



QUANTIFYING RISK, ENABLING OPPORTUNITY

Market Conduct Regulation: A retirement funds perspective

Author: Leanne Jackson,
Market Conduct Strategy Adviser
FSB

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Agenda

A selection of key market conduct regulatory initiatives:

- Conduct of Financial Institutions (COFI) Bill
- Treating Customers Fairly (TCF) approach
- Retail Distribution Review (RDR)
- Revised Insurance Policyholder Protection Rules
- Retirement fund specific initiatives

Each of these will impact retirement funds in different ways.

Conduct of Financial Institutions (COFI) Bill

- Decisions required on future scope of Pension Funds Act vs. COFI
 - Possibly move regulation of benefit administrators and conduct related aspects of PF Act to COFI; with prudential aspects remaining in a restructured PF Act
- COFI will recognise different types of financial customer
 - Likely to set specific conduct standards for “institutional” customers such as pension funds
 - Although not retail customers, protection needed for members (seen as retail “end” customers)

National Treasury planning to start consultation in August 2017.

Treating Customers Fairly

The six TCF fairness outcomes:

- Customers can be confident they are dealing with entities where TCF is central to the culture
- Products & services in the retail market are designed to meet the needs of identified customer groups and are targeted accordingly
- Customers are provided with clear information and kept appropriately informed before, during and after point of sale
- Where advice is given, it is suitable and takes account of customer

circumstances

- Products perform as customers have been led to expect, and service is of an acceptable standard and as they have been led to

Treating Customers Fairly (cont.)

- The six TCF fairness outcomes serve as guiding principles underpinning the entire conduct of business regulatory framework – especially for retail customers and end customers / members
- COFI Bill to be broadly structured to follow the TCF “product lifecycle” structure
- Includes strong focus on culture and governance (Outcome 1)
 - TCF baseline study showed it is not safe to assume culture elements are a “given” for pension funds

Treating Customers Fairly (cont.)

- TCF focus on governance includes consideration of –
 - Ensuring adequate trustee independence and competence
 - Trustee responsibilities to monitor and benchmark fees and service standards
 - Ensuring appropriate governance standards also apply to “sponsored” funds / sponsor appointed trustees
- FSB Pensions Department soon to publish guidance on application of TCF outcomes generally to retirement funds

Retail Distribution Review (RDR)

Despite its title, RDR will have various – sometimes indirect – implications for retirement funds:

- Overall RDR focus on mitigating inherent conflicts of interest in current financial sector business models extends to funds
- Standards for “indirect” advice to fund members – advice to funds / employers to take account of member interests
- Classification of advisers – product supplier agents (“tied” advisers) to advise on products of one product supplier group only
 - will apply equally to retirement fund advisers

Retail Distribution Review (cont.)

- Current FAIS definition of “advice” to be amended to ensure it covers asset consulting
 - actuaries to take care they do not cross the line into the “advice” space
- Activity of “investment management” to be specifically defined
 - current FAIS Category II scope too broad, only requires a discretionary mandate
 - will enable measures to disallow / mitigate risks of conflicted arrangements between advisers and investment managers, such as certain “white labels” and other outsourcing

Retail Distribution Review (cont.)

- Introduction of “clean pricing” with prohibition of rebates and commissions will improve transparency and comparability
- Strict standards for advice fees will mean trustees can (and must!) actively negotiate fees and scope of advice offering with their advisers
- Focus on meaningful disclosure of all fees (including advice fees), including their impact on returns
- Adviser remuneration model for annuities needs decision
 - To avoid arbitrage between remuneration for living annuities vs. fixed interest annuities

Retail Distribution Review (cont.)

- Retirement annuity, preservation fund and annuity transfers to be confirmed as product replacements for FAIS purposes
 - Implies more rigorous disclosure standards to affected members, which trustees will need to ensure are in place

Policyholder Protection Rules

Full overhaul of insurance policyholder protection measures, with TCF outcomes formally embedded. Application of TCF outcomes to fund and group scheme policies clarified (i.e. affects all funds / schemes using insurance policies to provide benefits):

Note: There will be another round of consultation on the draft PPRs

- Customers to have confidence in insurer's TCF culture – also applies to members
- Product development governance processes introduced to ensure suitability of product for target market – includes suitability for members

Policyholder Protection Rules (cont.)

- Strengthened disclosure standards – disclosures must be made direct to member, unless insurer can show this is not reasonably practicable, in which case the insurer must –
 - agree policies and processes with fund / scheme that facilitate provision of info by fund / scheme to members
 - monitor that these policies and processes are working to deliver fair outcomes and mitigate risks if not
- Requirements in relation to suitable advice – include suitability of advice to both fund / scheme circumstances and reasonably assumed member circumstances

Policyholder Protection Rules (cont.)

- Products to perform in line with expectations created by insurer, and service must be of a reasonable standard – applies to both fund / scheme and member expectations
- Requirements in relation to suitable advice – include suitability of advice to both fund / scheme circumstances and reasonably assumed member circumstances

Policyholder Protection Rules (cont.)

- No unreasonable barriers to change policy, claim or complain – requirements also apply at member level, as follows –
 - Insurer must agree policies and procedures with fund / scheme to ensure no unreasonable barriers to member making permissible changes
 - For member level claims, communication must be direct with claimant, unless claimant agrees to communicate indirectly through fund / scheme – will require co-ordination between fund (and administrator) and insurer
 - Members must have direct access to insurer complaints channels
- Various other specific aspects of the PPRs will apply to fund / scheme policies

Retirement fund specific initiatives

- FSB to consult soon on new complaints management requirements for retirement funds –
 - will include both complaints management and complaints reporting requirements
 - complaints to be categorised and reported on in line with TCF outcomes
 - requirements will be aligned to those being introduced for Insurance and FAIS
 - Will apply to both funds and benefit administrators.
- National Treasury led retirement reform initiatives.

THANK YOU

QUESTIONS WELCOME