated into training material for industry role players.

"This is evident by attendance at our conferences, workshops and seminars. Delegates at our functions benefit from cutting-edge information interpretation. They are able to return to their organisations and pass on the essence of the issues and essential elements that need to be implemented."

Hiller van Rensburg says two of the biggest strengths of the IRFA are its diversity and that members give freely of their skills and knowledge.

"The IRFA is structured around a small central administrative and coordinating office, while the gathering and aggregating of information [is] done through our committees, which are made-up of volunteers from the retirement fund industry.

"This provides us with a diverse and knowledgeable skills base that ranges from legal to actuarial, fiduciary, tax and business skills, creating a space in which all the voices are heard.

"The outcomes of what the committees produce incorporate the different perspectives in a form that is practically applicable and ensures that the members of the retirement funds are the ultimate winners."

Historically the pension industry has been controlled by employers and service providers, but from 1996, with the introduction of member-elected trustees, members of pension funds have had far more input regarding the development of the industry, according to Hiller van Rensburg.

"The IRFA's growth has been positively influenced by member trustee participation, in the sense of being able to represent and incorporate voices from across all aspects of the retirement industry.

"This input from people who are not necessarily full-time pension industry professionals has seen both the organisation and the industry grow and develop, through their participation in committees and providing feedback to regulators and policymakers, which has been exciting."

Wayne Hiller van Rensburg, president and chairperson of the IRFA.

Hiller van Rensburg says something else the IRFA is increasingly becoming involved in is qualification or certification for retirement fund trustees.

"We are actively working with the Financial Services Board (FSB) to develop the course material and ensure that the environment in which the material is presented is conducive for learning.

"We believe that it is important to formalise the fiduciary knowledge that people acquire.

"Many fund fiduciaries, especially trustees and principal officers, are not full-time employees, with the result that they might not have the levels of education or qualifications necessary to have acquired the governance skills or pensions industry knowledge necessary to work towards the best outcomes for the people they represent.

"We want to make sure the correct training and skills development is available so that all fund fiduciaries have the minimum standard necessary, and that there is some form of certification that substantiates this.

"However, this must be balanced with the democratisation of the pensions environment and having broad representation of stakeholders in the industry."

The IRFA has also tightened up on governance and was incorporated as a not-for-profit company in line with the Companies Act regulations, which has clarified and enhanced the way it functions. The organisation was previously an association.

"We have also become more outward focused. We see the role of our central office as one of co-ordination and enhancing the operations of the organisation's committees, to which members volunteer their time and expertise.

"For example, our legal and technical committee is pretty much the brains trust of South African pensions law. When laws and regulations are drafted, our comments are very often incorporated … and the corrections we suggest are regularly integrated as well.

"We recognise the need to use the broad range of expertise of our members for the development of the industry," says Hiller van Rensburg.

He says the most important requirement in the industry is the constitutional imperative of the state to create an environment that allows all social players to contribute to adequate social benefits for all South Africans.

"This is a theme that all stakeholders are working towards, and one which IRFA is focused on. Although we represent retirement funds and their members, we understand that it is not enough to provide for our society as a whole.

"Likewise, we recognise the need to create sustainable investments that deliver long-term wealth without harming the environment and that are socially responsible.

"In the South African context this means ensuring that the entire value chain and range of service providers are representative of our country's demographics.

"Social protection and transformation are big issues, in the sense of the industry becoming more representative and inclusive, and having investments that are not destructive to people or the natural environment," says Hiller van Rensburg.

What members appreciate most from the institute, besides its policy work, is the advice and guidance provided on the complexities of the law, as well as the knowledge and skills development offered with regard to corporate governance.

The IRFA has recently gone through a rebranding, with its new corporate identity to be rolled out over the next few months, reflecting the institute's focus on expansion into the rest of Africa and further afield.

"Our logo has changed from the infinity sign to incorporate the African continent, which reflects our expanded focus on the industry throughout Africa, and our increasing emphasis on dialogue and communication with our peers across the continent," concludes Hiller van Rensburg.

Promoting positive retirement industry transformation

The IRFA's focus has always been to promote the active involvement of members of pension and provident funds by way of workshops, conferences and seminars, according to IRFA board member Professor Voet du Plessis, who is also a past president of the organisation and has been involved with the institute for most of its 30 years of existence.

"We have always campaigned for the members of funds to have more input into the affairs of their own funds. After we made representations to the Mouton Committee, the Pensions Fund Act was changed to make it possible for members of a pension or provident fund to elect from their own numbers at least 50% of the board of the fund," says Du Plessis.

"Another area in which the IRFA has made a big contribution is to encourage its members to change their behaviour in line with new regulations and legislation through education, training and rewarding best practice through our awards.

"Our Best Practices Industry Awards (BPIA) have, since their initiation, motivated a culture of rewarding excellence in fund performance.

"We encourage the retirement industry to evaluate, review and upgrade all their funds' processes, which in turn creates a greater understanding and awareness of the value of the retirement funds in South Africa.

"The intention of the awards has always been to recognise the professionalism of industry players across a broad range of activities, which is reflected in the award categories: Stakeholder Communications, Financial Reporting (annual reports), Legal and Technical Compliance, Trustee Development, and Investment Performance.

"The promotion of boards communicating with their members has made a big difference in transforming the industry," says Du Plessis. "The IRFA's aim is to ensure the retirement industry is at the centre of development and transformation of the country."

Du Plessis says IRFA's legal and technical committee has also made a big impact on transformation in the industry.

"The committee examines the impact that changes in legislation or regulations will have on the industry and what we can do better as an industry.

"The committee, which benefits from the expertise of a broad spectrum of industry stakeholders including legal, financial, tax, and actuarial, communicates closely with the Financial Services Board (FSB), National Treasury and the South African Revenue Services.

"While the IRFA's representation of the retirement industry in negotiations with government authorities and the FSB is one of the most important benefits for the institute's members and the industry as a whole, its promotion of skills development and training and its focus on improving communication within the sector cannot be underestimated," concludes Du Plessis.

IRFA

Driving dialogue, harvesting knowledge

The IRFA is drawing information from diverse sources to influence policy

As a thought leader that gains input from its broad stakeholder base, the Institute of Retirement Funds Africa (IRFA) is a driver of dialogue and a harvester of fruitful knowledge for the retirement sector, according to Wayne Hiller van Rensburg, president and chairperson of the IRFA.

He says a reflection of this is the IRFA annual conference that focuses on both the gathering and dissemination of useful information regarding the pensions and retirement landscape, and which can rightfully claim to be the biggest pensions event on the continent, with more than 1 000 having attended the most recent.

The most recent conference had the theme "Navigating the Future" that speaks to the IRFA's primary driving forces — interpreting the here-and-now of the pensions world and thinking about how an environment that improves pensions outcomes can be created.

"Delegates at our conferences benefit from being presented with relevant research that IRFA commissions have reviewed regarding policy and industry conditions.

"Government's perceptions on issues related to retirement are included, as are those of many of South Africa's neighbours. We strongly believe that no one social partner will be able to create a single catch-all solution," says Hiller van Rensburg.

He contends that as a public benefit organisation the IRFA sees its role as a leader, a generator of dialogue and the exchange of ideas, because, unfortunately, South Africans have become consumers of policy rather than drivers.

"One of the IRFA's main functions is to influence policy and aggregate information. For example, social protection is a constitutional imperative in South Africa, and as a society we need to define what social protection means, with all social partners working towards putting the resultant vision into action," says Hiller van Rensburg.

"For this reason we should explore how we can achieve a sustainable and equitable solution collectively. However, many decisions that affect the pensions industry are discussed at a high level without being fed down to as many stakeholders as possible before final decisions are made.

"Furthermore, decisions are made in stakeholder groups that may not always understand the complete picture, such as the separation between policy, implementation, and the effect on society, which can result in reforms being made and then government backtracking, and that often results in uncertainty," explains Hiller van Rensburg.

He says the provision and presentation by the IRFA of the results of research and the aggregation of dialogue enables industry stakeholders to learn from their peers and experts and make a positive impact on the people they serve and represent, whether they are a members, trustees, government or regulatory officials, or representatives of businesses offering services to retirement funds.

"We are working at creating more learning opportunities for our members, so that they can acquire the skills necessary to manage funds, and for the general public to understand what their benefits are," says the IRFA's president.

"We provide our members with a broad range of retirement input, including: specific regulatory and skills developments; insight regarding the big pensions picture and how pensions fit into the global and national economies; what role pensions play in social security; how each of the stakeholder groups can and should participate in making the current pensions outcomes better; and how pensions should be transformed to create better societies in future."

The release of the recent second draft of the proposed Default Regulations is an example of successful retirement reform, according to Hiller van Rensburg, as it has taken into account learning from across the globe, behavioural finance, and how people can make the most appropriate decisions. This is one of the best possible things that could have happened in a financial environment where financial literacy and skills are low.

The second draft intends to implement regulations that aim to lower charges and improve market conduct in the retirement industry by ensuring that retirement savings of South Africans are invested in a prudent and cost-effective manner, and that members get better value for their money, with the ultimate goal of them being able to retire more comfortably.

The national treasury has re-emphasised, through these default regulations, that fund boards have the responsibility to protect the interests and investments of pension fund members during and post the accumulation stages. The second draft also establishes an improved balance between principles and rules.

The default regulations form part of reform programme to deliver better customer outcomes across the financial sector. However, Hiller van Rensburg says the fact that it is happening in a situation in which only a relatively privileged few who are members of a retirement fund are affected, means it is not addressing the broader societal problem of social security.

Another example of the IRFA's work to drive dialogue around policy and harvest useful knowledge for the retirement sector is the institute's focus on best practices, which is an important issue, as the establishment of the most effective practices delivers better outcomes.

Hiller van Rensburg explains that the IRFA was given a mandate by its membership to conduct research into best practices, which has identified both local and international standards. However, it went further and asked South African retirement fund practitioners and leaders what they thought best practices should be.

The IRFA's findings from best practices research that includes King IV and its impact on retirement funds have been a rich source of information for members interested in making the right socioeconomic business decisions.

A third example of how IRFA drives dialogue is regarding the rights of disabled workers and vulnerable beneficiaries, and the need for transformation in the South African financial services industry.

The institute has also presented information for the benefit of the industry on the Financial Sector Charter Council BBBEE Voluntary Dispensation for the top 100 Retirement Funds and Umbrella Funds in South Africa, as well as on the BEE.conomics Survey 2016 by 27four Investment Managers.

Hiller van Rensburg says the IRFA is also involved in ongoing discussions with investment professionals as well as conducting research into investment management styles in the industry, as these can impact on investment outcomes.

Actively managed funds gain in favour

A strategy often employed internationally for pension funds is to invest the core of the portfolio into passive or tracker funds, and the balance into satellite actively-managed funds.

However, Natalie Phillips, head of SA Institutional at Investec Asset Management, does not agree with this approach, particularly in the South African market at this time.

"We would suggest a reverse of this strategy, with the core of the portfolio in good actively managed funds and passive funds in a satellite role. In the South African context, investors' patience would have been well rewarded had they followed this route, as good active funds have delivered better capital growth than simply investing in the index."

In a low return environment, she says it is tempting to choose passive investments to save fees.

"However, it is in just such an environment that alpha — outperformance above the index — is at its most valuable, and opportunities for alpha are at their greatest due to higher return dispersion."

She points to evidence from local multi-asset active managers with a track record of outperforming a multi-asset benchmark over the long term.

Furthermore, Phillips says active management is a way of ensuring efficient capital allocation, as asset managers invest capital where they believe it will be most productive.

Phillips points out that a risk to note with passive investing is that it results in buying yesterday's winners.

"In a highly concentrated market like the JSE, it can result in high exposure to shares or sectors when their valuations are stretched. In 2008, for example, resources made up 59.4% of the ALSI 40 at a time when mining shares were trading at high multiples on peak earnings."

Natalie Phillips of Investec Asset Management

She says it is becoming critical to add investment strategies such as private debt, where returns are uncorrelated to equity. She says liquid markets also provide a more speedy return profile, which is positive in the face of the uncertain and volatile markets.

"If you look at the unlisted credit space, be it in infrastructure or corporate credit, you can achieve a return of inflation plus 5%.

"I think one really has to be mindful of how inflation-plus is going to be achieved for members and retirement funds by allocating to diversified sources of returns. The offshore theme is pretty much played out, because most funds are at their full off-shore allocation.

"While there is renewed interest in hedge funds, they need to be offered at reasonable fees, have a proven track record and offer a differentiated return signature.

"Lastly, it is important to be selective in one's South African equity selection, because of the downside risk as a result of the volatility we see in the market."

Phillips believes active managers with a well-resourced team and a disciplined, robust and repeatable process outperform the market and passive managers over the long term.

IRFA

Institute's role in training and as voice of the industry appreciated

Industry figures are using the IRFA's resources to stay abreast of matters

The IRFA's representation of the retirement industry in negotiations with government authorities and the Financial Services Board (FSB), including commenting on legislation and tax matters affecting retirement funds, is one of the institute's most valuable services to members, according to chief executive and principal officer at the SABC Pension Fund, Anthony Williams.

He says IRFA plays a vital role in the South African pension fund industry.

"For example, the IRFA's annual conference is a source of up-to-date Industry information and relevant guidelines, including changes in legislation, interaction with the FSB and relevant topics which ensure that trustees, principal officers, administrators, actuaries, consultants, brokers, insurers and other role players are kept up to date with industry issues," says Williams.

Natalie Phillips, head of SA Institutional at Investec Asset Management, agrees: "The IRFA has become much more active in providing forums and ensuring the quality of speakers provide both food for thought and knowledge that can be practically applied.

"The IRFA ensures there is high quality engagement that all stakeholders are exposed to. The quality of learning and education presentations they have provided for trustees over the last two or three years has been excellent.

Phillips says the IRFA's educating and training of trustees is crucial.

"The IRFA's role in trustee development is critical at the moment with investments becoming more complex, particularly with the need to look at alternatives in order to outperform inflation; the legislative and regulatory environment changing; and the economic growth expectations for the country being revised down, which all feeds through to pension and provident fund members.

"It is absolutely critical that both members and trustees understand the economic environment and market conditions," says Phillips.

Williams reports that the SABC Pension Fund chairman and trustees have found the IRFA's annual conference and training forums to be an extremely valuable resource in the execution of their fiduciary duties.

Anthony Williams, chief executive of the SABC pension fund

As an example he points to a research study commissioned in 2016 by the IRFA, co-sponsored by the SABC Pension Fund and supported in terms of survey administration by the FSB, which was presented at IRFA's annual conference.

"The study yielded important findings regarding the industry's rating of itself in terms of pension and provident fund governance and stakeholder engagement.

"The study also, in its research methodology, helped in defining perceived best practices in the industry in terms of investment practices, financial reporting and trustee induction and development.

"Such information, as well as the trustee toolkit developed as a result of this, is of invaluable benefit to industry members in terms of raising the bar," says Williams.

Phillips believes the IRFA has a critical role to play in drawing a cross-section of representation from the retirement fund industry at its forums — from asset owners to asset gatherers and other service providers — to ensure that responsible engagement and training takes place.

Williams agrees: "The networking role that the IRFA's annual conference plays is vital, as key players in the industry get to meet and interrelate, and service providers to the pension fund arena have the opportunity to interact with other role players.

"The IRFA promotes a sense of belonging in an industry where pension funds, although strictly regulated, would operate in silos, unaware of the standards obtained by their peers," he adds.

Williams says IRFA's annual Best Practices Awards is an opportunity for funds to benchmark their progress and innovation with that of other players in the field.

"Over the years the awards have gained popularity among pension funds, and every year there is an increase in the numbers and the standard of entries. Through showcasing the achievements of the many diverse funds, other funds are able to improve their offering to their members and retirees.

"The initiative of the IRFA Awards programme has spurred some funds on to entering, and winning, awards in the international arena."

Williams says the IRFA further promotes excellence in the industry by virtue of its various sub-committees, which tackle issues such as investments; research and marketing; and legal and technical issues.

"Belonging to the IRFA promotes the passion that most stakeholders feel in executing their duties of governance, especially the advantages of being able to benchmark oneself against one's peers in an effort to achieve a degree of distinction, as well as identifying the areas where improvement is needed, in an environment conducive to professional excellence," says Williams.

IRFA

Trustee development indispensable

Geraldine Fowler, IRFA vice-president.

Complex regulations and responsibilities call for skilled trustees

Trustee development is important to the Institute of Retirement Funds Africa (IRFA) as part of its greater social development focus, according to Geraldine Fowler, IRFA vice-president.

She says the need for trustee development comes from: a lack of financial literacy, which is a worldwide phenomenon; the changing economic, legislative and investment environments; an increase in trustee responsibilities; and a need for trustees of funds to perform their fiduciary duties and be knowledgeable participants in the industry.

"As an emerging and developing economy South Africa has an ever-changing retirement fund industry and legislative environment, which is evident in the release of the recent second draft of the proposed default regulations.

"Furthermore, the global and local economic and investment environments are becoming ever more complex, and volatile.

"All this results in more and more responsibilities being placed on the shoulders of those who are custodians and trustees of public funds, the savings of employees and, notably, retirement savings," says Fowler.

She says the current economic and market instability is presenting huge challenges to retirement funds and responsible trustees of retirement funds. Growing levels and complexity of regulations adds another layer of responsibility and problems pertaining to implementation, as does policy uncertainty and pending legislation around pension funding and social development.

"In addition to needing to be fiscally responsible, an increased focus on governance and stakeholder engagement processes is also playing a role in terms of ever increasing trustee accountability.

"Within this environment, research shows that not enough is done to empower custodians and trustees to better understand the environment they are working in, and thus being able to effectively discharge their critical responsibilities to society and the members and pensioners of retirement funds.

"An additional factor is that very often trustees of retirement funds are elected by employees from the workplace and do not possess the required knowledge or skills to cope with the growing barrage of responsibility," says Fowler.

The IRFA's own member and industry needs survey undertaken earlier this year shows that trustees of retirement funds have high needs for developmental programmes, be these workshops, seminars or training courses, which correlates strongly with a best practices study the institute undertook in 2016 on industry's perceived compliance in term of trustee development.

Fowler says the IRFA, as the leading industry body, is placing strong emphasis on meeting these crucial needs with several initiatives planned for 2017, including:

- Participation in the Financial Services Board (FSB) Planning Group held on April 10, which dealt with the need for a prescribed Trustee Accreditation Programme that the FSB has worked on for some time. A workgroup will now be put into place, which IRFA will participate in;
- A planned Navigator Workshop around death benefits;
- Planned workshops on industry transformation;
- A series of seminars on trustee development in terms of financial literacy and investment practices; and
- A proposed partnership in terms of delivering accredited courses in trusteeship and board participation to IRFA members and industry.

"The IRFA sees trustee development as contributing both to the boards of retirement funds as well as members of these funds," says Fowler. "In short, we believe that up-skilling retirement fund trustees will contribute to socioeconomic welfare on the broader scale."

Members' confidence increases

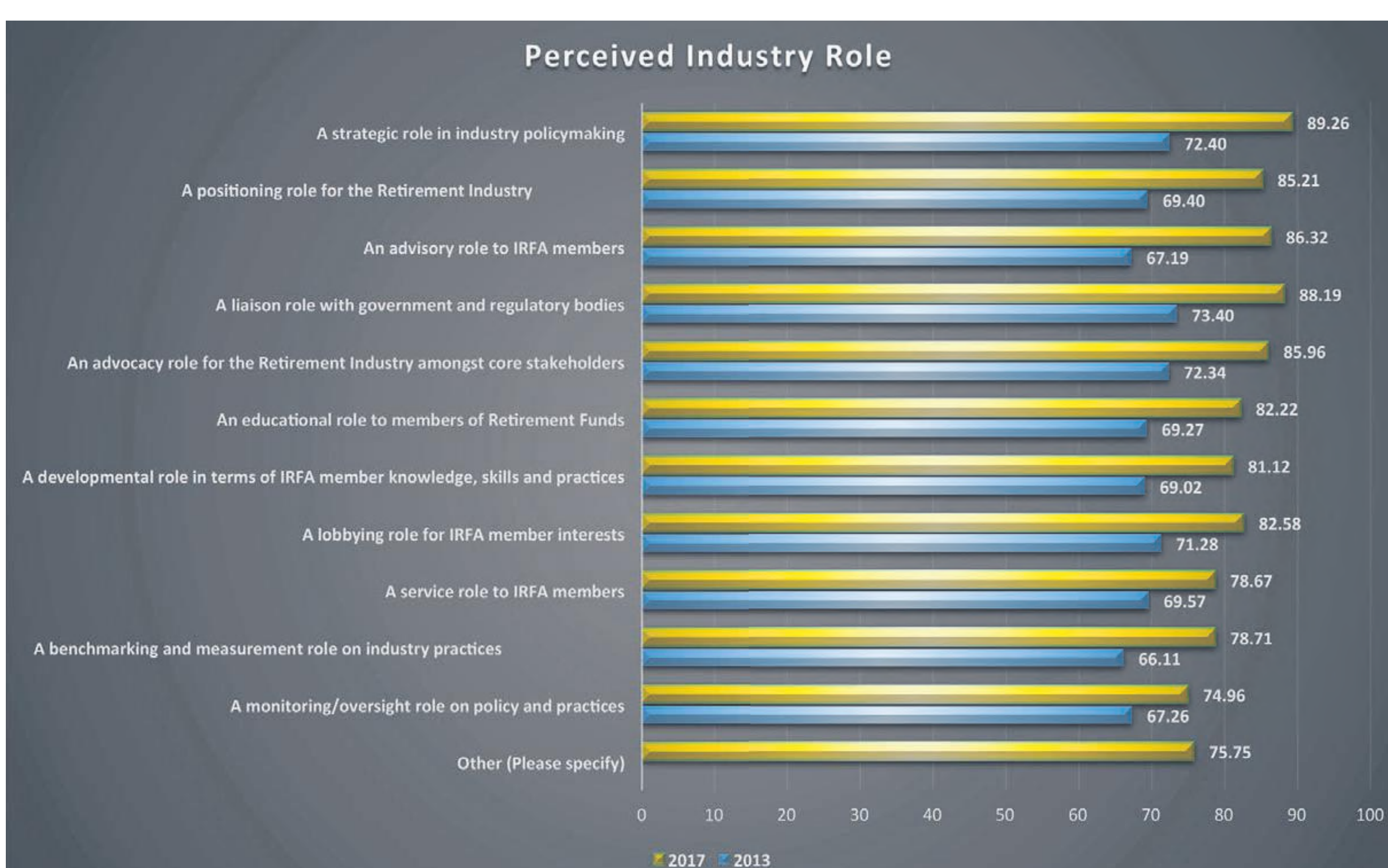
The Institute of Retirement Funds Africa (IRFA) represents the interests of its member funds, service providers and other interested stakeholders in the broader retirement arena.

The institute forges strong partnerships with thought leaders, retirement funds, service providers, members and local and international industry bodies so as to deliver maximum value in the retirement space.

Surveying member and industry requirements has always been important to the IRFA as it continues to seek ways to provide the right services and knowledge to sustain best practices in the industry. The third of these studies was administered electronically to over 4 000 potential respondents in March this year, and findings will be used for the purposes of strategic review and programme planning.

The study was conducted by external research partners to ensure confidentiality and objectivity. The survey itself is comprehensive and all results have been filtered by demographic variables to ensure targeted and focused service delivery.

While the full research report is available on request, this is a brief snapshot of key findings.



Graphic courtesy IRFA

Core elements of the IRFA's strategy are knowledge and information transfer, developmental initiatives, focused research, and member and industry support. Consultation and collaboration with all stakeholders remain priorities for the institute.

One of the key findings from the survey shows that the membership base and broader industry requires more from the IRFA regarding navigating the future. Industry requirements from the IRFA have increased on average of 7% in terms of each of its core functions since last surveyed in 2013.

Members and industry rating of the IRFA's product and service package indicates that the institute is moving in the right direction.

In terms of the top three service ratings, the provision of industry-related information, the provision of legal and technical information, and the provision of research into industry standards, trends and practices rank the highest in this battery. This is a pleasing ranking for the institute, as 2016 saw IRFA release two of its first research studies at the annual conference.

Industry and member perceptions as to the value of research and benchmarking in both the perceived role of IRFA as well as delivery of research in 2016 was gratifying and continued focus will be placed on this service.

Industry requirements from IRFA in terms of knowledge and skills transfer remain high and the organisation will continue to partner with industry to provide information, learning and developmental opportunities.

Clearly industry perceives IRFA to contribute to industry standards practices and knowledge, and its perceived contribution has increased since 2013.

Many suggestions have been provided by stakeholders on how this contribution could be built upon and these suggestions will be taken into account when planning programmes, content and services.

The IRFA modelled the research battery on reputation around the following definitions and criteria: "Reputation is the sum of impressions held by an organisation's stakeholders. Reputation is in the eye of the beholder. It is not what leadership insists, but what others perceive it to be. Reputation is a dynamic phenomenon; it is subject to change and it emerges as an effect of bi-directional processes," says Professor Charles Fombrun of the Reputation Institute.

It is also important to note that in modelling the survey questions, IRFA was aware that the reputation of the institute is determined by the perceived delivery and behaviour of all of its representatives, from management board through to staff, and anyone who represents the IRFA in the public and industry domain.

While the IRFA's ratings remain sound according to the research, Wayne Hiller van Rensburg, president and chairperson of the IRFA emphasises that the institute will continue to work on delivery and innovation.

IRFA

Research and benchmarking is a major focus

Responsible retirement planning practices stem from 'rigorous and focused research'

The research and benchmarking process commenced by the Institute of Retirement Funds Africa (IRFA) in 2016 has been welcomed by the local retirement industry and is an area on which strong focus will be placed in future.

Last year saw IRFA release the results of its first two major research studies at its annual conference in Durban, and the launch of the next research initiative will be announced and workshopped at the next conference, to be held at the ICC from September 10 to 12.

IRFA president Wayne Hiller van Rensburg said that the provision of information and knowledge critical to sound business outcomes and the betterment of societal variables are key strategic objectives in service delivery to the industry: "Rigorous and focused research is the perfect platform to provide the retirement industry with the right information to make educated decisions."

Hiller van Rensburg says the subject of the next IRFA research study will be a logical follow-through on the comprehensive research undertaken last year, and will focus on the members of the retirement fund itself, as well as the general public.

"Our first two studies focussed on retirement markets in South Africa in the area of social protection, and then the perceived compliance with local and international best practices in terms of fund governance, stakeholder engagement, investment practices, trustee development and financial reporting."

The next logical step, according to the IRFA, is to track the perceptions and requirements of the employee and general public in terms of retirement provision and financial product needs, and check for synergy and inconsistencies.

Topline findings from the two studies to date certainly make for interesting reading.

The first study undertaken in 2016 summarised the published policies of four prominent bodies, issued between 2002 and 2015, in the area of social protection, with a focus on retirement provision. According to external researchers Rob Rusconi and Jonathan Mort, authors of Retirement Markets in South Africa's Social Protection System Part 1: Developing Agreement on the Big Picture, there is a high degree of consistency across the views expressed by these bodies, summarised into these seven key themes:

- The constitutional mandate
- A holistic approach
- The private sector role
- Regulatory strengths and weaknesses
- System efficiencies and inefficiencies
- Adequacy of outcomes
- Potential for progressive implementation

Retirement funds play an important role in social protection.
Photo: Ken Teegardin

They say starting with the 2002 report of the Committee of Inquiry into a Comprehensive System of Social Security for South Africa and including the 2012 National Development Plan of the National Planning Commission, and policy papers or financial reviews issued by the department of social development and national treasury, this consistency relates to: the constitutional mandate to provide access to social protection and the obligation on government to meet this mandate; the requirement to consider social protection holistically; the role of the private sector, within the framework of government's responsibility to contribute to the delivery of social protection; the regulatory weakness of the supervisory authority responsible for overseeing private provision of retirement saving; the inefficiency and/or wastefulness of the structure or vehicles through which private sector retirement saving is achieved; the broad, deep inadequacy of outcomes for participants in private sector retirement provision; and the potential for objectives to be achieved through the progressive implementation of appropriate policies.

The second study undertaken by the IRFA research arm — co-sponsored by the SABC Pension Fund, facilitated by the Financial Services Board and undertaken in consultation with research partner Stephanie Griffiths of Cohesion Communication, Research and Development — quantifies the industry's rating of itself against core dimensions and variables, determined after an extensive literature search, both locally and internationally, into pension and governance best practices.

Hiller van Rensburg emphasises that "the research model for our best practices study was developed following an extensive literature search to determine best practices both locally and on an international scale". He goes on to note, "Critical measurement dimensions of the research model are fully compliant with the FSB Circular PF130 as well as the recently released King IV report on corporate governance, notably in the areas of ethical and responsible leadership, performance appraisal and risk management as well as addressing reasonable stakeholder needs, expectations and rights."

He goes on to say that the Best Practices Study has been expanded into a measurement tool, which will be used in ongoing evaluation of both the nature of best practices as well as perceived compliance with these in the African landscape. "We will again conduct the study early in 2018 to keep the industry informed in an increasingly dynamic landscape."

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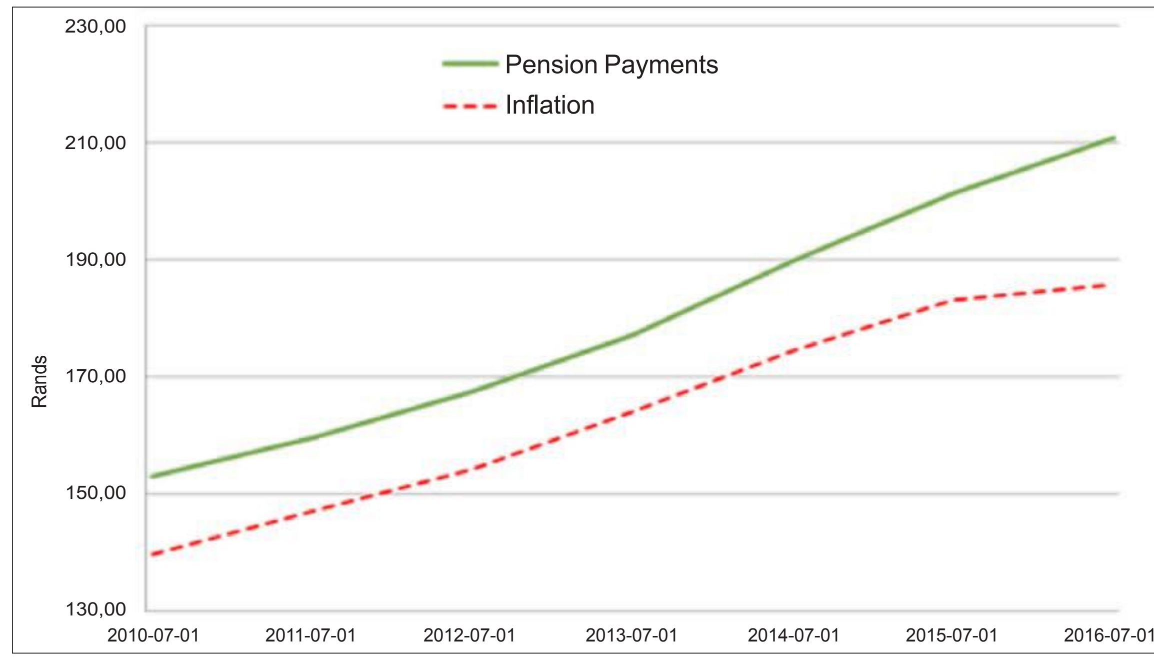
IRFA

Moving forward, maintaining momentum

An award-winning pension fund continues with good returns

Sam Camilleri, CEO and principal officer at the NJMPF.



The graph above shows NJMPF pension increases and bonuses versus inflation over the past six years ending 2016. NJMPF's increases and bonuses to pensioners surpass inflation significantly – reflecting an improved standard of living. Source: NJMPF

For over half a decade the Natal Joint Municipal Pension/KwaZulu-Natal Joint Municipal Provident Funds (NJMPF), a KwaZulu-Natal retirement fund, has been successful in achieving numerous awards both locally and internationally.

The NJMPF has notched up a commendable list of awards in the industry, both locally and internationally with 21 South African and 11 international awards. The year 2016 was particularly good for the NJMPF having been acknowledged for excellence by the Institute of Retirement Funds Africa (IRFA) and the Council for Retirement Funds in South Africa (Batseta) as well as Africa Investor (Ai), Capital Finance International (CFI), The European, and the World Pension Summit Innovation Awards.

The CFI has also added accolades for 2017 in these categories; Best Corporate Governance, Pension Funds - (RSA), Best Practice, Pension Funds - (RSA) and Best Pension Fund Stakeholder Benefits - (RSA).

"This momentum continues, because we continually ask ourselves what's next, which drives us forward and keeps us on track with our mission and obligation of providing superior retirement services."

"The NJMPF's drive, passion, strategic views and continued commitment to providing superior retirement service for stakeholders has allowed the fund to not only move forward, but maintain its award-winning momentum," says Camilleri.

Through recent projects and campaigns, the NJMPF reveals how it continues to move forward.

Camilleri says executing good governance for the NJMPF is not based on a tick-box approach where parameters of good governance are reduced to compliance with statutory and legal requirements set out in the Pension Fund Act and other legislative authorities regulating retirement funds in South Africa, instead the NJMPF's governance structure is built on a culture where ethical and astute behaviour is rooted in its DNA.

Evidence of this is that over the years the NJMPF has subscribed to the Institute of Directors for Southern Africa (IoDSA), which is the convener of the King Committee and the custodian of the King Reports that examine the levels of good corporate governance structures, policies and procedures for legally registered institutions in South Africa.

The NJMPF, for many years including the most recent assessment in 2016 by IoDSA, has been achieving an overall score of AAA, which is the highest notch achievable. This shows how the NJMPF continually perseveres in improving good governance within the organisation.

Camilleri informs that maintaining clean audit reports is another area of emphasis within the NJMPF.

"The Auditor-General of South Africa has a constitutional mandate and exists to strengthen accountability and governance in the public sector. The NJMPF has continued to achieve clean audit reports in an environment where clean audits are rare.

"Clean audits promote confidence and ensure stakeholders that their funds are administered in a proper and sustainable manner. This achievement is further evidence that the NJMPF continues to uphold its compliance requirements whilst maintaining its momentum."

Camilleri says one of the fundamental obligations of a retirement fund is to ensure members and pensioners have inflation beating investment returns and monthly pensioner payments keep up with the inflation rate.

He reports that over recent years, the NJMPF has been able to sustain good investment returns for stakeholders. As an example, according to the NJMPF's, actuary who is independent from the administration of the NJMPF, if you had invested R1-million with NJMPF (Provident Fund) in the year 2000, your investment earnings would have increased ninefold, to be worth more than R9-million (after costs) in the year 2016.

It does not stop there! Pensioners of the NJMPF are awarded increases and benefits which greatly improve their standard of living.

If the market performs well, NJMPF pensioners also receive ad-hoc bonuses or once-off special increases, the most recent being a special increase of 8.33% which was paid from January 2016.

Since July 2015, pensioners of the NJMPF have received monthly increases totalling 19.08%!

A significant project, which has been initiated by the NJMPF, is the alignment of its rules and regulations to new order legislation and the elimination of past discrimination.

"The rationalisation for updating the rules and regulations is aimed at improving and protecting stakeholders' benefits," says Camilleri.

"This is all part of the NJMPF's strategy to continually move forward in enhancing the lives of its stakeholders.

"For example, unclaimed benefits are a big concern for retirement funds in South Africa. The South African Financial Services Board has reported that unclaimed benefits owed to some 3,5-million beneficiaries in retirement funds, had probably amounted to R35-billion.

Unclaimed benefits arise when a member resigns, retires or passes away leaving no contact details. Monies due cannot be paid until contact has been established with the member, widow, guardian or beneficiaries.

Camilleri says the NJMPF experiences difficulty locating members, especially since its membership is spread across KwaZulu-Natal, where members were previously employed at one of the 55 municipalities they service.

"The NJMPF has always considered the finding of members or dependants as important. As a result of a focused strategy to combat unclaimed benefits, the unclaimed value of benefits including accrued interest has reduced to R4-million, a mere 0.02% of the NJMPF's total assets.

"The project continues with vigour as the NJMPF will not be satisfied until all members are traced and their benefits paid out."

The NJMPF has improved its communication and interaction with stakeholders through information technology by introducing an interactive webpage that was developed around meeting the needs of its stakeholders.

Features on the webpage include being offered in more than one language (also in Zulu which is the language of the majority of members); training videos, financial literacy articles and tools; net replacement ratio and loan repayment calculators; instant access to pension certificates and benefit statements allowing stakeholders to have instant access anywhere and anytime.

"Soon the NJMPF will debut a cross-platform mobile application that will allow our members to have easy and direct access to information and benefits using their smart phones," says Camilleri.

"Research conducted on smartphone usage reports that smartphone access in South Africa is growing rapidly and this is becoming a significant communication medium.

"Through its smartphone application, NJMPF aims to influence and motivate members to improve their financial provision for retirement and also encourage members to think about retirement planning daily."

A dedicated client relationship team from the NJMPF visits members at 55 municipalities throughout the year, explaining the benefits of the fund and presenting financial literacy topics.

Workshops are held twice a year at the fund's offices for municipal human resources and payroll staff to attend training, refreshers and launches of new services.

In an effort to enhance relations and open further communication with stakeholders, the NJMPF recently introduced a campaign to liaise directly with senior municipal officials (municipalities are employers to NJMPF members).

Camilleri says this activation is improving communication as information is reaching members from an additional channel.

"Roadshows for pensioners, beneficiaries and guardians have also been introduced recently by the NJMPF. The roadshows are designed to assist pensioners, beneficiaries and guardians who reside in remote locations easy access to the NJMPF, which then limits misunderstanding and enhances knowledge sharing in an endeavour to achieve better communication.

"During the roadshows, current and relevant information is shared; declaration forms, increases, tax certificates and news affecting the pensioners.

"The project is aimed at giving pensioners who reside in remote areas an opportunity to directly interact with the NJMPF's delegation who conduct roadshows," says Camilleri.

IRFA

New retirement reforms set to improve proficiency

Changes are coming in government services and private sector regulation

There are two main points on government's agenda for saving sector regulation: social security (government-supplied benefits) and retirement reform (making the existing system more efficient), according to Karl Leinberger and Pieter Koekemoer of Coronation Fund Managers.

With regard to social security, they contend that the state wants to add additional government benefits: retirement income, disability and funeral policies. In the best-case scenario, this will augment the current benefits — in the worst case, it will displace some private sector activity.

"Currently, the thinking is that the existing UIF payroll tax model will be used to fund government-provided benefits. At present, employees contribute 2% of the first ±R150 000 of their salary towards UIF.

"Under the proposed new model, this will be hiked to 12% of the first R150 000 in exchange for the expanded social payments. Potentially, this will mean that the first R15 000 clients use to buy financial services will go into government-managed products," say Koekemoer and Lienberger in Coronation's February 2017 edition of *Conversations*, which provides investors with an update on the latest market trends and outlooks.

They don't believe this will be likely in the foreseeable future, primarily because it is not affordable without almost insurmountable disruption of the status quo. Also, organised labour will resist the move of private sector defined contribution retirement plans to contribute to a government fund that is not fully funded.

Pertaining to retirement reform, Koekemoer and Lienberger report that the latest draft regulations propose a number of changes to the regulations governing retirement funds:

- Default investment options: In a departure from previous draft regulations, the new stance is completely neutral between active and passive options. It does require that the default investment option is simple, transparent, cost-cognisant, fair and defensible, but there aren't additional restrictions to Regulation 28 for the default investment option;
- Preservation option: The new regulations will require that trustees offer a preservation option when members leave the fund, and also that members are "nudged" to preserve savings at "accidental" early access points, with the provision of retirement benefit counselling before access to funds is allowed;
- Retirement income strategy: The proposal is that all funds are required to offer a retirement income option, with members able to opt in or choose their own individual annuity. The income option can be in-fund or out-of-fund, and a living annuity or a guaranteed annuity. Given that it is easier to change the underlying portfolio of a life annuity, that may be the easier route for trustees. This is the only proposal that applies to retirement annuity funds.


Karl Leinberger and Pieter Koekemoer of Coronation Fund Managers.

Koekemoer and Lienberger contend that the new proposals will further blur the divide between institutional and retail retirement management. Partly through tax harmonisation, the retirement reform favours more standardised individualised funds over employer-specific funds. Trustees will also be required to provide counselling. Together, the new regulations could open up the occupational fund market to more participants, potentially creating opportunities for retail advisers in the corporate sector.

Two new regulators will be introduced to oversee market conduct, according to Koekemoer and Lienberger. The first is a prudential authority as part of the South African Reserve Bank, which will manage systemic risks and institutional sustainability.

The second will replace the Financial Services Board. The proposed new Financial Services Conduct Authority (FSCA) will oversee all types of product suppliers, administrators and advisers. The FSCA will regulate the market according to the proposed Conduct of Financial Institutions (CoFI) Act, which can be understood as a "super FAIS (Financial Advisory and Intermediary Services) Act" applicable to all players in the industry. In essence, the intent is for the regulatory approach to become more consistent regardless of the type of investment product, and it will focus on the outcomes of product value, fair disclosure, complaints handling and the balance of accountability across the whole industry.

It is expected that the FSCA will be more proactive and decisive that the current bodies, with significantly enhanced powers (as much as the South African Constitution allows).

"The Retail Distribution Review (RDR) focuses on a number of areas: the categorisation of advisers, investments, long-term and short-term insurance, sales execution and other intermediary services, as well as inclusion of the low-income market.

"The first phase of the RDR is nearing completion. It focused on investments via long-term insurance products, and resulted in a proposal to lower exit penalties. Also, it included suggested updates to the FAIS Fit and Proper Requirements, which should come into effect later this year," say Koekemoer and Lienberger.

In terms of section 8 of the FAIS Act the registrar must after consultation with the advisory committee determine the requirements that financial services providers, key individuals and representatives of the provider must comply with.

"Included in the updates are new requirements for competence, which require a second round of regulatory exams for all advisers and continuous professional development activities of between six to 18 hours a year.

"Interestingly, the new regulations require automated advisers (robo-advisers) to comply with all the compliance and record-keeping obligations demanded from financial planners and additional competency requirements for key individuals of affected firms.

"The second phase of RDR, which will take place this year, will focus on retail investment products (particularly affecting advisers with white-labelled products and/or revenue from investment management activities in addition to client-agreed advice fees) as well as the categorisation of advisers.

"The authorities are currently proposing only two types of advisers. A registered financial agent (RFA) will own their own licence and cannot be a product supplier, although a product supplier may hold shares in the advisory. Having ties with a product supplier will include ownership relations, receiving direct or indirect revenue from a product supplier, outsourcing services to a product supplier or meeting any targets from a product supplier.

"These relationships will not be illegal, but will attract more intensive supervision and you won't be able to call yourself independent. An RFA will be held fully accountable for the advice given to a client.

"A product supplier agent (PSA) can only advise on the products of their supplier, although if the group has a linked investment service provider, funds on these platforms can also be recommended. A PSA will operate as part of the product supplier's licence and the latter is therefore fully responsible for the advice given," say Koekemoer and Lienberger.

They report that other aspects currently under review as part of the RDR relate to investment pricing. There has been no change in the regulator's views on investment platforms. The RDR supports clean pricing with no rebates, and the platform should continue to collect advice fees on the adviser's behalf, providing regulatory support for the current industry model. Commissions on investment products will continue to be phased out, but it seems likely that this will take place at a slower pace, with more exceptions allowed.

"The authorities continue to hold a negative view on white-labelled investment products, and these products may be banned. More detailed regulation of the various types of discretionary investment management is also proposed.

"The third phase will require enactment of the CoFI bill, which will put a new licensing regime in place, governing according to activity, not product type," say Koekemoer and Lienberger.

IRFA

Active managers: prepare for high and low roads

Smart, diversified investments will be able to weather recent financial instability

The recent sovereign rating downgrade of South Africa to sub-investment grade or "junk" status highlights that we are at a crossroads in our young democracy and we cannot tell which way we will end up going.

Will it be the low road if Zuma remains president, or the high road if he is removed from his post?

Peter Brooke, Old Mutual Edge 28 Fund Manager, believes that the rating downgrade is likely to cement resistance to Zuma's recent decisions and that resistance could bring change.

"In any event, active investment managers need to be well balanced and well diversified enough to cope with either of these scenarios, though they would understandably be adversely impacted if the low road were to materialise.

"In times of uncertainty, it is crucial to take a long-term view. When it comes to investments, sometimes bad news can turn into good news and one should be investing in exactly the opposite way to your initial gut reaction. Past and recent political events have taught us this. We brought money back into rands after 'Nenegate' and bought equity after Trump's election," explains Brooke.

He says this is a crucial period for South Africa, but the country has always come through.

"Irrespective of this, we could well face a very volatile time in the next six months, with potentially divergent outcomes. However, volatility also creates opportunity, which will require active fund management.


Peter Brooke, Old Mutual Edge 28 Fund Manager. Photo: Matt Stow

"For instance, 5% of the Old Mutual Stable Growth Fund has been invested into US dollar cash ahead of recent events. I am sure the fund manager will sell those dollars in the future when the timing is right. This is why sticking to your plan and allowing the solution to work for you is better than panicking.

"So, despite the bad news, we think our solutions are well diversified and [we] will weather this storm. All of our funds or investment solutions have a big component of foreign assets (typically 25%), which provide diversification to bad news in South Africa. In addition, the Johannesburg Stock Exchange is heavily geared to a weaker rand through shares such as British American Tobacco, Naspers and Sasol. The Old Mutual Balanced Fund has a further 25% of its investments in assets geared to a weaker rand. This means 50% of the portfolio benefits from a weak rand.

"On the other side, only 30% of the portfolio benefits from a stronger rand, through banks, bonds, listed property and retailers. Our funds are well diversified and robust risk management means that there will be parts of the portfolio benefiting from this bad news," says Brooke.

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Research and benchmarking is a major focus

From page 5

Topline findings from the 2016 study indicate that while good governance is the primary goal of any responsible retirement fund or responsible corporate citizen, the definition of governance itself extends beyond the traditional definition, and in terms of global and local best practice and measurable dimensions of governance, should include the subsets of:

- Stakeholder communication (including surfacing and addressing reasonable expectations and needs);
- Financial reporting and full disclosure (to include policy and strategy for accountable and understandable reporting on fund performance to all stakeholders);
- Investment practice (to include policy and benchmarks against which investment performance will be measured and the management and alleviation of risk);
- Executive and trustee development (to include appraisal of both behavioural as well as professional/technical competencies, structured and regular induction and training processes and ongoing learning opportunities); and
- Social responsibility and contribution.

"This is right on track with King IV," he remarks, "Namely, that the governing body should lead the value creation process by appreciating that strategy, risk and opportunity, performance and sustainable development are inseparable elements.

Further findings from the IRFA study indicate that the practice of sound governance is recognised as being both facilitated and bound by the catalyst of effective stakeholder engagement, and that this engagement should include all stakeholders and include full disclosure, ongoing assessment of stakeholder needs and expectations and ways to communicate and meet these needs.

"In terms of overall ranking of perceived compliance with the six critical dimensions of the research model, current Investment Practices are rated the highest by the local retirement industry, followed by Governance Practices, Financial Reporting, Stakeholder Engagement and finally, Trustee Development Practices."

Hiller van Rensburg concludes that the study also provides a roadmap for IRFA itself in terms of industry needs. "Results from the Best Practices Study are also being used extensively by IRFA in developing targeted service programmes to its membership base, for example specific trustee development initiatives, as well as content for the annual conference and workshops and seminars."